

Independent Review of Funding and Student Finance

First call for evidence

Introduction

1. Universities UK's submission to the Independent Review of Funding and Student Finance, in response to its first call for evidence, consists of three elements. This document responds broadly, and in brief, to the nine questions set out in the call. More detailed evidence can be found in the two supporting documents, *Variable tuition fees in England: assessing their impact on students and higher education institutions, a fourth report* and our unpublished draft publication *Making it count: How universities have used the income from variable tuition fees*.

Executive Summary

2. UK higher education makes an excellent return on public investment: In 2007/08. The sector generated over £59 billion of output; an increase of £14 billion in five years. This is without counting the value created by graduates, or the fruits of university research and knowledge exchange. Universities also generated 2.6% of all full-time UK jobs. Their export earnings total £5.3 billion.
3. The Government also makes an excellent return on its investment in undergraduate education, including student support, estimated to total approximately 11% per annum.

Historical and international context

4. UK higher education remains underfunded by both historical and international comparison. Under-funded expansion of undergraduate numbers in the 1990s in England meant that the unit of funding per student fell by 40%. This trend of a declining unit of funding had been arrested and reversed to an extent since the early 2000s, but is now once again in decline. In 2009/10, when the full 3-year impact of student tuition fees is beginning to be available to universities in England, the average unit of funding will only have recovered to approximately £7,500 in real terms, still substantially below the £9,000 level of 1989 (before calculating the effect of additional unfunded student numbers which will have reduced the 'unit of resource'). Since 1989 the pressures on teaching funding have grown, in line with rising student expectations, developments in information technology and pedagogy, and the need to provide more flexible and varied provision for an increasingly diverse student body.
5. The UK spends 1.3% of GDP on higher education, compared to 2.9% in the US, and an OECD average of 1.5%. And the pace of investment in competitor countries is faster. In addition, the UK spends proportionately more of its total investment in higher education on student support – 26% compared to an OECD average of 19%.
6. Despite this, by a range of measures, the UK performs exceptionally well, with high completion, graduation and post-graduation employment rates, a relatively high earnings premium and, as far as it is possible to compare student satisfaction internationally, we appear to score well here too.

The effect of the introduction of variable tuition fees

7. The introduction of variable tuition fees was a positive development. It brought English universities an extra £1,320 million in the two years for which data is available. Tuition fees acknowledge that individual graduates, as well as the state, benefit from the higher education they receive and should therefore contribute towards the costs.

8. Evidence provided to Universities UK suggests that this new income is beginning to make a real difference to universities, enabling them to invest to improve all aspects of the student experience. 25% of the additional income has been spent on bursaries and outreach, and bursaries benefited 205,000 students from low income backgrounds and other under-represented groups in 2007/08. The median staff: student ratio in England has improved from 17.6 in 2004/05 to 16.8 in 2007/08. And there has been significant investment in buildings and infrastructure. 57% of higher education institutions have improved the quality of their estates (excluding accommodation) in this period.
9. University responses to a UUK survey conducted in October 2009 point to clear decisions about using fee income to improve the student experience. Common themes were:
 - improving the physical infrastructure for teaching and learning including new and refurbished lecture rooms, new social learning spaces, IT upgrades and expanded library services;
 - support for learning, including subject specific help, study skills support, virtual learning environments, and support in developing the skills for employability;
 - investing in the broader package of student services, including expanded careers advisory services, the provision of more social space, new support centres and major new sporting facilities;
 - supporting students in financial terms, including targeted bursaries and scholarships such as regional bursaries, or bursaries to support progression from local schools and colleges;
 - investing in staffing, including improving staff: student ratios, often with an emphasis on particular subject areas, and explicitly linking the decision to do this with improving the student experience.
10. The availability of income contingent fee loans is progressive compared with the system that preceded it, offers protection to graduate in the event of low lifetime earnings or periods of unemployment (particularly important in relation to 2009 graduates). Together with the introduction of grants, the package of student support and graduate repayment and has made participation in higher education cheaper for households with incomes of less than £39,000, compared with the previous system, according to calculations by the Institute of Fiscal Studies.
11. However, the cost to the Treasury of maintaining the graduate repayment scheme are substantial. One consequence of this is that support is rationed. Part-time students in particular receive inadequate support and do not have access to fee loans.

Demand

12. Overall, after a brief dip in numbers of applicants in 2006, the year that fees were introduced, there has been strong growth in applications over the period, with a 7.7%

increase in England in 2009, compared to 7.4% for the UK as a whole. This has been accompanied by strong growth in applications by socio-economic groups 4-7, which were up by 22.5% in 2008.

Participation in higher education

13. The introduction of variable tuition fees has not apparently harmed participation, either overall or by social class. By a number of measures the participation in higher education by students from lower socio-economic groups has improved over the period, with the gap between participation by young individuals from high socio-economic groups and lower socio-economic groups narrowing by 7 percentage points between 2002/03 and 2007/08.

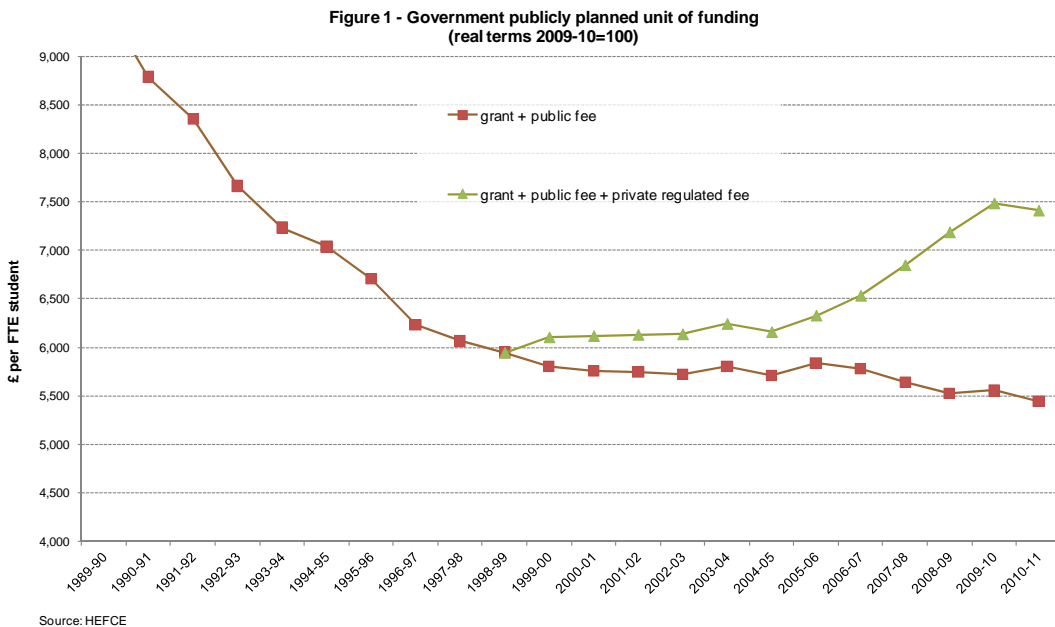
Recently announced cuts

14. The review takes place in the context of cuts in public funding for higher education, totalling around £1 billion by 2013, alongside restrictions in student numbers, at precisely the moment when demand is highest, and despite the Government's recognition of the importance of increasing participation in higher education.
15. The cuts include a 4.6% real terms reduction in the unit of funding for teaching from 2010/11, in addition to unfunded places in 2009/10. This explicitly threatens the progress in improving the student experience which has been made possible by the introduction of variable tuition fees, and runs counter to Government commitments at the time of the passage of the Higher Education Act that fee income would be *additional* to public funding, and not simply replace it. Universities UK believes that these cuts will have an adverse impact on the quality of provision in English universities.
16. In our view, the key principle which should guide the Review in considering higher education funding and student finance is the need to enable universities to continue to improve the student experience, and provide the highest quality of education to our undergraduates.

What has worked? Which parts of the system should be kept, based on the available evidence?

17. By a number of measures, the introduction of variable tuition fees for full-time undergraduate home and EU students in 2006, accompanied by a new student support regime, and major expansion of institutional bursary, scholarship and outreach schemes has been broadly successful:

- The introduction of variable fees has enabled universities to raise an additional £451 million in 2006/07 and £878million in 2007/08. At steady state the annual income is likely to be in excess of £1.3 billion. Combined with a Government commitment to maintain public funding for teaching prior to 2009,¹ this has resulted in a restoration of the ‘unit of funding per student’ to 83% of its 1989 value, equivalent to the level of funding last seen in 1992.²



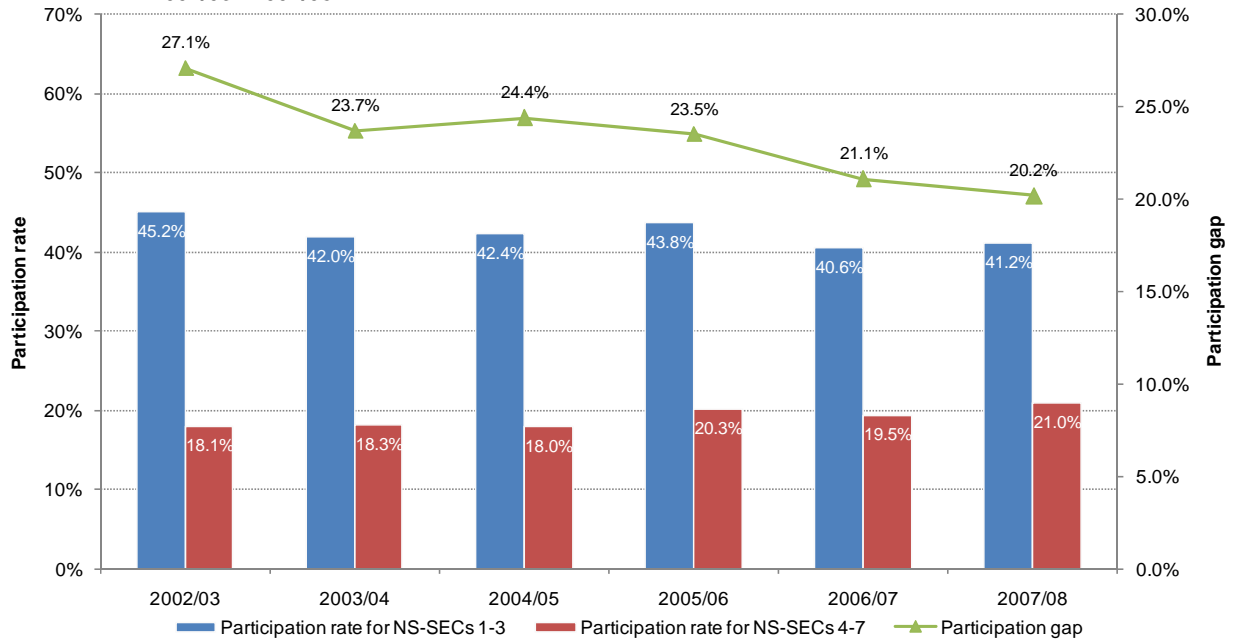
- The policy does not appear to have damaged demand for higher education from full-time undergraduates.⁴ During this period, with the exception of 2006 entry, applicant numbers have *increased*, including applications from low socio-economic groups. The increase in applications in England from socio-economic groups 4-7 increased was 8.9% in 2007 and 22.5% in 2008. The gap in participation by social class has also *decreased* by 7 percentage points between 2002/03 and 2007/08.

¹ Although in practice the allocation of unfunded student places for 2009/10 has already started to erode the unit of resource. See next section.

² The above graph shows an assessment by HEFCE, based on the December 2009 Grant Letter of the implications of the cuts announced in that letter for the unit of funding for 2010/11. This is a provisional assessment based on currently available information.

⁴ As we point out later in the document, the recession is likely to have been an important factor in increasing demand for higher education, especially in 2008/09.

Figure 2 - Full time young (18-20 year old) participation rate by socio economic class, 2002/03 - 2007/08

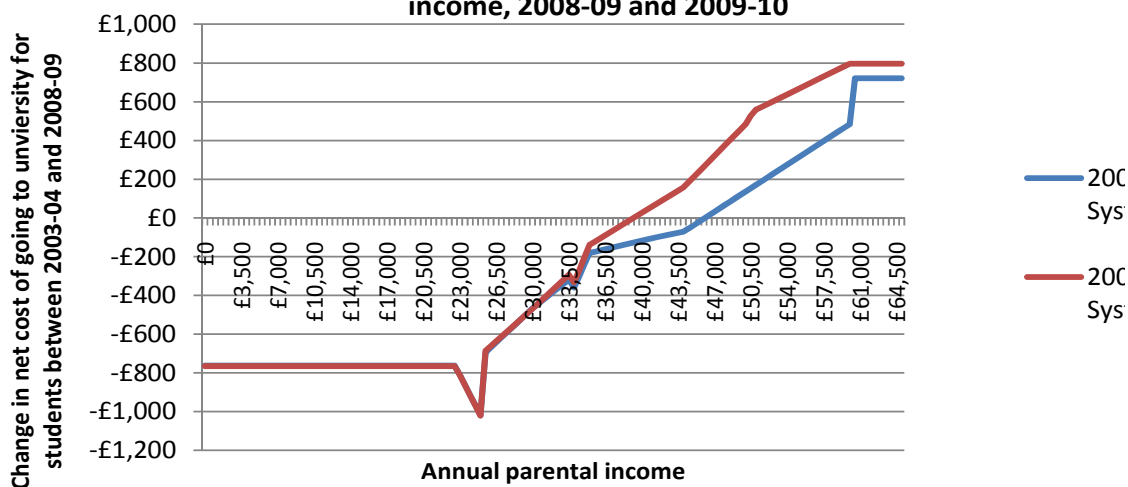


Source: Full-time young participation by socio-economic class (FYPSEC) 2009, BIS

- The package is progressive compared to the system which preceded it – notably it is graduates and not students and their families who are required to contribute a proportion of tuition costs.
- The combined package of fee loans, maintenance loans and grants has, according to calculations by the Institute for Fiscal Studies, reduced the cost of higher education for students from families with household incomes of less than £39,000⁵, compared with the previous system.

⁵ Institute for Fiscal studies. Based on 2009/10 system

Figure 3 - Net cost of going to university for students by parental annual income, 2008-09 and 2009-10



Source: Institute for Fiscal Studies

- The new income has enabled higher education institutions to spend an additional £335 million on bursaries, scholarships and outreach in 2006/07 and 2007/08. According to the Office for Fair Access, in 2007/08, 205,000 students from lower income and other under-represented groups received a bursary or scholarship. In 2006/07 the figure was 70,000.
 - Until the recent announcements of significant cuts in public funding for universities, variable fee income had been accompanied by sustained public investment in higher education, ensuring that universities have been able to use the *additional* income from fees to improve the student experience, through investments in teaching and the facilities and physical infrastructure which supports teaching and learning, support services, staffing and universities' financial sustainability.
18. It is difficult to tell what might have happened to participation without the package of support for student contributions and graduate repayments introduced alongside variable fees. It is also difficult to predict what might have been the effect if there had been a greater degree of variability between fee levels. However, Universities UK believes that the following elements have been important components that should form the basis of any consideration about future arrangements for funding and student finance:
- Higher education is free at the point of consumption for full-time undergraduate home and EU students studying for a first qualification. Graduates, not students, contribute towards the cost of their degrees, repaying loans only once they have started to earn above the repayment threshold.

