



Higher Education Policy Institute

Post-18 Review: 10 Points-of-Note on fixing the broken parts of our education and training system based on recent HEPI output

By Nick Hillman, Director of the Higher Education Policy Institute (HEPI)

Introduction

We welcome the Review of Post-18 Education and Funding. It provides an opportunity to consider the parts of the post-compulsory education and training system that are working well in England and to improve the parts that are working less well. However, there is some disquiet inside the higher education institutions that we work with about the restrictive Terms of Reference for the Review, which do not – for example – allow a full consideration of a fee-free system.¹

As a small, independent and non-partisan think-tank with a remit to encourage debate, HEPI does not usually respond to official consultations. However, we did submit a response to the 2016 higher education green paper and also, in 2015, to the Diamond review of higher education funding in Wales.² We have made another exception this time because of the importance of the Review and because we are keen to draw attention to elements of our recent research that are relevant to the enquiry.

We have consulted the HEPI Advisory Board on this paper and have discussed the contents in an informal way with members of the Review Panel. But we have not formally cleared the contents with HEPI’s Chair of Trustees because he is a member of the Panel and we wish to avoid any perceived conflict of interest. It would be wrong to assume the organisations and higher education institutions that support HEPI (listed on our website) would all endorse the contents of this submission.

Although HEPI is a UK-wide body and the majority of our output focuses on the UK as a whole, the Post-18 Review is an England-only exercise and so this submission concentrates on England. We recognise, however, that if the Review were to lead to major changes, there could be important knock-on consequences for funding in Scotland, Wales and Northern Ireland.

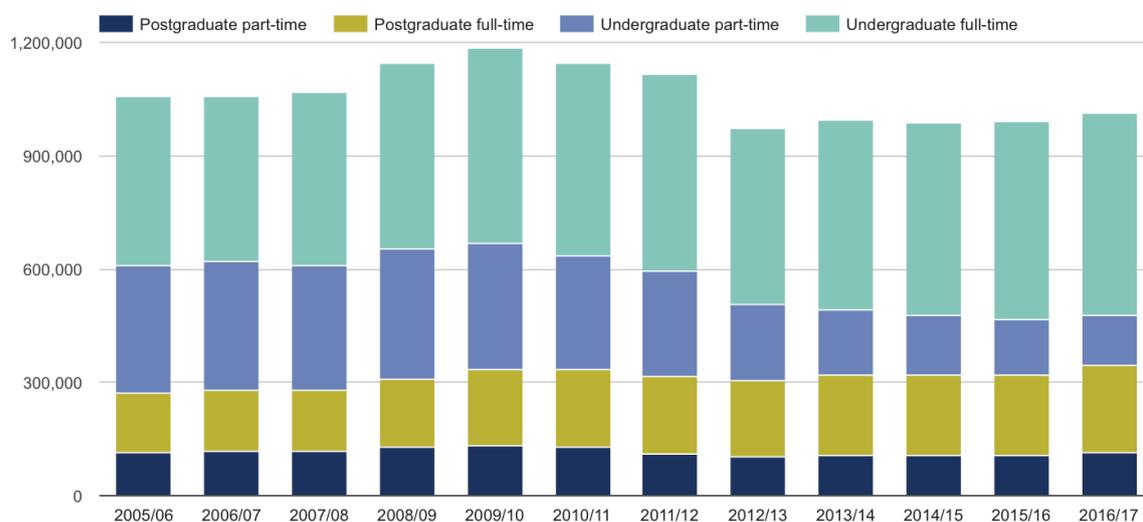
¹ Professor Tim Blackman ‘The comprehensive and free university’ HEPI Blog, 17 April 2018

² Graham Gibbs, Bahram Bekhradnia, Roger King, Gary Attle, Roxanne Stockwell and Emma Sims, *Response to the higher education green paper*, HEPI Report 81, January 2016; Lucy Hunter Blackburn, *Whose to lose? Citizens, institutions and the ownership of higher education funding in a devolved UK*, HEPI Report 72, February 2015

1. Part-time learners

The part of the higher education sector that works least well, relative to the original expectations when the current funding system was put in place, is part-time learning. The number of part-time students has more than halved in recent years, as shown in the Higher Education Statistics Agency chart below.³

**First year students by level and mode of study
2005/06 to 2016/17**



Given the different characteristics of part-time students (such as their greater debt aversion), proposals which expect part-time students to take on yet more borrowing seem unlikely to reverse the trend.

There is, however, a strong case for reinvigorating direct public support, through the residual teaching grant paid to institutions, to encourage part-time study.

There is also a case for stretching any available financial support so that it reaches students who initially enrol for bite-size learning, rather than restricting support as now to students who immediately enrol for a whole degree. Some part-time learners can be put off by being asked to enrol for a full degree up front rather than being able to work through modules as a pathway to a full degree.

³ <https://www.hesa.ac.uk/data-and-analysis/students/whos-in-he>

The funding model should be flexible enough to accommodate a wider range of study models so that universities can deliver programmes that are designed to be flexible, and which might involve students dipping in and out of higher education over a period of time. Funding on a credit basis could also pave the way for more credit transfer within the sector.