- Grants, subsidised loans and bursaries support students from low and middle-income households, while they are studying.
- Government fee-loan subsidies effectively insure graduates against some of the risks that the investment they have made in their higher education is not recouped. Unlike credit-card debt, income contingent repayments, the fact that if income falls below £15,000 per annum repayments cease, and the loan write-off at 25 years provide additional insurance in the event of low lifetime earnings. A subsidised interest rate provides insurance against accumulating debt (and lengthening payments).
- The fact that the loans are income-contingent means that repayments will always be affordable for graduates – the monthly payment amount is determined by earnings, not by interest rate, and thus the risks for graduates are low.
- The greatest government subsidy is targeted at the least well-off graduates.
- The system as a whole is progressive, and is certainly more progressive than the system it replaced. However, it still contains regressive elements, which are dealt with in the next section of this submission.
- The cost of higher education for full-time undergraduate home and EU students continues to be *shared* by the principal beneficiaries - graduates and the state. The Government provides a greater subsidy for higher-cost courses.
- Until this year, income to the sector from variable fees has been *additional*, enabling investments to improve the student experience.

What has not worked? Which parts of the system should be changed, based on the available evidence?

19. The introduction of variable tuition fees for full-time undergraduate home and EU students has created an important additional income stream for universities, without putting off students from low-income backgrounds.

20. However, university teaching remains underfunded by international and historical comparison, and according to detailed assessments, such as the one conducted by HEFCE's Financial Sustainability Strategy Group in 2008.⁶ Despite the Government's commitment to maintain the unit of resource, the allocation of unfunded student numbers in 2009/10 has already effectively begun to erode the unit of resource, even before the recently announced cuts take effect. These cuts, totalling about £1 billion by 2013, present a new and very serious threat to UK higher education. In particular, the 4.6% reduction in public funding for teaching will create additional pressure on universities' ability to protect and enhance high-quality higher education. Restrictions on student numbers mean that we anticipate that there will be significant unmet demand for higher education in 2010, as there was in 2009.

21. In relation to variable fees, there are a number of elements of the policy package which remain problematic:
 - The system of fees, loans, grants and institutional bursaries is complex, and some aspects of it appear to be poorly understood by potential students.

 - There are some substantial shortcomings with the current system of support for students and the graduate repayment mechanism, including the cost to government and associated opportunity costs, the regressive nature of the subsidy and restrictions on access to support (also associated with cost). These aspects are covered in detail below.

 - In particular, the substantial cost of support for students, and graduate repayments, has put pressure on public finances to the extent that it has led to cuts in resources from front-line teaching⁷, restrictions on additional student numbers, and fines for institutions which have 'over-recruited' this year. This is partly a consequence of BIS's treatment of student support costs and teaching costs within the same expenditure envelope. The cost of support has therefore contributed both to limiting opportunity in higher education, and threatens the quality of the student experience, both of which are counter to the Government's stated aspirations.

⁶ <http://www.hefce.ac.uk/finance/fundinghe/trac/fssg/>

⁷ The Secretary of State's grant letter to HEFCE for 2010/11 states "it has been necessary to make an adjustment of £135m from your baseline to meet additional pressures, in particular the higher than expected costs of student support during the economic downturn."

- The UK invests a relatively larger proportion of its total public expenditure on higher education on student support compared to competitor countries; currently 26% of the Government's total investment in higher education is allocated to student support, well in excess of the OECD average of 19% (we rank 7th out of 28 countries, behind Norway, New Zealand, Australia, Denmark, the Netherlands and Sweden).⁸
- Whilst the introduction of tuition fees in 1998, followed by the introduction of variable fees in 2006 (both for full-time home and EU undergraduate students) established the principle that graduates should contribute a proportion to the costs of tuition, limited progress has been made on achieving more direct contributions from employers towards the costs of higher education, reflecting the business benefits of recruiting graduates. The CBI's recently published report *Stronger Together*⁹ recognises a number of ways in which employers could play a role in contributing to the costs of higher education, for example through sponsorship and sign-on bonuses etc.
- Financial support for part-time students is inadequate when compared to that for full-time students. The amount of grant available to part-time students is currently determined by existing qualifications and intensity of study, not financial need. In the current system, full-time students receive a far greater share of public funding support than part-time students: 46% of full-time students receive some form of support, as opposed to 2% of part-time students¹⁰. There are strong reasons why this aspect of student support should be examined urgently. Currently, 32% of all undergraduate students are part-time. A large proportion of part-time students are over 21 on entry. Universities UK's report on the *Future size and shape of the higher education sector* showed that demographic changes may result in a decline in the full-time student population, and an increase in the part-time population, and more flexible models of provision will become important throughout an individual's lifetime. In addition, there is demand for more skilled graduates in the economy, and the second wave of social mobility will entail providing opportunities for those already in the workforce. Finally, part-time provision offers increased opportunities for drawing private investment into the sector.
- First-year part-time enrolments fell slightly in 2006/07 and 2007/08. Although according to newly released HESA data, numbers rose again in 2008/09. Universities UK's report *Variable tuition fees in England: assessing their impact on students and higher education institutions* suggests that this may reflect higher tuition fee levels, unsupported by commensurate increases in student support compared to full-time students. We note that this also places constraints on

⁸ *Education at a glance*, OECD, 2009. We note, however, that while some countries have high fees and high levels of support (e.g. Australia), others, e.g. Sweden, Norway and the Netherlands have lower tuition fees. In these systems state spending is directed more towards the direct costs of higher education. We also note that, according to UUK calculations, the UK Treasury receives an 11% return on its investment in undergraduate higher education.

⁹ *Stronger Together: Business and universities in turbulent times*, CBI, 2009.

¹⁰ Although it is important to acknowledge that a higher proportion of part-time students receive some support for their tuition costs from their employers.

higher education institutions, meaning that the teaching of part-time higher education remains relatively poorly funded.

- There is limited funding available to support post-graduate students, (both taught and research). In our submission to the Smith Review of UK postgraduate provision, Universities UK has recommended that consideration should be given to a postgraduate loan scheme (unsubsidised) or an extension of commercially-provided career development loans.
- There is a significant question about whether the institutional bursary regime achieves what it was intended to achieve in terms of influencing the decisions of potential students about whether to enter higher education. Although some evidence suggests that student choice is influenced by bursary provision, there is currently no evidence at a sector level from the applications data that the maximum level of bursary has had an influence on the application rate to individual institutions. Some argue that the institutional bursary system is inequitable to students. Others suggest that bursaries are an important tool in the effort to extend access to the most selective universities. The OFFA regime imposes a degree of inflexibility on the operation of institutional bursaries, so institutions have limited opportunities to alter schemes to achieve better targeting. However, institutions have put considerable amounts of money (£335 million in the two year period for which data is available) and effort into promoting bursaries, and many have been very positive about the results of this. The operation of institutional bursary schemes would clearly bear further investigation.
- There is currently no data available to show the extent of participation in postgraduate education for the first cohort of students who entered higher education under the variable fee regime. We also note that many students will enter the workforce for a period of time before undertaking postgraduate study, so it may take a significant period of time to build up a complete picture of how variable fees affect participation in postgraduate higher education. As data becomes available, this is an area which would bear further study, particularly in terms of participation by social class.
- If the policy intention was to create variation in fee levels within higher education, this has not emerged. While there is variation between types of higher education programme (e.g. Foundation Degrees and HNDs tend to have lower fee levels than first degree programmes) there is a very small number of Higher Education Institutions that have not elected to charge the maximum fee on all their courses. However, there is a high degree of variability in the bursary and scholarships offered by universities, although it is not clear how far this factor influences decision-making by potential students.
- Universities remain under-funded compared to their international competitors. Recent reports, including that by the Financial Sustainability Strategy Group, have pointed to the financial pressure on higher education institutions, their

inability to generate sufficient surpluses for reinvestment, and the associated risk to the quality of the UK student experience and long-term competitiveness.

Issues with the current system of student support and graduate repayment

22. There are a number of issues with the current system of student support and graduate repayment, which derive principally from the blanket interest rate subsidy on loans for all students, which the Review will wish to consider. The issues are as follows:

- *Cost:* The graduate repayment system, in particular, represents a significant cost to Government – estimated to be about £1.4 billion at steady state. This is particularly influenced by the cost of the subsidy on the loan: the interest rate subsidy, and the write-off period. Estimates of the expense vary, but one estimate suggests that, at steady state, of every £1 lent by the Treasury in tuition fee loans, 42p does not make its way back.¹¹ Barr has estimated that the subsidy is split roughly 1/3 to 2/3 between the interest subsidy and the debt write-off.¹² When the costs of maintenance loans and grants are also taken into account, according to the Higher Education Policy Institute “estimated taxpayer expenditure on student support for full-time English and EU undergraduates amounts to £2.5 billion per annum in steady state. By way of comparison, in 2003/04 total public spending by the then Department for Education and Skills on student support and on tuition fees for low-income students was £1.3 billion.”¹³ The cost has been a significant barrier in discussions about how to improve the equity of treatment for part-time students, who are excluded from this system of graduate repayment.
- *Universal loan subsidy:* There are a number of sub-features of the graduate repayment system which are significant, including the universal nature of the loan subsidy, and the existence of an incentive for some students to arbitrage their loan (i.e. students who don’t need the full loan can still take it out, invest it, and then make a profit based on the difference between the interest rate in a savings account, and the interest rate on the loan).
- *Regressive elements:* We also note that, although the loan system overall is progressive, in that the greatest call on the government subsidy is by graduates with the lowest lifetime earnings who are most likely to take advantage of the loan write-off, and smallest for those with the largest lifetime earnings,¹⁴ this masks the effects of the different forms of subsidy, which in turn hides the regressive elements of the system.

¹¹ *Interest subsidies on student loans: a better class of drain*, Barr (version of October 2009)

¹² Barr, N (2004), ‘Higher Education Funding’, *Oxford Review of Economic Policy*, Vol.20, No.2, Summer, pp. 264-283

¹³ *Funding and fees: some implications of a rise in the fee cap*, Higher Education Policy Institute, 2008

¹⁴ Source Institute for Fiscal Studies

- *Access*: a fourth consequence of the current system is that loans have to be rationed, due to their expense. This inhibits expansion of student numbers at a time when demand for higher education is at unprecedented levels. It also means that important groups of students are excluded from publicly-funded student support to a great extent – these being part-time students and postgraduate students.
- *Opportunity cost of public funds*: the funds which are used to subsidise the loan system could be used for other, arguably more effective, purposes. These include providing more funds for frontline teaching and research.

23. Universities UK is currently discussing options for future funding and student finance arrangements with its members, and will make a further submission to the Review on this in response to the next call for evidence. However, we believe that the aspects of the current system which should be reviewed are:

- The level and effects of the fee cap;
- Student support arrangements;
- Support for part-time students; and
- Institutional bursary support.

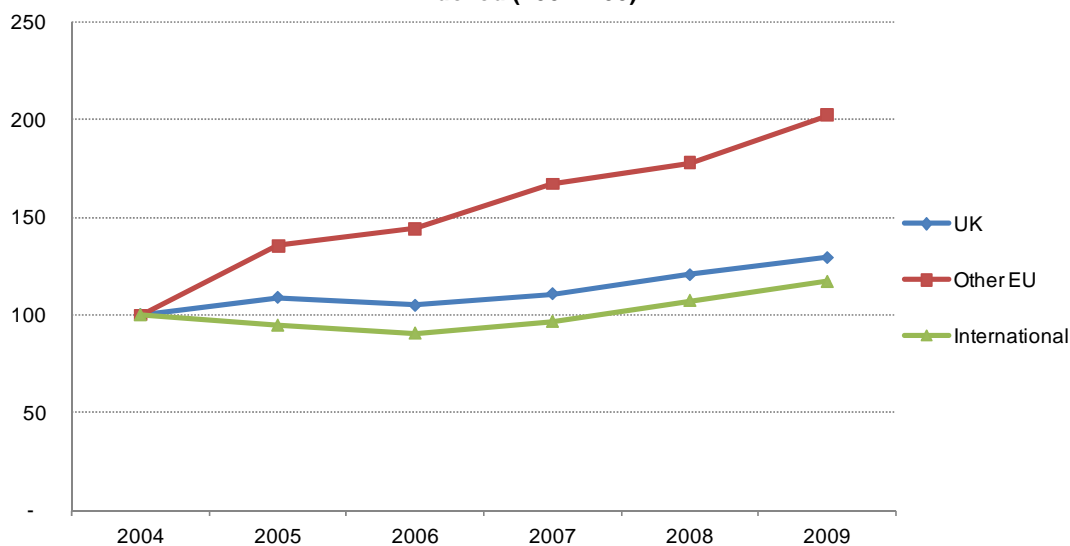
How have the participation trends for different groups of students changed since 2006 and to what extent can these be attributed to the 2006 reforms? Please highlight changes that have been positive or neutral as well as changes that may raise challenges for future policy.

24. Universities UK's report *Variable tuition fees in England: assessing their impact on students and higher education institutions, a fourth report* [referred to hereafter as *Variable fees in England*] summarises trends in applications and enrolments in higher education since the introduction of the 2006/07 reforms. A copy is enclosed with this submission. The following paragraphs summarise the key findings.

Demand

25. The report states that overall there is nothing in the data that indicates that the introduction of variable fees has had any lasting impact on demand. Indeed, apart from a decline in real terms of UK applicants in 2006 (the first year of variable fees), applicant numbers have increased each subsequent year in England. This trend continued in 2009, with a 7.7% increase in applicants through UCAS for full-time undergraduate study in 2009, compared to an increase of 7.4% across the UK as a whole. This represents the largest ever cohort of applicants applying to enter higher education in England.

Figure 4 -Trends in applications through UCAS, 2004-2009, indexed (2004=100)¹⁴



Source: UCAS data

26. Absolute numbers of applicants are less meaningful than figures adjusted by the overall relevant population. *Variable fees in England* illustrates the growth change in applications with reference to the 17 year-old population. In England, the number of

¹⁵ NB the expansion of EU students reflects the expansion of the EU during this period.

applicants per thousand of the 17 year-old population showed a one-year reduction of 3.5% in 2005/06 followed by increases of 6.3% in 2006/07, 8.7% in 2007/08 and 9.8% in 2008/09. 2008/09 application figures represented the highest level of demand ever. Overall, between 2004 and 2009 there has been a 30% increase in the number of applicants per thousand of the 17 year-old population in England.

27. This pattern suggests that where individuals could avoid the new fees by entering higher education before the 2006/07 reforms were introduced, they did so. Demand in 2007/08 and 2008/09 is very likely to have been increased by the onset of the economic recession. A similar pattern has been observable in previous recessions.

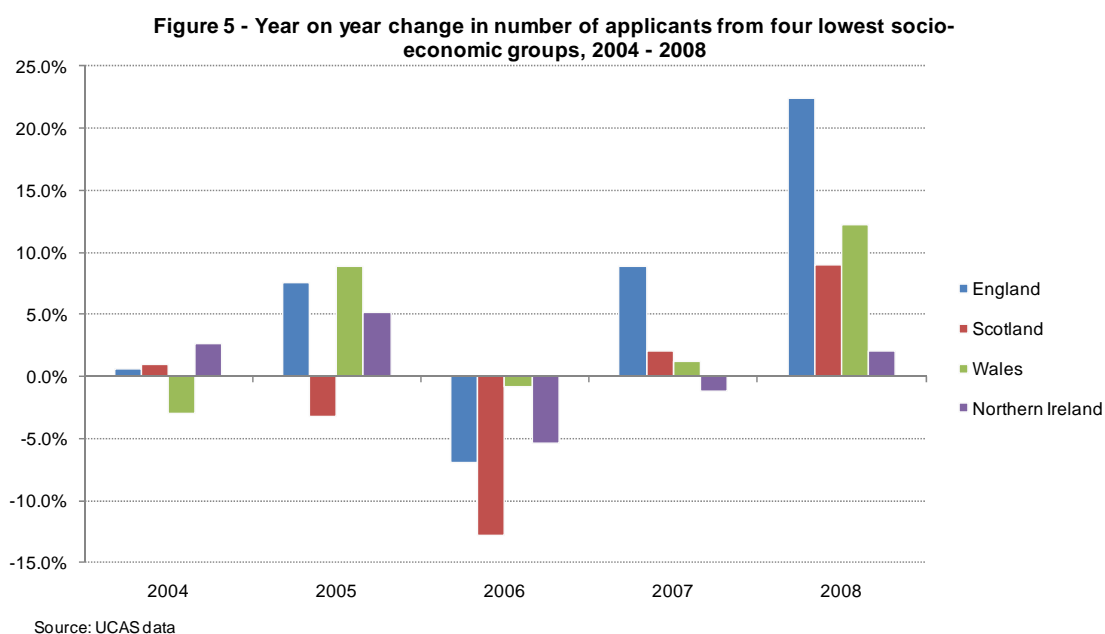
Participation by social class

28. *Variable fees in England* concludes that the introduction of fees does not appear to have had a negative impact on participation of students from state schools or those from socio-economic groups 4-7, as demonstrated in the charts below.
29. The 2009 FYPSEC (Full-time Young Participation by Socio-Economic Class) shows a reduction in the participation gap between 18-20 year old entrants from socio-economic groups 4-7 (routine and lower supervisory occupations) compared to groups 1-3 (Professional and intermediate occupations) to higher education. This decreased from a gap of 27.1% in 2002/03 to 20.2% in 2007/08, and demonstrates that the introduction of variable fees has not had a negative impact on participation amongst the lower socio-economic groups for young full time entrants (see figure 2, above.)
30. According to a recently published report by HEFCE ¹⁶ the proportion of young people from the most disadvantaged areas entering higher education has increased by 30% over the last five years and 50% over the past 15 years. This compares to a 5% increase over the last five years and 15% increase over the last 15 years for young people from the most advantaged areas.
31. However there are still disparities in the levels of participation depending on where young people live, with one in five young people from disadvantaged areas currently entering higher education compared to one in two from the most advantaged areas.
32. The HEFCE report concludes “...*there is no indication from the national level trends that the changes to HE tuition fees or student support arrangements have been associated with material reductions in the overall HE participation rate*”.

¹⁶ Trends in young participation in higher education: core results for England, HEFCE, 2010

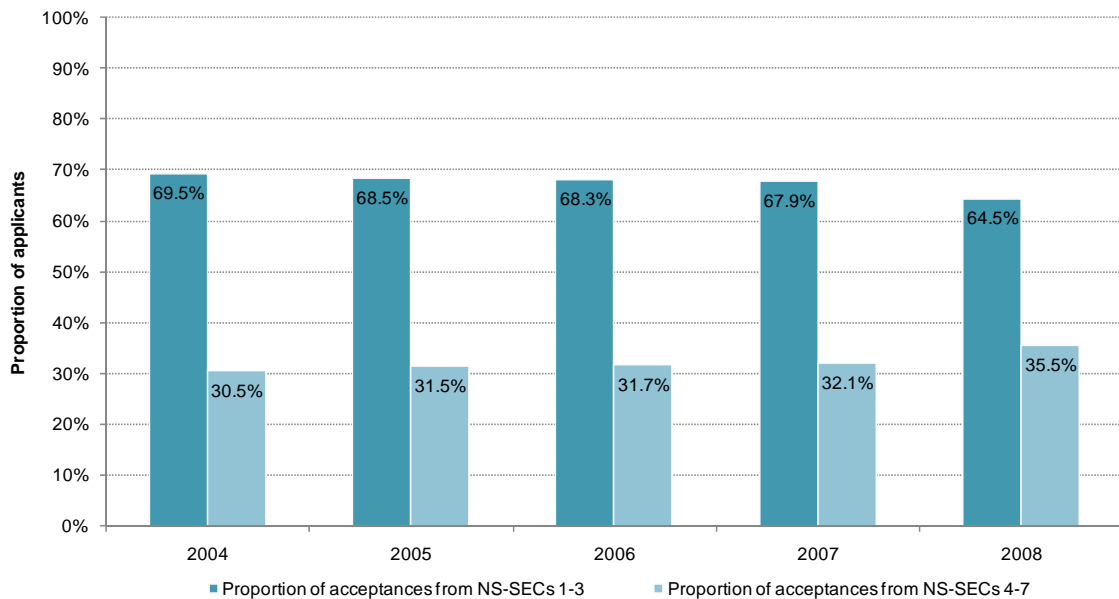
Applications and acceptances by social class

33. Alongside the participation data, presented above, it is also possible to look at the levels of applicants and acceptances by social class.
34. After a decrease in applications when variable fees were introduced, the number of applicants from socio economic groups 4-7 have shown significant year on year increases, with an increase in England of 8.9% in 2007 and 22.5% in 2008. This is significantly higher than the increases in Scotland, Wales and Northern Ireland over the same period. This should, of course, be seen in the context of the overall increase in numbers of applicants in this period.



35. Between 2004 and 2008 the average annual change in applicants from socio-economic groups 4-7 was 6.5% in England, -0.8% in Scotland, 3.7% in Wales and 0.7% in Northern Ireland.
36. The proportion of acceptances from socio-economic groups 4-7 have also followed the pattern shown in participation and applicants with the proportion of acceptances from entrants in these socio-economic groups increasing from 30.5% in the 2004 intake to 35.5% in 2008.

Figure 6 - Full time young undergraduate acceptances by socio economic class, 2004 - 2008



Source: UCAS data

Access indicators by mission group

37. In policy terms ‘widening participation’ refers to increasing the percentages of individuals from lower socio-economic groups going on to higher education, while ‘access’ refers to increasing participation of individuals from lower socio-economic groups in the most selective universities. Universities UK believes the most significant issue, in terms of widening participation to higher education, is the 360,000 16 year olds who each year fail to attain 5 good GCSEs – five GCSEs between A* and C including English and Maths. Only 48% of 16 year olds currently attain that level. There is a significant difference between socio-economic groups in educational attainment. Nearly 60% of children from higher socio-economic groups achieve 5 good GCSEs compared to only 31% from lower socio-economic groups, and just 16% of those eligible for free school meals. As figure 14, below, shows, if two students from different social groups have roughly the same level of qualifications (measured by UCAS tariff points) differences in participation are very substantially reduced.

38. The attainment gap is the primary reason for the related gap in participation by socio-economic class in the most selective institutions. Building on this is the fact that schools differ in what they provide. Sutton Trust research¹⁷ has shown that independent school students are more likely to take ‘traditional subjects’ (three sciences, maths and modern languages etc) than those at state schools. Since subject choice is a key determinant of successful application, especially for certain subjects (physical sciences, medicine, veterinary science etc) this is likely to be a significant factor influencing participation. We have also noted elsewhere that there is

¹⁷ *Increasing the participation amongst disadvantaged young people and schools in poor communities*, Sutton Trust, Oct 2008.

a significant need to encourage more applications from lower socio-economic groups to selective institutions, hence the need to focus on raising attainment, aspiration and improving the quality of advice and assistance to prospective students.¹⁸ Universities UK's publication *Engagement with schools and colleges: Partnership development* illustrated the important role that many universities are playing in this work. However, the responsibility primarily rests with the state education system.

39. However, looking at the proportion of full time first degree entrants from state schools by mission group, all groups have seen a slight increase, with both the 1994 and the Russell group showing an above average improvement in the proportion of state school students (increases of 1.3 percentage points, and 1.1 percentage points respectively between 2003/04 and 2007/08.) This may reflect the substantial effort and resources which have been directed, in all parts of the higher education sector, to widening participation and outreach activities, bursaries, scholarships and progression arrangements. However, it is also likely to be a product of improvements in performance at GCSE and A-level.

Table 1 - Young FT first degree entrants from state schools¹⁹

Mission group	2003/04	2004/05	2005/06	2006/07	2007/08	Change between 2003/04 and 2007/08
Million+	96.3%	96.4%	96.8%	96.9%	96.9%	0.7 pp
Non-Aligned	93.4%	93.1%	93.4%	93.5%	93.9%	0.5 pp
University Alliance	93.3%	92.9%	93.4%	94.2%	94.1%	0.8 pp
1994 group	80.2%	80.1%	80.0%	80.9%	81.5%	1.3 pp
Russell group	74.6%	74.2%	75.3%	75.1%	75.7%	1.1 pp

40. However, looking at entrants by social class, the data does not suggest significant improvements in access to the most selective institutions.

¹⁸ Universities UK is aware that later in January HEFCE will be publishing a comprehensive review of widening participation and access and the outcomes from this report will be incorporated into our final submission.

¹⁹ Figures here and in the following table relate to the whole of the UK.

Table 2 - Young FT first degree entrants from socio-economic classes 4,5,6 &7

Mission group	2003/04	2004/05	2005/06	2006/07	2007/08	Change between 2003/04 and 2007/08
Million+	38.2%	37.3%	39.0%	39.4%	39.7%	1.5 pp
Non-Aligned	33.3%	32.8%	33.2%	33.5%	34.3%	1.0 pp
University Alliance	33.7%	33.0%	33.8%	35.5%	34.7%	1.0 pp
1994 group	21.5%	21.2%	22.1%	22.0%	21.7%	0.1 pp
Russell group	19.7%	19.5%	20.2%	19.8%	19.6%	-0.1 pp

Ethnic minority acceptances

41. There has been an overall increase in the number and percentage of acceptances from minority ethnic groups over the period between 2004 and 2008. UK domiciled ethnic minority acceptances have increased from 20.5% to 22.6% of all degree acceptances. In the most recent three years the figures have been largely stable. *Variable fees in England* notes that practically the whole reduction in the proportion of acceptances onto first degree programmes of white individuals was between 2005 and 2006, suggesting that their decisions as to whether to enter higher education may have been more affected by concerns about the new fee and loan arrangements than those from other ethnic groups.

Age

42. *Variable fees in England* also demonstrates that there was relative stability in the distribution of acceptances onto full-time undergraduate programmes by age range, until the most recent year. During 2008/09 there was much stronger growth from applicants aged 21 and over, than from applicants aged 20 and under (an increase of over 12% compared to 6%). This may be explained by the inclusion of individuals accepted onto nursing and midwifery courses within the statistics. However, it may also be explained by the recession affecting demand for initial undergraduate education from young people and especially from those who decided not to enter higher education on leaving school but who now see their current jobs and future employment prospects threatened by the recession.

Full and part-time enrolments

43. In terms of enrolments the number of UK-domiciled first year full-time undergraduates declined in 2006/07 even though the young age population was rising, consistent with the decrease in applications that year, noted above. However, in 2007/08, numbers returned to above 2005/06 levels at 326,625, and in the most recent year for which data is available, 2008/09, numbers increased by 7.3% to 350,545.

44. First-year part time enrolments fell slightly in 2006/07 and 2007/08. Although according to newly released HESA data, numbers rose again in 2008/09, they are still only just above 2006/07 levels. However, Universities UK has stated that the support available to part-time students, and whether this is a break on both the provision of part-time higher education by universities and its take-up by students, is clearly an area which requires detailed consideration as part of this review.

Cross border flows

45. *Variable fees in England* also examines flows of students between the four countries of the UK. It reports that, between 2004 and 2008, there has been a small but slow increase in the proportion of English students studying within England. There has been a more significant increase in the proportion of Welsh students studying in Wales.

Table 3 - Percentage of first-year UK-domiciled undergraduates studying in their country of domicile, 2003/04 to 2007/08

	2003/04	2004/05	2005/06	2006/07	2007/08
England	95.7%	95.7%	95.6%	96.0%	96.2%
Wales	66.5%	65.8%	64.3%	70.8%	71.6%
Scotland	94.0%	94.1%	94.1%	94.4%	94.2%
Northern Ireland	71.4%	71.1%	71.3%	69.2%	70.1%

Source: UCAS data

Enrolment by subject

46. An analysis of enrolment patterns by subject reveals that there has been considerable variation across subject areas in the last five years:

- Computer science has declined by more than a quarter;
- Mathematics has increased by more than 20%;
- Subjects allied to medicine are now declining after a peak in 2005/06;
- Physical sciences, engineering and technology all show strong growth in the most recent year (over 5.5% and 5.4% respectively, compared to total growth for all subjects of 4.7%) as do creative arts and design;
- Education shows a very large increase over the period (52.6%) but this figure should be treated with caution because of changed definitions.

47. Overall with the possible exception of a small reduction in the proportion of white applicants gaining acceptance onto degree programmes, *Variable fees in England* concludes there is no firm evidence that the introduction of the new fees has had any impact on the mix of individuals gaining entry to degree programmes or subject choice. There is a question about the relationship between the introduction of variable

fees for full time undergraduates, and associated support, and the provision and take-up of part-time higher education.

What can we learn from international trends in participation, in particular are there models of higher education provision elsewhere that deliver higher levels of participation than England with comparable quality and levels of investment?

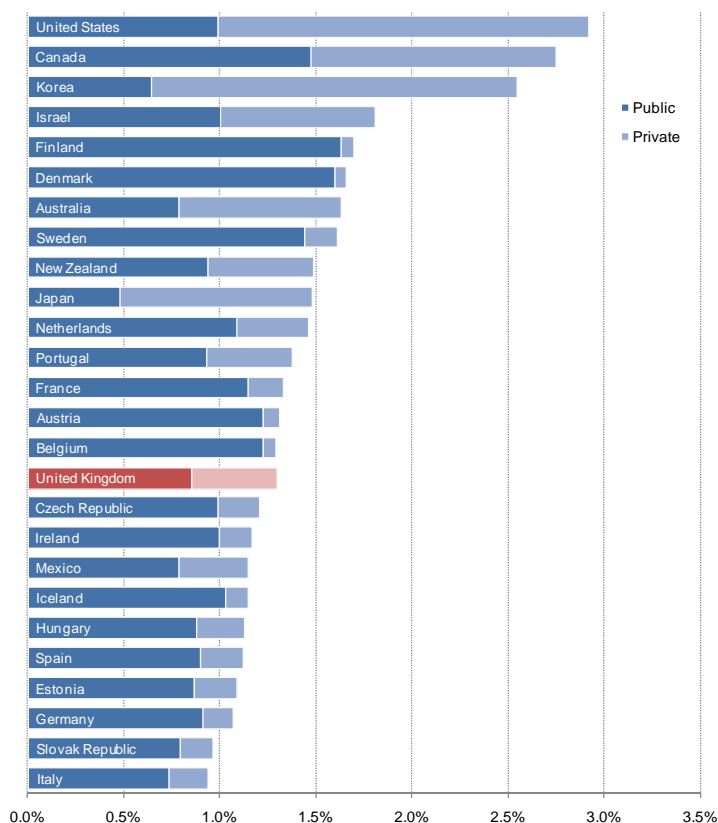
48. Comparing higher education systems is fraught with difficulty, particularly in terms of quality. The UK produces some of the most comprehensive and transparent information about the quality of its higher education. However, comparisons of data conducted by the OECD tend to suggest that although the UK higher education is relatively underfunded, it is highly efficient, with one of the best completion rates in the world, and high post-graduation employment rates and earnings premium. It is important to recognise that our international reputation for quality is of paramount importance to the sector, and to the UK as a whole given the contribution that international students make not only to the intellectual strength of universities, but also to the UK economy and the viability of institutions.

International investment levels

49. OECD figures make it clear that the UK lags behind competitor countries in terms of public and private investment in higher education.