As the Open University is not the right answer for all potential part-time learners, any solution should also fit the whole sector rather than being limited to just one or two institutions. In other words, any solution or solutions must fit the needs of the Open University and Birkbeck (the other specialist part-time provider) but also other institutions with a history of delivering part-time options alongside full-time ones and any entirely new provision.

Assuming Brexit makes it harder to recruit skilled staff currently living in other countries, it is doubly important that we rapidly put the right regime in place to improve the skills of people already in the UK, including people already in the labour market. In other words, with the right support, higher education institutions are well placed to reduce some of the challenges posed by Brexit that they helped to identify during the referendum campaign.

Relevant HEPI publications:

- Nick Hillman (ed.), *It's the finance, stupid! The decline of part-time higher education and what to do about it: A collection of essays*, HEPI Report 79, October 2015
- Peter Horrocks, *Fixing the broken market in part-time study*, OU paper published on the HEPI website, November 2017

2. Differential fees

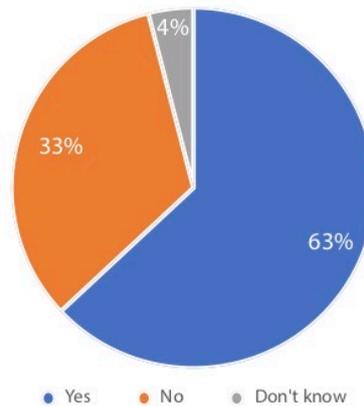
When the Post-18 Review was announced, there was widespread speculation about the introduction of differential tuition fees. For example, in February 2018, *The Sunday Times* ran an interview with the Secretary of State for Education under the headline: 'Education secretary Damian Hinds: I will make arts degrees cheaper'.⁴

Some countries with comparable higher education systems (such as Australia) charge different fees for different disciplines and there is

⁴ Tim Shipman 'Education secretary Damian Hinds: I will make arts degrees cheaper', *Sunday Times*, 18 February 2018

already more price differentiation within UK higher education than is sometimes recognised.

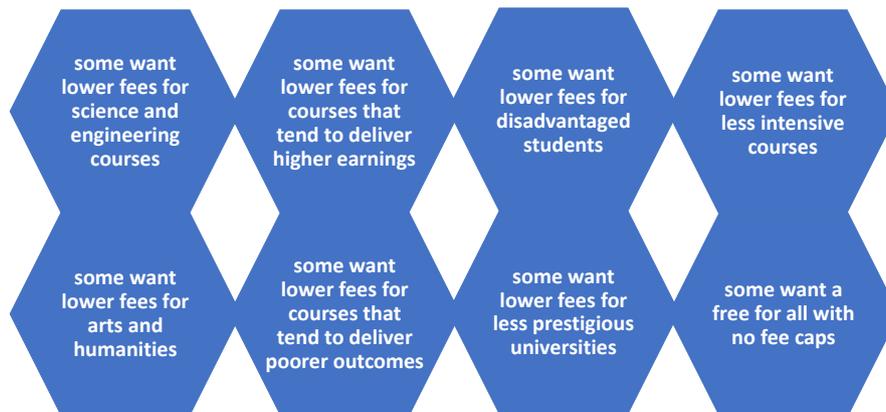
Do you think all full-time undergraduate courses should have the same fees?



Nonetheless, the case for a wider system of differential fees is unpersuasive:

- no major university group supports them;
- students are sceptical, according to polling we have undertaken with the market research company YouthSight – although, when asked to express a preference, students are more willing to accept higher fees to cover the extra costs of courses that are more expensive to teach than they are for other reasons; and
- there is nothing like a consensus in favour of any specific model of differential fees even among those who have called for greater price differentiation for undergraduate courses – for example, some have called for lower fees for STEM (Science, Technology, Engineering and Mathematics); some have called for lower fees for humanities; and some have called for lower fees for poorer students.

Where differential fees have been introduced, the setting of fees for different subjects has sometimes begun as a question of resource allocation but then ended up as an intensely political decision, as in Australia.



Relevant HEPI publications:

- Nick Hillman, *A comparison of student loans in England and Australia*, HEPI Report 66, April 2014
- Nick Hillman, *Differential tuition fees: Horses for courses?*, HEPI Report 104, February 2018

3. Maintenance grants

The abolition of maintenance grants in 1998 was an error that had to be reversed in 2004, when it was recognised that too little progress had been made in improving access to higher education among more disadvantaged parts of society. It was just as big an error when the abolition of grants was repeated in 2016.

This is true, even though the latest abolition of grants has not yet produced a steep drop off in applications. This is because the funding system is based on two variables.

- First, income after graduation: the more you earn, the more you repay.
- Secondly, in order to reduce the exposure of taxpayers, there has always been an expectation that richer parents / guardians should contribute to the living costs of better-off students, meaning a lower entitlement to financial support from the state for students from middle-income and higher backgrounds – this means it makes sense to match this parental contribution with a non-repayable grant.