- The UK spends 1.3% of GDP on higher education, compared to 2.9% in the US, 2.7% in Canada and 1.6% in Australia. Of this, in the UK 0.9% of the total comes from public sources, compared with 1% in the US.

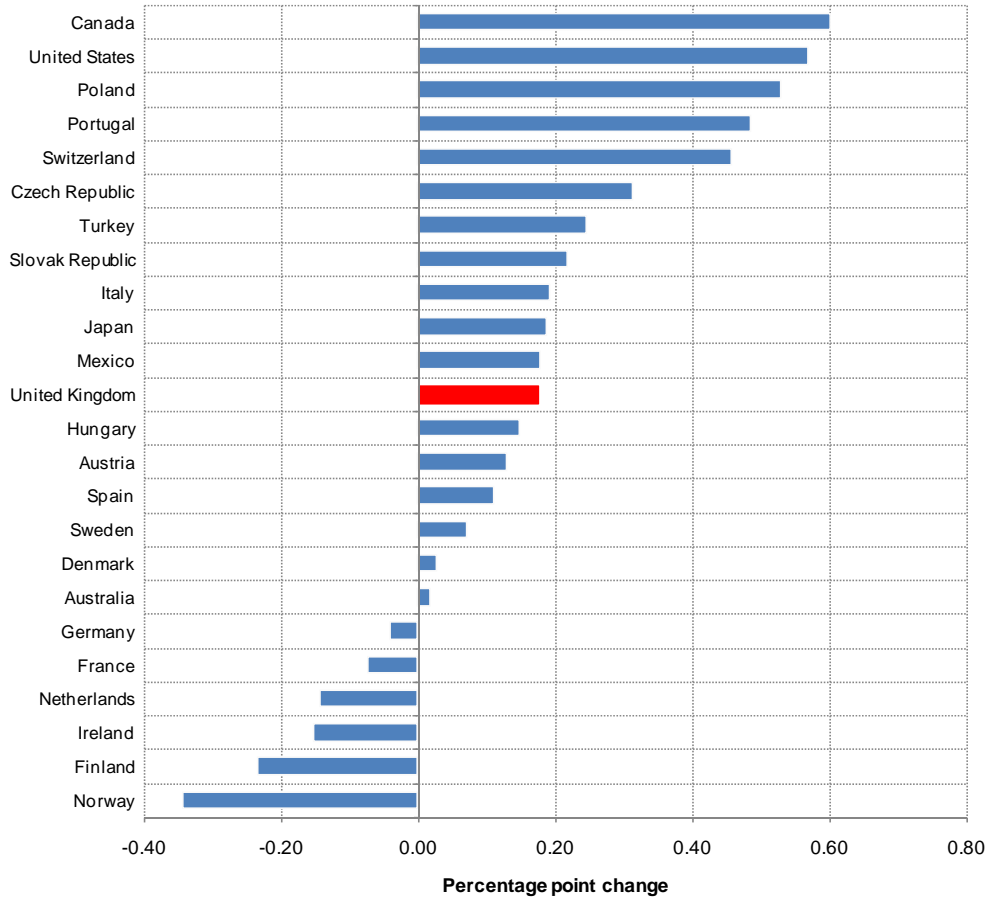
Figure 7 - Expenditure on higher education institutions as a percentage of GDP, by source of fund, 2006



Source: Education at a glance 2009 (OECD) - Indicator B2.4

- The increase in investment levels in higher education in the UK since 1995 (in proportional terms) is below that shown in the US and Canada but above Australia.

Figure 8 - Percentage point change in higher education funding as a proportion of GDP between 1995 and 2006



Source: Education at a glance 2009 (OECD)

- We would expect recently announced cuts in the UK to contrast poorly with fiscal stimulus measures channelled through higher education in other competitor countries in future editions of OECD data.

Table 4 - International fiscal stimulus measures

Country	Investment Activity
USA	Doubling basic science spend 2006–16, plus \$21bn increase in R&D
China	\$860m R&D investment to help Chinese companies
Canada	\$6 billion dollars for R&D, including funding to temporarily expand graduate student programmes.
Germany	500m€ for transport research, 900m€ for collaborative R&D in SMEs
France	730m€ boost for HE and research, more generous R&D tax credits, estimated to create 25,000 research jobs in the mid-term
Spain	2009 budget for R&D increasing 6.7% plus 500m€ for specific initiatives
Australia	\$580 million (£260million) fast-tracked into universities
Austria	100m€ for R&D, 120m€ for university infrastructure

Source: Department for Business, Innovation and Skills (September 2009)

- Spending per higher education student in the UK increased 39% in real terms between 2000 and 2006 and is currently \$15,447, exceeding the OECD average of \$12,336, but lower than countries such as the US (\$25,109), Switzerland (\$22,230) and Norway (\$16,235).
- However, 26%²⁰ of total public expenditure in the UK goes towards student support, well in excess of the OECD average of 19%. The UK ranks 7th out of 28 countries in terms of proportion of total spending on higher education which is directed towards student support.
- Capital investment in higher education in the UK accounts for 6.1% of total expenditure, and is lower than the OECD average of 9.7% and the levels found in countries such as the US (12.0%), Australia (10.6%), France (11.5%), Germany (7.8%) and Japan (13.1%). The UK is likely to suffer further by comparison with other countries as a result in the cuts in capital expenditure announced in the December 2009 HEFCE Grant Letter.

50. To bring the proportion of UK public spending on higher education as a proportion of GDP up to the OECD average would currently require an additional £2.2 billion per

²⁰ It should also be noted that these figures cover the year after the introduction of variable fees and will be expected to increase next year as the effects of the introduction of the 2006 fee regime phase in.

year (before taking into account the cuts announced in the Pre-Budget Report and Grant Letter – see below).

51. It is worth noting that in its communication on modernizing Europe's universities the European Commission proposed that the EU should also aim, within a decade, to devote at least 2% of GDP to higher education (including both public and private funding).

International trends in participation

52. OECD *Education at a Glance* (2009) figures tell us that:

- In the UK, 37% of 25 to 34 year olds have obtained a higher education qualification. This is slightly above the OECD average (34%) but below competitor countries such as the US (40%), Australia (41%), France (41%) and Japan (54%).
- However, the UK graduation rate (percentage of graduates to population at typical age of graduation) for tertiary-type A qualifications²¹ is 38.7%, which is the same as the OECD average and above the rates shown by the US (36.5%), Canada (30.6%) and Germany.
- However, since 2000, while our graduation rate has increased by just 2 percentage points, the OECD average has seen an 11 percentage point increase.
- The UK continues to turn out a high proportion of science graduates, with 2,344 people with higher education level qualifications in science per 100,000 employed 25-34 year olds. This is greater than the OECD average of 1,709 and higher than the levels shown in countries such as the US (1,341), Germany (1,532) and Japan (1,631).
- Only 4 OECD countries show higher proportions of science graduates: Korea (3,748 per 100,000 23-34 year olds in employment), France (2,624), Australia (2,493) and Finland (2,379).

International quality comparisons

53. International comparisons of quality are difficult to make. There are no international quality assurance processes, although systems exist for the mutual recognition of qualifications.

²¹ Tertiary type A degrees include the following Bachelor's Degree "BA, BSc, etc"; Bachelor of Education "Bed"; bachelor of Medicine "MB"; Masters degrees "MA, MSc, MBA, etc"; Postgraduate Diploma / Certificate in Education "PGCE"; Master's degrees by Research "Mphil, Etc". Vocational degrees and PhD's are not included.

54. The UK's performance against international competitors may be inferred from data provided by the OECD. For instance:

- The UK ranks very highly for the completion rate of tertiary type A qualifications. 2009 figures show that the UK is third overall with a 79% completion rate and behind only Japan (91%) and Denmark (81%) and well above the OECD average of 69%. The figure is down slightly from 2008 (80%).²²
- The economic benefit of a degree in the UK remains high, with those of working age with a higher education qualification having a 57% advantage in terms of earnings, over those with only an upper secondary or non-tertiary education. This has remained at more or less the same level over the last 10 years despite the significant expansion of higher education during this period. The UK figure is above the OECD average of 53% and above competitor countries such as Australia (31%), Canada (40%) and France (50%) but below Germany (60%) and the US (72%).
- Higher education graduates in the UK also have a greater chance of employment (88.4%) compared to the OECD average (85.2%) and competitor countries such as the US (83.9%), Australia (85.9%), Germany (85.9%) and France (82.2%).
- Although not a direct proxy for quality, the UK retains its position as the second most popular destination for international students with a market share of 11.6% in 2007 (11.7% in 2000), second only to the US with 19.7% in 2007 (25% in 2000). 83% of international students studying in the UK stated that the UK was their first choice destination and that the top three factors affecting their decision were research quality, reputation and teaching quality.²³

55. In addition, I-graduate's International Student Barometer found comparatively higher levels of satisfaction across a number of elements of the *international* student experience, represented as a combined international index.²⁴ The UK was 4 percentage points ahead of the international index for learning, and almost 10 percentage points ahead for support.

²² We note, however, that other systems (e.g. Italy) do not operate selective entry criteria which will influence completion rates.

²³ *Guide to Enhancing the International Student Experience*, UK HE International Unit (to be published March 2010).

²⁴ Average of ISB scores from institutions in the Netherlands, Australia, Singapore, USA, New Zealand, and Denmark.

Table 5 – Average Satisfaction ratings of international student experience

	UK	International Index²⁵
Learning average	84.0%	80.2%
Living average	78.2%	75.5%
Support average	87.8%	78.2%
Arrival average	81.3%	77.9%
Overall average	82.8%	77.8%
Recommendation	81.4%	75.3%

56. The review may want to consider the evidence presented in a study commissioned for the European Commission in 2007 which examined higher education rates of return and trends in funding models within a European context²⁶. Significantly the report suggests that there is a trend towards a greater share of costs of higher education being asked of students and their families. The report contains a number of case studies. The Dutch case illustrates how increasing the share of funding from private sources by raising tuition fees and student loans does not have necessarily a strong negative impact on equity. It is proposed that the influence of higher tuition fees on student enrolment behaviour is neutral when potential students from lower income groups or other socially deprived groups are adequately compensated by grants and scholarships. Nonetheless, when the systems of scholarships and financial support to students are weak and unreliable, debt aversion and fear of tuition fees may become insurmountable barriers for the application of cost-sharing instruments such as tuition fee differentiation and income contingent repayment.

²⁵ Source: i-graduate, *International Student Barometer*, autumn 2008 (unpublished).

²⁶ http://ec.europa.eu/education/pdf/doc230_en.pdf

Have there been identifiable improvements in the quality of teaching in the period since 2006?

57. Although there is no single direct measure of quality which would allow us to establish a trend over the period since the introduction of variable tuition fees, there are a number of indicators relating to the quality of teaching which point towards positive developments, despite considerable increases in student numbers.
58. Qualitative and quantitative evidence gathered as part of Universities UK's efforts to establish how the income from tuition fees has been used (see below) reveals that:
- Across the sector, there has been an improvement in the median staff: student ratio from 17.6 in 2004/05 to 16.8 in 2007/08.
 - About 60% of higher education institutions in England with significant numbers of full time undergraduate students, showed some improvement in their staff: student ratios.
 - 70% of institutions either maintained or improved the quality of their non-residential estate (including teaching and learning facilities) in this period. This is backed by substantial qualitative evidence in response to the Universities UK survey describing the extent and range of investment in teaching, learning and student support facilities across the sector.
 - National Student Survey overall satisfaction rates have remained strong, moving from 80% to 81% over the five years from 2005.
 - Between the period 2005 and 2009, the National Student Survey has recorded the most substantial improvements in satisfaction rates in relation to assessment and feedback.

Student satisfaction

59. Satisfaction of English final year students, as measured in the National Student Satisfaction Survey, has remained steady, moving from 80% to 81% over the five years from 2005. Although there has been a slight reduction from 82% to 81% in the most recent year (the first variable fee-paying cohort of final year students). Universities UK believes that this represents a particularly impressive accomplishment, given the strength of anecdotal evidence suggesting the rise in student expectations following the introduction of fees, and the expansion of the sector. In addition, there has been a substantial increase in both the National Student Survey population and response rate over the course of the survey, making year on year comparisons problematic. We also note that it was only in recent surveys that the population was increased to include students studying HE in FE and students on NHS-funded courses, which may have affected overall satisfaction rates (the satisfaction rate for HE in FE is significantly lower than the sector average at 76%)

60. In a recent NUS survey (NUS/ HSBC *Students Experience Report: Teaching and Learning, November 2009*, 89% of students rated the quality of their teaching and learning experience as either good or excellent, with only 6% saying they thought it was poor. While this survey was only being carried out for the second time, this compares favourably with the 85% who rated the quality of their teaching and learning experience as either good or excellent in 2008.

Investments in teaching and learning, student services etc

61. Responses to Universities UK's survey on how universities have used the income from fees (see below) demonstrate how universities have invested to improve the student experience. Alongside investments in staffing (including additional staff to improve staff: student ratios, provide additional careers advice, support with study skills, or grow new areas of provision etc), common themes include investments in the physical infrastructure supporting teaching, including libraries, learning spaces and IT infrastructure. In addition, many universities reported investments in student services, including careers centres, student unions, student advice hubs, sport and social facilities. The universities of Derby and Bath and Sheffield Hallam are just three examples the many universities which have operated a 'you said, we did' approach to responding to student surveys by targeting investment in areas identified by students.

62. Responses also give an insight into the level of investment in measures to address the employability of graduates, for example through enhanced careers services, placement opportunities, and activities to develop employability skills alongside the curriculum. This was the subject of Universities UK's joint publication with the CBI *Future Fit*²⁷ which demonstrated a range of approaches by universities to enhancing graduate employability, in conjunction with employers. In many cases, universities are also redesigning the curriculum in order to embed activities intended to develop skills for employment, such as more opportunities for real-life problem solving and team working.

Future developments

63. We have noted throughout that the income from variable fees has only been on stream for three academic years, and has not yet reached steady state, and that in many cases, data is only currently available for the first two years of this period. Many forms of improvement in quality and the student experience could be expected to take time to feed through and so, with sustained levels of investment, we would expect to see stronger signs emerging in future years. Furthermore, evidence from universities' reports of how they have used the income from fees point towards a substantial proportion of the income being directed towards remedial efforts following more than two decades of substantially under-funded expansion of higher education. In particular, investment in staff pay and conditions and improving a long-neglected

²⁷ *Future fit: preparing graduates for the world of work*, Universities UK/ CBI, 2009.

physical infrastructure dominated responses to our survey – both of which are likely to result in longer-term outcomes in terms of quality.

64. Increased competition is driving further improvements in quality. Already, evidence from responses to Universities UK's survey demonstrates that universities operate in a fiercely competitive market for students, including full-time undergraduate students from the UK and EU. However, given the current level of consistency across the sector in fee levels, fees do not currently constitute a significant factor in this market. It is likely that much of the current pressure comes from elements of competition which pre-date the introduction of variable fees (reputation, environment, support available including financial support, programmes offered etc), combined with increased student expectations.

Is the higher education system providing the quality and academic standards that students, employers and national economic needs require? What are the key areas where quality needs to improve further? Please focus on those areas where the levers available to this Review of funding and student finance can make a difference.

65. Universities UK believes that, overall, the higher education sector is providing the quality and academic standards that students, employers and national economic needs require. The sector is making improvements to the quality assurance system to ensure that it meets future challenges, and that it is robust, transparent and cost-effective.
66. A number of sources of evidence support this view:
- Over 80% of employers surveyed by the CBI were “satisfied” or “very satisfied” with the employability skills of the graduates they had recruited in the last 12 months.²⁸
 - Students report high satisfaction rates (see above).
 - According to the latest Labour Force Survey data which is available²⁹, 82.1% of those with a degree or other higher education qualification were in employment compared with 68.7% of those with non-HE qualifications and 38.1% of those with no qualification. Only 3.0% of those with degrees were unemployed compared to 5.9% of those with non-higher education qualifications and 6.5% of those with no qualifications.
 - If they become inactive in employment terms, individuals with a higher education qualification are twice as likely to find a job as those in the lowest qualification category.
 - Over the past 15 years, the proportion of jobs requiring a degree-level qualification has increased from 23% to over 30% and according to CBI predictions, on the basis of a survey of their members, employers’ appetite for graduates is likely to continue to grow.
 - The graduate earnings premium has held up in recent years, despite the expansion in the number of graduates. In the 15 years to 2006, the proportion of graduates in the UK labour force rose from 9% to 13%. In spite of this, individual rates of return on degrees remain strong. Universities UK’s publication *The economic benefits of a degree*³⁰ found that by combining income and employment effects, the gross additional lifetime earnings (in real terms) of a representative undergraduate degree over and above two A-levels is

²⁸ Education and skills survey, CBI/ Edexcel, 2008.

²⁹ Labour Force Survey, January – March 2009

³⁰ *The economic benefits of a degree*, Universities UK (2007)

approximately £160,000. The returns to higher education qualifications have remained relatively stable throughout the period of mass expansion of higher education from the late 1980s. There has been no erosion of the graduate premium as the supply of graduates has increased.

Improving quality and standards

67. Given that the high quality of UK higher education is of central importance to our reputation, both at home and internationally, and critical to our ability to deliver on a range of national expectations as well as continuing to attract the best students from around the world, the sector recognises that there is no room for complacency about quality. A number of groups have looked into suggestions that quality and standards have fallen in recent years. None of these has found compelling evidence for this. Recent studies include: the Quality Assurance Agency's thematic review into causes for concern, and a review by a sub-group of HEFCE's Teaching Quality and Student Experience (TQSE) advisory committee. The TQSE sub-group's overall conclusion was that "there is no systemic failure in quality and standards in English higher education." It did, however, identify several areas of concern "which need to be addressed if the effectiveness of the quality assurance system is to be maintained in the future", including the provision of information to prospective students, and the operation of the external examining system. These recommendations, as well as those of the QAA, are being taken forward by the QAA, the sector and the funding bodies.
68. Universities UK takes these recommendations seriously and is taking a leading role in implementing many of them. For example, Universities UK and GuildHE have set up an External Examining Review Group to make improvements to external examining arrangements, while Universities UK, GuildHE, HEFCE and DELNI have worked with QAA and NUS to draw up proposals for improvements to the quality assurance system³¹.
69. In addition, Universities UK is supporting HEFCE research into the information needs of prospective students, with a commitment to consulting later in 2010 on improvements which should be made.
70. As noted in the previous section, the National Student Survey also points to universities' efforts to improve the student experience in areas where relatively low levels of satisfaction have been reported. For example, where question 7 "Feedback on my work has been prompt" scored 49% for satisfaction in 2005, this increased to 58% in 2009. Similarly question 8 "I have received detailed comments on my work" has increased from a satisfaction score of 56% in 2005 to 63% in 2009.
71. However we note that, as the Financial Sustainability Strategy Group (FSSG) has shown in their report, *The sustainability of learning and teaching in English higher education* (December 2008), the threats to sustainability are being felt particularly in

³¹ These proposals are currently out for consultation- see HEFCE 2009/47

three aspects of the student learning experience: accessibility of staff to students; physical infrastructure for teaching and learning; and student support services. The report notes: "These are all critical to recruiting and retaining students and to student achievement, and also to the quality and reputation of UK higher education". The FSSG "endorsed the conclusion that these strains have now reached a point where they are a threat to the quality and sustainability of higher education and hence to its outstanding contribution to the national economy and reputation of the UK".

72. As we demonstrate below, there have been some small observable improvements in the areas identified by the FSSG report as being under particular strain since that report was prepared. But quality costs. Universities UK believes that these recent, initial, positive developments are at serious risk as a result of the recently announced cuts in the higher education budget, including the 4.6% reduction in the unit of resource announced in the Secretary of State's Grant Letter to HEFCE.

How has the added income to institutions from the 2006 changes been used?

73. The introduction of variable tuition fees in 2006 is beginning to make a real difference to universities in the UK. Evidence drawn both from national level data, and the responses from individual universities to a survey conducted by Universities UK in October 2009, points to modest improvements being made across a range of indicators. After a long period of decreasing funding per student, this new income, combined with considerable increases in funding from other sources, is beginning to contribute significantly to stabilising the financial position of universities in England, enabling them to invest to improve all aspects of the student experience, as well as supporting considerable work to widen participation, including substantial expenditure on bursaries.
74. Detailed evidence to support this analysis is presented in Universities UK's publication *Making it count; how universities are using the income from variable tuition fees*, a pre-publication draft of which is enclosed with this submission. This section summarises that document.

Context

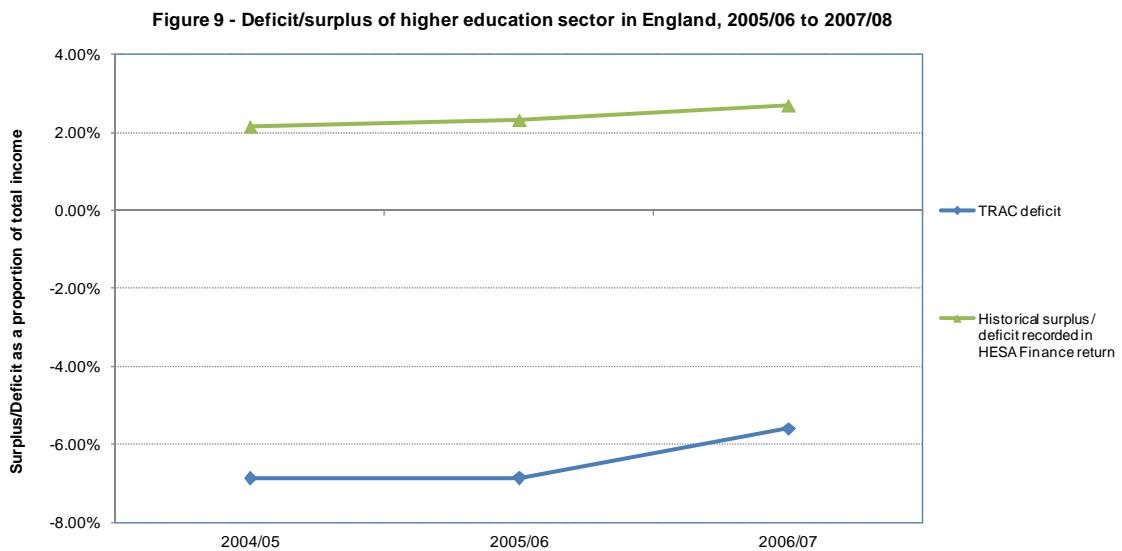
75. As we have pointed out in the context section of the report, variable fees provide a relatively new additional income stream, and only two year's worth of data are available to assess its initial impact. During this period, universities have also diversified their sources of income, and benefited from increased income from international recruitment and research grants and contracts. With the exception of bursary expenditure, institutions generally have not hypothecated additional fee income (with the exception of additional fee income spent on bursaries and outreach, and countable for OFFA monitoring). It is therefore, in most cases, impossible to trace the individual pound contributed by a student to particular items of expenditure within a university. Nevertheless, evidence strongly suggests that this income has not only enabled universities to make significant investments, but also that it has prompted institutions to think clearly about how to use the opportunities created by additional fee income to improve the student experience.
76. We also note that the level of fee income and proportion of total income it accounts for varies significantly by institution. In 2007/08 this varied from £0 from this source for some institutions to £45million, and accounted for between 0% to 27% of total income.

Financial health

77. At the most fundamental level, the national data and individual responses from universities, point to the contribution that the additional income from variable fees has

made to improving the financial health and long term sustainability of the sector, which had been eroded by a long period of under-funded expansion. A number of sources of income have been important in achieving this, notably income from international students and the introduction of full Economic Costing for research as well as income from work with charities, business and a small but impressive growth in income from voluntary donations. Key indicators of financial health include the following:

- HESA data show a slight improvement in the average level of surplus for English higher education institutions, from 2.3% in 2005/06 to 3.6% in 2007/08.
- However, a more accurate reflection of the sector's financial position can be gained by comparing the HESA figures with TRAC³² data. According to TRAC adjusted figures, the overall deficit in England as a proportion to income for all activities was -5.60% in 2007/08 compared to -6.86% in 2005/06.



Source: Annual TRAC (transparency review data - FSSG report on sustainability of the HE sector Annex A, Finance Plus 2009 (HESA))

- The cash position of universities (measured as the days ratio of net liquidity to total expenditure, excluding depreciation) has improved between 2005/06 and 2007/08. The median has increased from 55.9 in 2005/06 to 70.14 in 2007/08.
- The percentage ratio of total long-term borrowings to total income for higher education institutions in England has decreased since the introduction of variable

³² TRAC, the Transparent Approach to Costing, is the standard activity-based costing system used in all UK HEIs and provides the most consistent cost data available across UK higher education. TRAC cost adjustments are government-approved adjustments to the expenditure in published university financial statements which are intended to make the costs in TRAC consistent across institutions which use different accounting policies for assets, and to include an adjustment for the cost of risk and financing. They therefore address the fact that historic expenditure may understate the true costs of past activity.

fees. The median level of long term borrowing peaked in 2005/06 and decreased to its lowest level for the last 6 years in 2006/07 (17%).

78. Responses from individual universities support this picture. For example:

- The **University of Durham** reported year-on-year increases in operating surpluses for the period 2005/6 to 2008/9 allowing the university to secure borrowing at favourable rates. This has enabled the university to make capital investments of £70m over the period since the introduction of variable fees, including the construction of a new lecture theatre, refurbishment of existing teaching and laboratory space, investment in sports and social facilities at the Durham and Queen's Campuses, and in IT infrastructure including the introduction of online student enrolment.
- **Canterbury Christ Church University** made a decision to use additional revenues from variable tuition fees to maintain the financial stability of the institution. This has included increasing its annual operating surplus to move towards the strategic plan target of 3% of annual income. This has enabled the generation of positive cash inflows, which have been used to support an ambitious investment programme to supplement external borrowing, with an emphasis on improving student facilities.
- **University of Bedfordshire** has been able to go from a net debt of £5m in 2006 to £1m in 2008, and is continuing the trend into 2009.

Teaching and learning

79. Almost without exception, the universities which responded to Universities UK's survey have spent substantial amounts of their additional fee income on improved support and facilities for teaching and learning. New and refurbished lecture and seminar rooms, new computer clusters, IT upgrades, library refurbishments and expanded library services were common themes. Improving the working environment for staff by providing better facilities has also been a priority.

- The **University of Leeds** reported that variable fees income, combined with the HEFCE infrastructure funding, has enabled the university to embark on a £300m development programme. As a result, some £10m has been spent on refurbishing teaching facilities throughout the whole university.
- At the **University of Liverpool**, funding has been used to "invest in additional staff to provide study skills support to students, particularly those who form part of the widening participation cohort, to improve retention and support performance".
- **The University of East Anglia** reports "improvement in dedicated support for employability, [and] enhanced support for numeracy and prose style" alongside "measures to improve/increase the volume of contact hours [and] improve the quality and speed of feedback [including] formative work and feedback."

- Additional income from variable tuition fees has helped the **University of Newcastle** reduce its staff/student ratio from 15.2 to 14.9 since 2005/6, despite a growing student population.

80. National data support these reports:

- Between the period 2005/06 and 2007/08, 57% of institutions in England reported an increase in the proportion of their non-residential estate in condition A (Condition A meaning 'new condition' - either newly built or major refurbishment).
- Overall, taken together with those institutions who reported no change, just under 70% of institutions either maintained or improved the quality of their non-residential estate in this period.
- National Student Survey overall satisfaction rates have remained strong, with a 1% point increase over the five years since 2005, although there was a 1% decrease in satisfaction in 2009 from 82% to 81%, related to the first variable-fee paying cohort of final-year students. As we have noted elsewhere, between the period 2005 and 2009, the National Student Survey has, in particular, shown increasing satisfaction rates related to assessment and feedback.

Student services

81. Closely related to universities' efforts to enhance their support for teaching and learning, and associated facilities, are investments in the broader package of student services. Sector-wide, there have been major capital projects to improve the campus environment. Universities report having invested significantly in the areas such as student accommodation, new or enhanced sports facilities, students' unions, social spaces, childcare premises and a wide range of advisory and service functions.

- The Compass, a purpose-built student central support centre on the Strand campus of **King's College London**, represents an almost £1m investment in improving the student experience. At the same time the Careers Service was relocated to the same floor, placing careers advice at the heart of support services. The 10-strong team of advisers is accessible to students on all five King's campuses, via telephone, email, an on-line enquiry system and the website.
- The **University of Bath** used some of its variable tuition fee income to upgrade and give a higher profile to its Careers Advisory Service, which moved into refurbished new premises directly next to the students' union in January 2009. The expanded service has been able to offer specific advice in the context of the UK's economic downturn, including customised advice for job-seeking in a recession, additional careers support activities extending into the summer and the establishing of

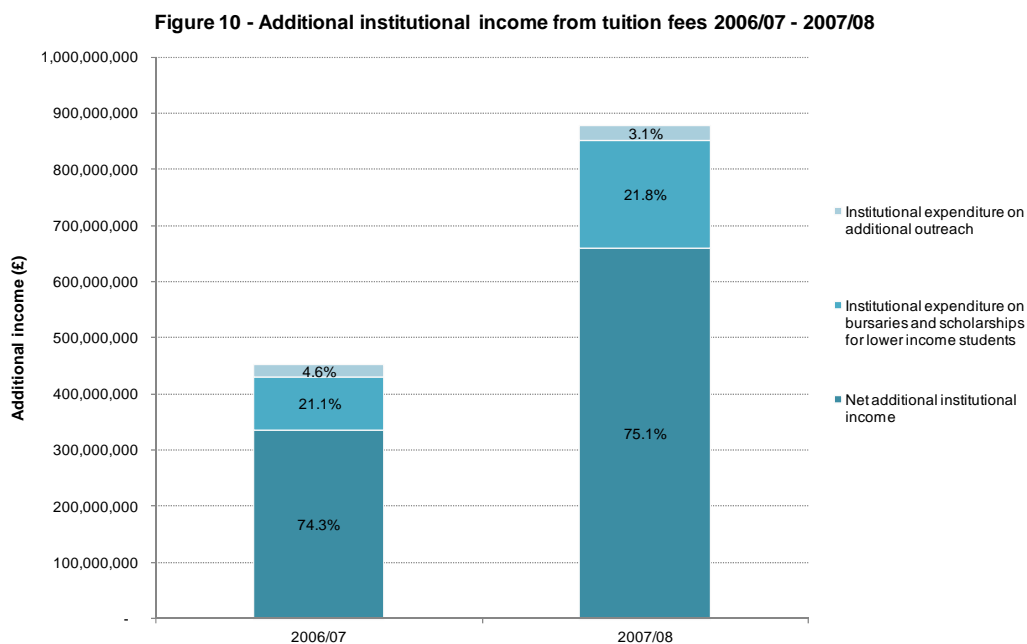
Enterprise Bursaries, which provide students with up to £1,000 to enable them to take up summer internships in businesses.

- University of Nottingham** has provided new student support centres offering a wide range of services in one place on the University Park and Jubilee campuses, with a third centre to be added at Sutton Bonington in early 2010. The main student recreation building has been expanded to improve social space and facilities, including additional multi-faith prayer rooms. The main library has been refurbished and now offers 24-hour access. For new students, early induction processes have been improved through better online communication and solutions pre-arrival, and by developing a new student handbook.

Student support, widening participation and outreach

82. Since the introduction of variable fees in 2006, for the two years for which data are available, higher education institutions in England have spent a total of £335 million on bursaries and outreach activities - or 25.2% of the additional income from variable fees over this period.

- In 2006/07 the gross additional income to the sector was £451million, of this 21.1% was spent on bursaries and scholarships and a further 4.6% on additional outreach activities leaving £335million of net additional income to the sector.
- In 2007/08 the gross additional income to the sector was £878million, of this 21.8% was spent on bursaries and scholarships and 3.1% on additional outreach activities leaving £659million of net additional income to the sector.



- According to OFFA, in 2007/08, 70% of the money spent by universities and colleges on financial support went to the very lowest income group, helping almost 133,000 students with a household income of less than £17,910. Overall, in 2007/08, more than 205,000 students from lower income and other under-represented groups received a bursary or scholarship.

83. In their responses to the Universities UK survey, universities were able to make a very clear link between the amount of additional income (above the standard fee) and expenditure on bursaries and outreach, in line with statutory agreements with the OFFA. Universities also report investing in additional financial advice and staff to support the administration of bursaries, enhance outreach and support widening participation.

- The **University of Surrey** commits one third of additional fee income to providing bursaries and scholarships to students from disadvantaged backgrounds. Bursaries are provided for all students who are eligible for maintenance support or a Special Support Grant, and/or whose residual household income is assessed at up to £35,000. The university's widening participation and outreach activities reach some 22,000 students each year and include community volunteering, sixth-form lecture programmes, taster days and summer schools, and an annual science circus. Almost 2,500 children from 26 schools used the mobile science and technology bus aimed at Key Stages 1 to 3, while student tutoring and mentoring schemes involved 66 schools and colleges. In 2008 fees income was used to support activities in science, technology, engineering and maths (STEM) subjects and the uptake of modern foreign languages among less widely represented groups.
- The Gateway programme at the **Royal Veterinary College** is a one-year preparatory course designed to offer non-traditional students a route into veterinary medicine. The programme is offered to non-selective state school students whose parents have not been to university and who are eligible for an Education Maintenance Allowance payment. Additional fee income has enabled the College to offer bursaries of £5,700 to Gateway students, making the programme more attractive and increasing recruitment as a result. The college notes that this is not financially self-sustaining, saying "We offer very generous bursaries and provide very intensive tuition for these students, creating a financial model which has to be bolstered by general College funds".
- At the **University of Northumbria**, all students on programmes to which variable fees apply receive scholarships of either £250, £500 or £1,000 per year. Additional income from variable fees directly supports the scheme. Applications to the university from well-qualified students have risen, while dependence on clearing has fallen, along with the university's non-completion rate.

Staffing, pay and conditions

84. Dedicated and high quality staff have been key to universities' success in delivering quality teaching and a positive student experience. Almost all respondents to Universities UK's survey acknowledge the value of the additional fees income in enabling the institution to implement the Framework Agreement for the Modernisation of Pay Structures (the 'Framework agreement') and the 2006-09 pay agreement.
85. The implementation of the new Framework Agreement followed two major reports on higher education. The 1997 report of the National Committee of Inquiry into Higher Education, chaired by Lord Dearing, and the Bett Review. The Dearing report made recommendations about the future funding of higher education, but also commented that some higher education staff were paid below staff in comparable private and public sector roles. It suggested that arrangements for determining pay and conditions were hindering the development of the sector.
86. In response to these recommendations, the Independent Review of Higher Education Pay and Conditions, chaired by Sir Michael Bett, was commissioned. A major study commissioned for the Bett Review noted the complexity of the higher education remuneration picture, with marked differences between grades and job sizes between universities, and a decline in general pay relative to employees outside higher education. The 1999 Bett review recommended the establishment of a new single negotiation body for higher education staff with a single settlement date. It also recommended the harmonisation of terms and conditions of various occupational groups.
87. These reports led to the creation of the new Joint Negotiating Committee for HE staff (JNCHEs) in June 2001. The agreement which established this Committee referred explicitly to the objective of creating a new Framework for modernising pay and conditions for all staff, including a single pay spine and new job-evaluated, local grading structures that would enable HEIs to take a consistent approach to ensure equal pay for work of equal value.
88. Equal pay for work of equal value has been a major driver for pay reform. In HE, steps to modernise pay via the implementation of the Framework Agreement led to many universities averting the risk of legal challenges. Other major employers, including the NHS and Local Authorities, have been through similar processes but these have been more lengthy and costly.
89. Investment in staff pay and conditions was one of the areas identified by Rt Hon Alan Johnson MP, in introducing the Higher Education Act, as a priority for expenditure as a result of the introduction of fees. He noted that this had the potential to "make an enormous contribution in tackling a very serious and deep-seated problem".

90. National data demonstrate that investments have been made not only in improving pay and conditions, and implementing the Framework Agreement, but also in increasing numbers of academic staff and improving staff: student ratios.

- A Review of Higher Education Pay and Finance Data conducted by JNCHES in 2008 concluded that salaries for higher education staff now compare well with comparator groups. Hourly earnings of full time higher education teaching professionals are above those for comparator professions such as secondary teachers and FE teachers and above the 'all professions' group. The pay of almost all support staff occupations was also found to be ahead of the rest of the economy for similar roles.
- Alongside improved pay and conditions for existing staff, the period between 2003/04 and 2007/08, saw a 23% increase in the number of academic staff. Over the same period the total number of students enrolled at universities in England increased from 1.86 million students in 2004/05 to 1.92 million in 2007/08. Taking into account this increase in student numbers, higher education institutions in England have been able to maintain the staff: student ratio with a slight improvement in the median figure from 17.6 in 2004/05 to 16.8 in 2007/08.
- For universities in England with significant numbers³³ of full time undergraduate students, approximately 60% showed some improvement in their staff: student ratios.

91. Responses to the Universities UK survey illustrate what this has meant for individual institutions:

- The **University of Winchester** reports that it has seen a reduction in staff turnover from 17% to 9%.
- Approximately half the additional income from variable tuition fees has been spent on staffing at the **University of Sussex**. While a significant proportion has been spent on pay and associated conditions, the major investment in staffing reflects the realisation of growth plans and academic developments. New posts have been funded in the Schools of Business, Management and Economics, Global Studies, and Media, Film and Music. The recruitment of high-quality staff to spearhead new initiatives is an important aspect of the university's strategic plan to attract the best staff who are leaders in their fields. Funds have also been used to moderate the highest staff: student ratios, improving the student experience.

³³ 40% or more of all students at the HEI. This measure is chosen because variable fees are payable by full-time undergraduate home and EU students.

- Increasing staff by almost 6%, while implementing increases in core salary costs, has enabled the **University of Newcastle** to reduce its staff/student ratio from 15.2 to 14.9 over the period from 2005/6. This has enabled the university to maintain a competitive position in the international higher education market, recruit key researchers to improve its profile, and enhance research-informed teaching.

92. We note that this investment has effectively removed the grounds for concern cited by Dearing, Bett and Alan Johnson (above). This year's (2009/10) pay settlement is 0.5%. The sector is also taking action to address the pensions cost pressures, although some schemes (e.g. the Teachers' Pension Scheme) are outside the sector's direct control.

Concluding remarks

93. The evidence provided by individual institutions and national data suggest that the additional income from fees is beginning to make a difference to the student experience across the sector. We note, however, that this has been possible because the income from fees has been accompanied by sustained public investment, and the Government's longstanding commitment to maintain the unit of resource for teaching. The announcement in the Secretary of State's grant letter of the reduction in the unit of resource for teaching, as part of cuts totalling about £1 billion by 2013, seriously threaten this progress.

94. The economic climate has changed, however we must note that there is a danger that, in the medium term, income from fees will merely replace Government funding, shifting the balance of payment from the state to the individual graduate, without securing improvements to higher education. Indeed this has already started to happen. Given the strong commitments we received during the passage of the Higher Education Act, Universities UK finds this deeply disappointing. We quote Baroness Ashton, repeating commitments made by Rt Hon Charles Clarke MP (e.g. 4th December 2003) and Rt Hon Gordon Brown MP (Budget Statement 2004):

"I can confirm again that income from tuition fees will be additional and that with Universities UK we shall develop more transparent accounting and reporting arrangements, which would enable your Lordships' House to see how we have delivered against those commitments in the Budget Statement 2004."³⁴

³⁴ Hansard, House of Lords, 8 Jun 2004 : Column 212 at: <http://www.publications.parliament.uk/pa/ld200304/ldhansrd/vo040608/text/40608-23.htm>. See also: Hansard, House of Commons, 4 December 2003 column 632 and Budget Statement 2004

What cost pressures do institutions envisage arising in the future if they are to continue to deliver progress in participation and quality?

95. Despite moves over the last ten years to reverse the significant underfunding of UK higher education, both through additional public funding and contributions from fees, the current financial position of the sector remains delicate. It is questionable whether the current situation is sustainable in the longer term, particularly for teaching.
96. Recently announced cuts, together with the prospect of ongoing constraints on public funding for higher education over the short-medium term means there is a clear need for an informed public debate about where additional resources to support higher education will be found.
97. Universities will have to adjust what they offer in response to the resources available, from a variety of sources. Without additional funding, public funding cuts are likely to lead to course closures or increasing focus on recruiting international students, to the detriment of home students, may become likely. Universities will be faced with decisions about continuing beneficial activities which are in the public interest and create public benefits, including outreach and work to raise aspirations in schools, or concentrate on core activity. These will be difficult decisions for individual institutions, and may lead to universities retreating from activities and partnerships which Government has sought to encourage in the last decade.

An investment, not a cost

98. UK higher education makes an excellent return on public investment: In 2007/08. The sector generated over £59 billion of output; an increase of £14 billion in five years. This is without counting the value created by graduates, or the fruits of university research and knowledge exchange. Universities also generated 2.6% of all full-time UK jobs. Their export earnings total £5.3 billion.
99. The Government also makes an excellent return on its investment in undergraduate education, including student support, estimated to total approximately 11% per annum.

Historical context

100. Under-funded expansion of undergraduate numbers in the 1990s meant that the unit of funding per student fell by 40% (see figure 1 above). This trend of a declining unit of funding had been arrested and reversed to an extent since the early 2000s, and remained broadly unchanged from 2000/01 through to 2006/07. However, even by 2009/10, when the income from tuition fees will be close to steady state levels, the average unit of funding will only have recovered to £7,500 in real terms, still substantially below the £9,000 level of 1989 (before calculating the effect of additional unfunded student numbers which will have reduced the 'unit of resource').

101. During the 1990s, many universities had no alternative but to reduce planned funding for the maintenance and upkeep of their infrastructure. Only some 25-33% of capital spend by UK universities comes from Funding Council capital grants; the balance is funded from institutions' resources and borrowing. Universities received substantial support for capital investment in research infrastructure, but considerably less for teaching infrastructure.
102. Teaching infrastructure has also been under particular strain because of the quantity of buildings and facilities dating from the 1960s which have reached the end of their useful lives, and changes in pedagogy and IT, demands for more flexible provision etc. which have rendered some teaching facilities no longer fit for purpose. In the current economic climate, it is likely that the infrastructure budgets for institutions will come under intense pressure (as happened in the 1990s), despite the implications for sustaining student recruitment in an increasingly competitive global market.

HEFCE assessment

103. In July 2009, in England HEFCE published the annual accountability returns from the "single conversation" for 2008 (2009/26). The report notes that:

"The overall financial results for the sector in 2007-08 show a positive and financially sound position, with some improvement on the performance in 2006-07. At the end of 2007-08 the sector had strong cash balances and healthy reserve levels, which will provide some cushion for the likely risks the sector now faces. However, Transparent Approach to Costing data indicate that, when adjusting institutions' audited financial statements to provide an estimate of the full economic costs of activities, there is an overall deficit of £1,066 million for HEFCE- funded HEIs."

104. The same report goes on to say that:

"A significant proportion of the sector's financial forecasts were prepared last summer, before the economic downturn began, and our analysis of them indicates that not all institutions have fully reflected the likely pressures on income streams and expenditure in future years. Although the financial picture is superficially sound, TRAC data show that levels of surpluses and reserves obscure under-investment in infrastructure. Despite the healthy financial performance in 2007-08 the sector now faces some significant risks to its long-term sustainability. There are undoubtedly going to be increased pressures on the sector, and the assumptions within the financial forecasts look optimistic, with HEIs' anticipation of risks unclear. We are planning on the basis that the number of institutions at risk will increase over the forecast period, unless HEIs can mitigate some of the risks they are undoubtedly going to face."

105. In 2005/6 many universities had no surplus and the sector as a whole was 7% in deficit on a TRAC-adjusted basis. At that point, the sector forecast a surplus of 1.8% by 2010-11. Although, as we have stated elsewhere, the TRAC-adjusted deficit has improved in the period since the introduction of variable fees, standing at -5.60% in 2007/08, on this calculation, surplus is unlikely to be achieved in the foreseeable future.³⁵

Independent Review of higher education finances

106. In 2008 an independent review of higher education finance and pay data was conducted on behalf of the Joint Negotiating Committee for Higher Education Staff (JNCHES). The final report stated that:

“Most institutions are financially stable in the short-term, but their levels of surplus and investment are too low in to assure a sustainable future. They are not making sufficient financial surpluses to cover their long-term needs for investment in estates and other infrastructure and they are facing new financial challenges and risks which threaten their ability to innovate and advance as fast as some overseas competitors. This matters because of the importance of higher education to the economy, and to the influence and reputation of the UK in the world.”

107. For teaching, the report by the Financial Sustainability Strategy Group (FSSG) *The sustainability of learning and teaching in English higher education* (December 2008) identified threats to sustainability in three aspects of the student learning experience: accessibility of staff to students; physical infrastructure for teaching and learning; and student support services. The report notes: “These are all critical to recruiting and retaining students and to student achievement, and also to the quality and reputation of UK higher education”. The FSSG concluded that these strains had reached a point where they are a threat to the quality and sustainability of higher education and hence to its outstanding contribution to the national economy and reputation of the UK. The CBI Higher Education Taskforce has recently put quality as first in their analysis of priorities for higher education.

108. As we have demonstrated in the previous section, national data and the reports of individual universities point to steps being taken to address some of these issues, including in terms of the physical infrastructure for teaching and learning, student support services and accessibility of staff to students. But there is undoubtedly a considerable way to go to redress the consequences of a long period of under-funding, to adapt to developments in teaching, learning and IT, to provide more flexible patterns of study for an increasingly diverse student body, to address employer needs and to meet rising Government, student and public expectations.

³⁵ For comparison with HESA deficit/ surplus figures see paragraph 72.

Summary of current financial pressures affecting the HE sector

109. The most significant financial pressure currently facing the higher education sector is the extent of cuts to public funding. Cuts announced to date are equivalent to 12.5% of total annual expenditure on higher education.
110. This year's 4.6% reduction in the unit of funding for teaching is particularly serious and Universities UK cannot see how an adverse impact on institutions' teaching functions can be avoided. This might include reductions in staff numbers, increases in staff: student ratios; reductions in staff: student contact time etc. These would be particularly disappointing given the progress achieved since the introduction of variable fees described in the previous chapter.
111. In respect of full-time home and EU students, universities are constrained both in terms of quantity (by the cap on student numbers) and unit price (the fee cap) limiting scope for manoeuvre.
112. We also note that the cuts announced in the December Grant Letter will, in many cases, relate to areas in which universities have already committed resources for the financial year in question. Staff will have been hired accordingly, and universities will have to manage this considerable unexpected shortfall. This may involve a further diversion of resources away from the front line.
113. Some of the other major financial pressures facing the higher education sector include:
- The increasing costs of the various sector pension schemes;
 - Increasing competition for international students, both from within and outside the UK, including from private providers, with potentially serious financial implications for those institutions that fail to maintain (or in some cases, grow) their market share;
 - Rising student expectations are likely to continue to exert pressure on institutions to modernise and upgrade support, services, and facilities. Utility, infrastructure and ICT costs are likely to continue to increase;
 - Recently announce cuts to capital budgets seem likely to set a pattern for coming years. Without the support of public funding for capital investment, pressure on universities to find other sources of support for essential infrastructure investment will grow, while non-essential work is likely to be postponed, contributing to an increasing investment backlog;
 - Public funding cuts are also already leading to cuts in funding for the bodies which support sector-wide initiatives, such as the Higher Education Academy;

- The recession is likely to increase the call on student financial support and hardship funds as students find it more difficult to secure part-time jobs, and parents/ partners find it more difficult to fund living costs;
- Many universities report increasing investment in careers service/ job shops to support students and graduates in response to the recession;
- In the past year investment and endowment income have fallen substantially;
- Universities have reported greater difficulty in securing venture capital to develop or spin out the fruits of their research, potentially limiting growth of this as an income-generating option;
- Although recent years have seen strong growth in bespoke training for companies, as measured by the Higher Education Business and Community Interaction Survey, we would expect this to be affected by the recession;
- Opportunities for employer co-funded provision may have become more difficult to secure as a result of the recession, although there does not appear to be evidence of this to date;
- Financial penalties of £3,700 per student for institutions who 'over-recruited' for 2009/10 entry, as detailed in the Secretary of State's Grant Letter to HEFCE;
- In the longer-term additional costs will be associated with meeting carbon reduction targets.

114. In addition, we note that the highly differential, and in some cases cumulative, impact on individual institutions of a succession of separate funding reviews/policy decisions may make some higher education institutions more vulnerable than others. Funding cuts announced in the Pre-Budget Report and HEFCE Grant Letter are likely to have the greatest impact on those institutions which are most dependent on income from teaching.

115. There is a further risk that the financial pressures described above reverse recent improvements in levels of liquidity across the sector, which could have a knock-on effect on the availability and costs to the sector of borrowing. Existing debt repayments may become increasingly difficult to service. The financial risk will be a particular concern for those institutions that have borrowed substantial sums for essential investment against their improved financial position as a result of the introduction of variable fees.

116. Finally, we note that despite substantial cuts in public funding, the Higher Education Framework *Higher Ambitions* and the HEFCE Grant Letter both indicate ways in which the Government wishes to direct universities to respond to new demands. These political pressures, for example to develop more flexible provision

and grow provision in areas deemed to be of high-value to the economy, add a significant dimension. In our response to the Grant Letter, Universities UK warned Government that they should be realistic about the sector's capacity to do more with less.

117. We wholeheartedly agree with Government that universities are a force for economic growth. We have shown that universities make a £59 billion contribution to the economy through direct and knock on effects.³⁶ We have demonstrated that the Government receives an 11% return on their investment in undergraduate education.³⁷ We have shown how universities contribute both to the long term growth and prosperity of the UK economy, a message supported by the CBI in its recent report *Stronger Together*³⁸, and have also provided comprehensive evidence of how universities have responded to short term needs in the context of economic recession.³⁹ However, while other countries have capitalised on higher education as a vehicle for strengthening economies, and have channelled fiscal stimulus measures through them, the UK has taken the opposite approach, cutting student numbers and imposing significant cuts in public funding.

118. Despite the sector's frustration that higher education appears to have been singled-out for particularly deep cuts in the Pre-Budget Report, and the HEFCE Grant Letter, we appreciate that public finances will remain highly constrained for a substantial period. This uncertainty faces a particularly difficult context for the current review.

119. For its part the sector will continue to find efficiencies and improve effectiveness, in areas such as shared services and through strategic management of sustainability. However, there are limitations to the sector's ability to deliver substantial, cashable efficiency savings in the short-term, without affecting the quality of the student experience.

³⁶ *The economic impact of UK higher education institutions*, Universities UK, 2009.

³⁷ *The economic benefits of a degree*, Universities UK, 2006

³⁸ CBI Higher Education Taskforce Report, *Stronger together*, CBI, 2009

³⁹ *From Recession to Recovery*, Universities UK, 2009

Students do remain concerned about the costs of higher education. What evidence is there to demonstrate the impact of these concerns on decisions made about participation in higher education and progression from higher education into further study, research or work?

120. Although various studies have shown that prospective students are concerned about the costs of higher education, there is also a range of evidence to suggest decisions about whether to attend a university, and which university to attend, are not determined primarily by financial considerations.

Attitudes to the cost of higher education

121. A recent study conducted for OFFA by Professor Callender amongst 5,000 students about to start university for the first time in 2008/09 found that a large proportion of students expressed concerns about debt burden. On a four-point scale ranging from 'not at all worried' to 'very worried' about incurring student loan debt, 41% of respondents reported that they were 'very worried' and 36% were 'quite worried' about it. Students from low-income households were more concerned about debt than were their peers from better-off families.

122. Professor Callender's report points to other studies which reach similar conclusions. According to the 2007-08 Student Income and Expenditure Survey⁴⁰, 35% of students say that the availability of financial support had affected their decisions about higher education.

123. However, according to a UCAS study⁴¹ only 12% of students reported that their choice of higher education institution had been influenced by the course fees and bursaries available. The study found that students from lower-income families were more likely to be influenced in this way.

124. The fear of debt does not seem to be what makes university applicants not take up places in higher education. The *Futuretrack* study, led by Professor Kate Purcell and funded by the Higher Education Careers Service Unit⁴², provides a valuable insight into the motivations of 2006 applicants for higher education who did not proceed to university. Phase one of the study, concerned with *Applying for higher education*, also found that the majority of applicants who did not enter higher education in 2006, gave 'not getting the grades' and 'feeling unsure' as their main reason, with 'concerns about debt' placed third. The majority of those who did not enter higher education did not do so because their application was unsuccessful, or because they decided to do something else, planned to apply again in 2007.

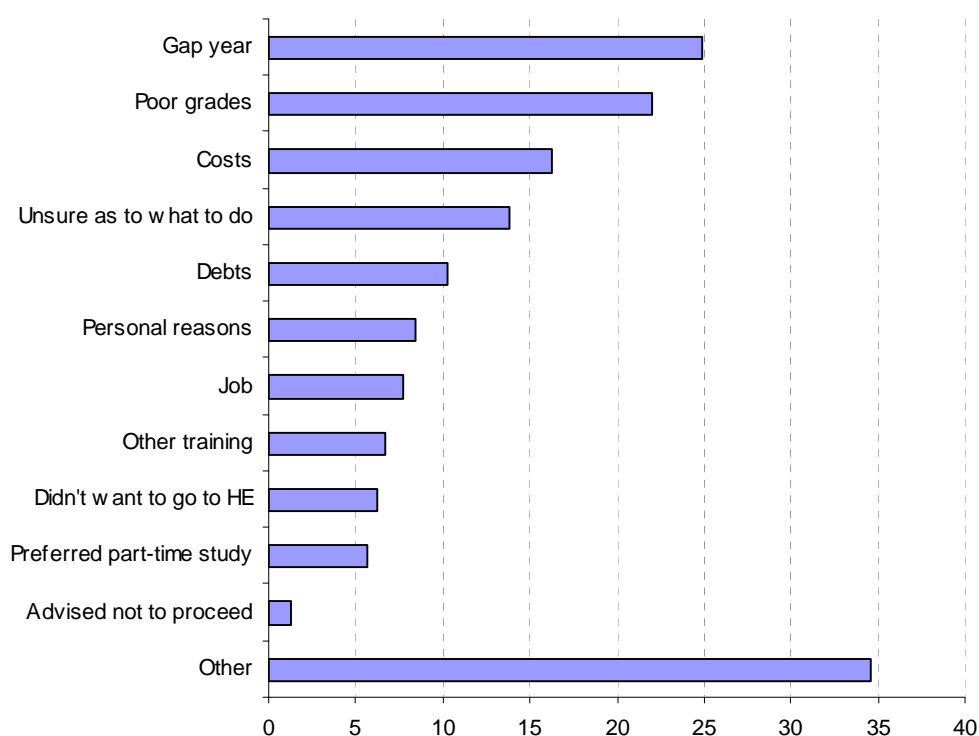
⁴⁰ *Student Income and Expenditure Survey*, BIS, 2009

⁴¹ *Awareness, take-up and impact of institutional bursaries in England*, OFFA, 2009

⁴² http://www.hecsu.ac.uk/hecsu.rd/research_reports_236.htm

Specifically, as figure 11 shows, (excluding the 'other' option), the most common reasons given for choosing not proceed to higher education were to take a gap year (24 per cent), because they did not achieve the grades they needed to accept any offers (22 per cent), because they were unsure what to do (17 per cent), and because they were deterred by debts or the prospect of incurring debts (20 per cent).

Figure 11 - Why applicants did not move on to higher education



Source: Futuretrack 2006, Non-respondents, weighted

125. Those who were dissuaded from continuing to higher education because of debt or costs were more likely to be non-UK domiciled applicants. Thirty per cent of those who were domiciled outside the EU cited the cost/debts as a reason for not going on to higher education. This is compared with 19% from within the EU (UK excluded) and 17% for UK domiciled applicants.

126. *Futuretrack* provides evidence about what prevented applicants from taking up places. There is limited research on the impact of variable fees on those who are qualified but chose not to apply to university. A report by the National Audit Office in 2008, *Widening participation in higher education*, reported that teaching staff in schools and colleges thought fear of debt was the biggest obstacle to pupils going on to higher education⁴³ However, research conducted by Professor Nick Foskett⁴⁴ et al for the Higher Education Academy in 2006, based on interviews with potential students who decided not to apply, found that, although respondents were concerned

⁴³ Widening participation in higher education, National Audit Office, 2008

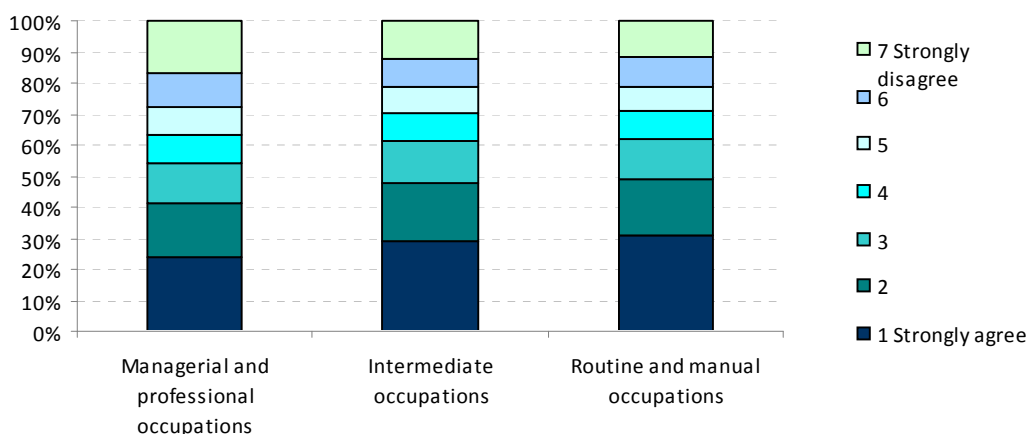
⁴⁴ Changing fee regimes and their impact on student attitudes to higher education Foskett, N et al [Higher Education Academy] 2006

about the risk of debt if they went to university, fees and loans were not the main deterrent in their decision against higher education, rather they did not see themselves as 'ready to embark on a career path'.

Current students view about debt

127. *Futuretrack*⁴⁵ stage 2 also provides a range of evidence about the way current students feel about their finances and debt repayments. Figure 12 below shows that 'Not surprisingly, students with parents in routine and manual occupations, as well as students with parents in intermediate occupations, were more worried about the prospect of having to repay loans and debts after the completion of their course than students with parents from managerial and professional occupations.

Figure 12 - 'Worried about debt repayments' by broad socio-economic group



Source: *Futuretrack 2006: Combined Stages 1&2 dataset, all Stage 2 students, weighted*

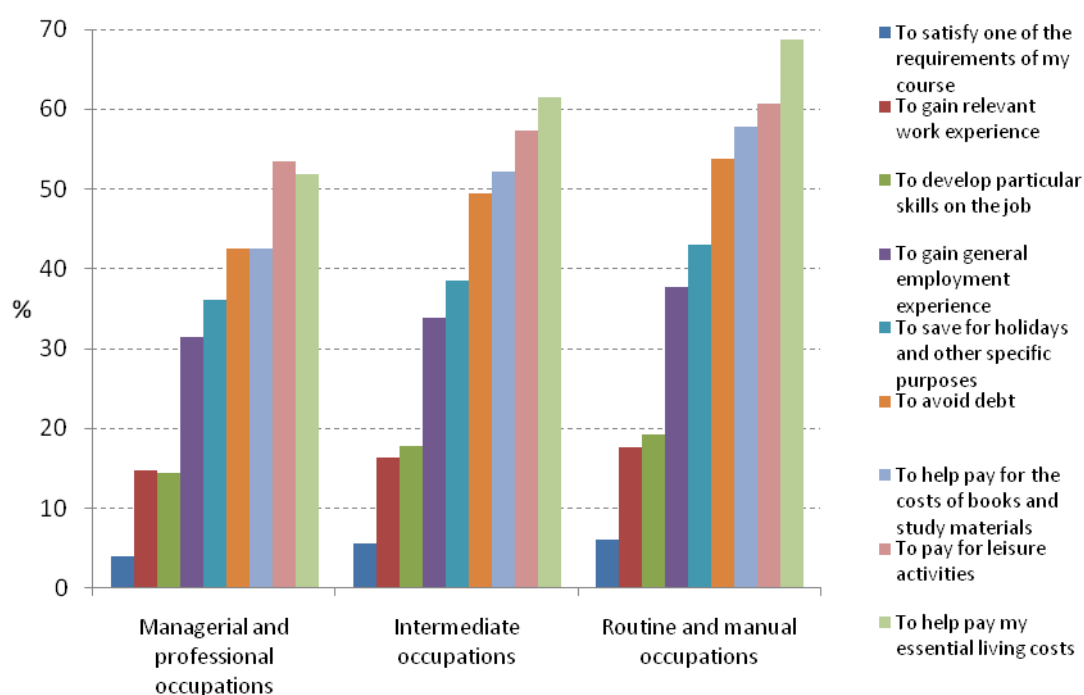
128. Female students (32%) were more likely to strongly agree ('1' on a '1' to '7' scale) that they were worried about the prospect of having to repay loans and debts compared to male students, of whom only 21% strongly agreed with the statement. This could be due to gender differences in response behavior or due to women anticipating lower income in the future than men. The gender differences were related to the different subjects: students in subjects with a high proportion of female students, such as Education, were more likely to agree with the statement compared to students in subjects which are more technically orientated, such as Engineering and Technologies, which more males study.

129. The *Futuretrack* report also demonstrates some differences in expected debt levels by age and ethnicity. Younger students who are less likely to have earned money by working for a significant period prior to starting their course, and who are also less likely to be studying on a course that lasts less than 3 years, are more likely to report that they expected debts of £15,000 or over. There were strong differences in the proportions of different ethnic groups anticipating higher levels of debt. Asian Chinese and Asian Pakistani students were less likely than black Caribbean or white

⁴⁵ http://www.hecsu.ac.uk/hecsu.rd/research_reports_360.htm

students to anticipate higher debts. *Futuretrack* reveals extensive differentiation between the amount of paid work undertaken by students. 'Students working during term-time and working long hours were more likely to come from lower socio-economic backgrounds, minority ethnic groups and disadvantaged educational backgrounds. This raises questions about whether these students have access to the same HE experience as students from other groups who are less likely to work, particularly as working during term-time and working long hours were found to be associated with being less involved in extra-curricular activities and less overall satisfaction with their courses'. The extent to which students are using earned income to help pay for essential costs associated with participation in HE is revealed in figure 13 below.

Figure 13 - Reasons for doing paid work by broad socio-economic background



Source: *Futuretrack 2006: combined Stages 1&2 dataset, all UK-domiciled current students who entered higher education in 2006 and did paid work during term, weighted*

Effect of price on demand

130. Although the available evidence points to concerns about the cost of higher education amongst prospective students, and some evidence suggests that this has an impact on decision-making, the introduction of variable fees has not, to date, had any lasting impact on overall demand. The data, set out in detail in section 3, show that there has been a significant rise in the number of applications to English universities (the highest ever number of applications was recorded for entry in 2009), that there have been proportionate increase in the number of acceptances from low socio-economic groups, and that overall the gap in acceptances by social class has decreased in recent years.

131. Furthermore, the introduction of variable fees has not, to any significant extent, created an 'economic market' in which the price of an institution is a significant factor in how potential students choose the institution they want to attend, or in which institutions compete on price to attract students. *Variable tuition fees in England* reports that almost all higher education institutions have charged the statutory maximum fee in each of the last three years, and will charge the maximum allowed in 2009/10. Only three institutions in England propose to charge less than the maximum in 2009/10. At least two institutions which had in earlier years charged a lower fee are now proposing to charge the maximum fee.⁴⁶

Bursaries

132. For first degree programmes within universities, although there is no real market in fee levels, there is considerable variation in the level and eligibility criteria for university bursaries.

133. Professor Callender's research for OFFA suggests that for those students concerned about the costs of going to HE, bursaries were an important factor in their decision-making. 28% of students responding to the survey believed bursaries were important when deciding where to go to university. In addition 35% of students who said that they were worried about the costs of going to university, and 33% of those who were worried about building up debt while at university, said that the university they applied to was affected by the bursary amount on offer.

134. 37% of students who said that the costs of university influenced their decision about whether to go to university at all said that bursaries were important, compared with 22% who were unconcerned.

135. Of the universities contacted for Professor Callender's study, three quarters thought that their main bursary scheme had met its most important aim to a large, or some, extent. Many responses to Universities UK's survey on the use of fee income described bursary schemes as being important tools in efforts to widen participation by attracting applicants from a broader range of backgrounds, particularly as a tool to increase access to selective institutions. However, others have questioned the impact of bursary schemes.

136. To date, Universities UK has found no evidence from the applications data that the maximum level of bursary has had an influence on the application rate to individual institutions. *Variable tuition fees in England* concludes that there does not seem to be any correlation between the levels of bursary support offered by

⁴⁶ In some higher education institutions there are some programmes - in particular foundation years, HNDs and Foundation Degrees for which a lower fee is charged. Students on sandwich programmes, or other undergraduate programmes involving a year out of the institution, are charged lower fees, up to a maximum of half the statutory full-time undergraduate fee.

institutions and changes in levels of demand over the last five years. However, Professor Callender has noted that to gain an accurate picture of the impact of bursaries it would be necessary to examine applications from student groups who were likely to receive bursaries. Changes in applications arising from bursaries would, she argues, not necessarily show at the aggregate level. This is an area that would clearly bear further investigation.

137. Universities have made considerable efforts to promote their bursary schemes. Claire Callender provides evidence that their use of websites has been particularly effective. However, it is clear that the variety and complexity of schemes available has created some confusion amongst students, their advisers and their parents. The OFFA survey showed students were poorly informed about bursaries and scholarships and had less knowledge about these than about Government funded sources of support. A quarter had not heard of bursaries, especially those from the poorest families despite the fact that they were just about to start their course.

138. Professor Callender's report raises a number of important questions for the sector, in particular about how well-equipped prospective students are to make informed decisions about university choice on the basis of a sound understanding of the financial support that would be available to them. It is also clear that more research is needed to understand the effects of bursary schemes on individual decision-making.

Other factors in decision making

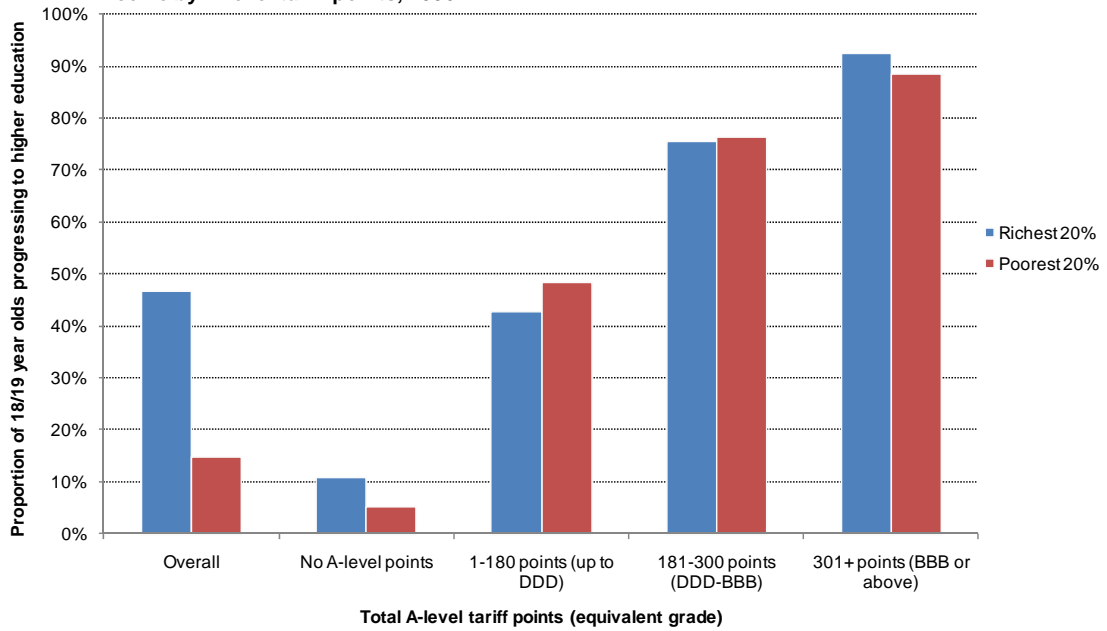
139. The evidence currently available therefore appears to suggest that although applicants state that costs of HE are a concern, and an influence on their decision-making, this does not appear to have resulted in large-scale changes in behavior, either in terms of a) whether to attend university at all or b) which university to attend. This could be because the decisions about attending university are often complex and linked to many different factors.

140. The National Union of Students-HSBC report *Choosing a University*, published in 2009, illustrates the range of factors influencing decisions about higher education. Respondents to the 2009 survey rated 'the opportunity to enhance my employment prospects' top amongst factors influencing the decision to go to university.

141. As we have noted elsewhere, the primary determinant of participation in higher education, irrespective of socio-economic background, is prior educational attainment. Data⁴⁷ show that if two students from different social classes have roughly the same level of qualifications (measured by UCAS tariff points) differences in participation in higher education are very substantially reduced. However, only 3% of students from the poorest group get top A-levels, compared to 25% from the richest group.⁴⁸

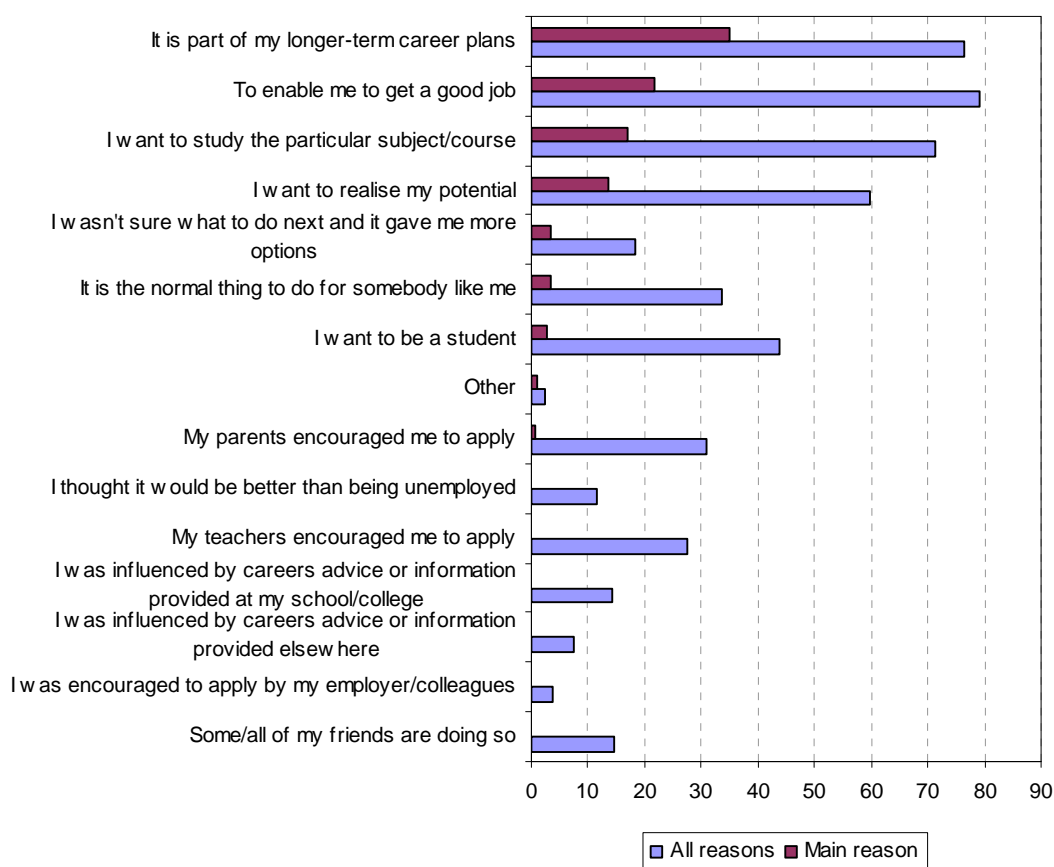
⁴⁷ Source: Institute for Fiscal Studies

Figure 14 - Progression to higher education for students in top and bottom quintiles of income by A-level tariff points, 2006



142. Other factors influencing decisions about applying to university include the quality of information, career advice and guidance an individual has access to; levels of aspiration; whether a parent went to HE; social-economic background; whether a person wants to stay on at school/college after 16 or to enter work; the employment market and perceptions of demand for graduates by employers. Location is also an important factor, with increasing numbers of students choosing, or having to study close to home. Again citing the *Futuretrack* study, at figure 15 the complexity that underlies the decision-making that precedes making application is evidenced.

Figure 15 - All reasons and main reason for applying to enter higher education.



Source: Futuretrack 2006: accepted UK-domiciled applicants, full survey, weighted

143. Furthermore evidence of past recessions demonstrates that people are more likely to apply to, undertake and stay in higher education when employment is relatively scarce.

Isolating the impact of fees from the effect of other reforms

144. Building on the complexity of the factors that influence the decision to go to university, it is extremely difficult to isolate the influence of 'cost' from other factors and policy reforms. Unpublished analysis by the Institute for Fiscal Studies suggests that the *net* impact of the financial reforms introduced in 1998/99, and those introduced in 2006/07, was largely neutral – but that individual elements of the package (increases in fees, increases in loans and maintenance grants etc) did either negatively (in the case of fees) or positively (loans and grants) affect participation, suggesting that there is a complex relationship between fee levels and publicly available support.

145. Students graduating in 2009, the first cohort to have paid variable fees, have been met by an extremely uncertain employment market as a result of the recession. Universities have been working hard to help students and recent graduates adapt to these difficult circumstances, as demonstrated in Universities UK's publication *From Recession to Recovery*, and by working with Government through initiatives such as Graduate Talent Pool, but there is no doubt that this cohort face particularly difficult circumstances. This makes the existence of the graduate repayment mechanisms for both fees and maintenance loans particularly important. Graduates are not required to repay their loans until they earn £15,000, and should their income fall below this level, payments cease. The loan is written off after 25 years, offering some protection in the event that the difficult start that many of this year's graduates have had to their careers may affect their lifetime earnings. The current situation illustrates the importance of some protective mechanisms in the graduate repayment system. Meanwhile, the *Futuretrack* stage 3 report, due later this year, will offer some insights into the experiences of those who graduated in 2009, and whether fees have had an influence on their career plans and choices.
146. In terms of postgraduate participation, anecdotally some universities tell us that that worry about debt levels incurred at under-graduate levels has impacted on demand for post-graduate education particularly from graduates within the lower socio-economic groups. The first cohort of students who entered under the 2006/07 reforms graduated this summer, during a recession. Although figures for post-graduate taught enrolments are not yet available a telephone poll conducted by Universities UK in summer 2009 suggested that applications for post graduate taught courses were up in most institutions, typically by about 20%. Research in the summer of 2009 by specialist student research agency Opinionpanel suggested that half the full-time undergraduate students due to graduate in summer 2009 were seriously considering postgraduate study. However, this is likely to be associated with the recession and the difficulty of securing graduate employment and it is difficult to disentangle the effects of economic circumstances from the effects of graduate debt.
147. It is too early to ascertain the impact of the new fee regime on progression onto doctorate study. As noted above, the first cohort of students who entered under the 2006/07 reforms graduated this summer and data is not available. Also, information presented in the Universities UK report *Promoting the UK Doctorate* suggests that doctoral researchers are increasingly likely to begin doctoral study later in life and after a period outside of education, rather than immediately after completing another degree. The mean age of full-time doctoral researchers at registration has increased from 26.0 years in 1996/97 to 27.3 years in 2004/05. The mean age of part-time doctoral researchers at registration has increased from 35.8 years in 1996/97 to 37.6 years in 2004/05. We would suggest that it would be timely to develop a better understanding of the motivation for doctoral study and the role of undergraduate fees and debt, as well as other factors such as gender, mode of study and socio economic

background, is needed. This will help inform strategies to ensure the supply of recruits into doctoral education and the future of the UK research base.

Implications of fee review for universities in Scotland and Wales

148. Scottish and Welsh universities will be highly interested in the Review's conclusions. There are obvious challenges for the Scottish and Welsh universities and for the Scottish and Welsh Governments if the Review's outcome results in English universities being resourced at a significantly higher level than their peers in the rest of the UK.
149. Higher Education Wales has noted that the Barnett Formula means that there is little opportunity for Wales to take a different line without significant financial implications locally (the impact of any student loan increases would be small proportionately). Welsh HEIs already operate at about a 14% deficit (06/07 data) compared to England.
150. More generally, we urge the review team to be cognisant of the impact of their decisions upon the devolved regions as they progress the Review. To this end it will be important to ensure seamless on-going communication between Review team and BIS officials, and officials of the Welsh Assembly Government and the Scottish Executive.
151. There are also potential consequences for the free movement of students throughout the UK to the institutions which best meet their academic and personal needs: while the different student support regimes currently operating either side of the Border do not appear to have reduced the cross-border flow of students, there is a risk that more strongly differentiated regimes would be an impediment to the free movement of students.