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The abolition of maintenance grants has broken these assumptions. Having poorer parents now means having to draw down larger state-backed debts than all other students. Moreover, because the poorest students take out the largest debts, they will pay back 9% of their income over a longer period than those who come from richer families but end up in similarly-paid employment.

Both Universities UK and the National Union of Students support the reintroduction of maintenance grants. A new system of grants would lead to a substantial increase in current government spending; depending on their precise form, the costs could be in the region of £2 billion a year. So we recognise how expensive such a change could be for taxpayers. But, irrespective of whether a new system of maintenance grants can be afforded now, the Government should start by telling parents what expectations are placed upon them.

Currently, the MoneySavingExpert.com website explains how much parents are expected to contribute to their student children's living costs. But the Government has refused to publish this information, which hinders the abilities of families to prepare for their children's higher education.

The sums involved are large and many families may need to prepare for them in advance: for example, the expected contribution for parents with just one student child can amount to over £4,500 a year from post-tax income (in the typical case of a student living away from home and studying outside London).

Relevant publications:

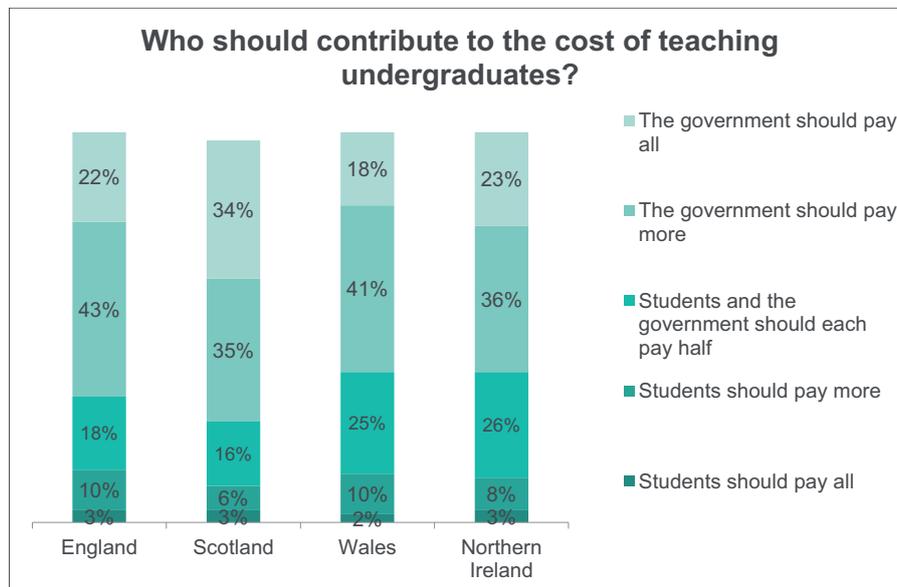
- Nicholas Hillman, 'From Grants for All to Loans for All: Undergraduate Finance from the Implementation of the Anderson Report (1962) to the Implementation of the Browne Report (2012)', *Contemporary British History*, Vol. 27, No. 3, 2013
- Nicholas Hillman, 'The Coalition's higher education reforms in England', *Oxford Review of Education*, Vol. 42, No. 3, 2016

4. Mixed funding model

Most students in higher education across all four parts of the UK support a mixed funding model to pay for their tuition, with contributions from

taxpayers and graduates. However, the majority of students also think they should not have to pay more than half of the total sum. The fact that, in the current system for England, 45% of the amount borrowed is predicted never to be repaid, taking the system close to a 50:50 split, is poorly understood and should be explained better.

The recent decision to increase the repayment threshold from £21,000 to £25,000 extends the period of student loan repayment. It also increases the amount that will never be repaid as well as the proportion of students who will never repay in full. According to the Institute of Fiscal Studies, the proportion of graduates who will not repay their student loans in full has increased from 77 per cent to 83 per cent.⁵



Base: England domicile (10,553); Scotland (835); Wales (440); Northern Ireland (224).

There is scant evidence that the increase in the repayment threshold is the best use of available resources and it is a pity the change was announced at a political party conference without a detailed cost/benefit analysis that included consideration of alternative options.

Indeed, some graduates might prefer to pay their loans off more swiftly rather than more slowly. According to University Alliance research published in 2014, 'By a margin of almost 2 to 1, undergraduates and

⁵ Chris Belfield, Jack Britton and Laura van der Erve, *Higher Education finance reform: Raising the repayment threshold to £25,000 and freezing the fee cap at £9,250*, Institute of Fiscal Studies, Briefing Note 217, 3 October 2017

parents would rather a student loan is paid back quicker, with higher monthly repayments, than longer, with smaller monthly repayments.’⁶

There have been many calls for a reconsideration of the interest rate that is applied to student loans. This is 3% above RPI during study and, after study, the interest accrued depends on the level of income, but it can also reach 3% plus RPI at higher-income levels. The system is opaque, with many students and new graduates being shocked by the application of a real rate of interest to their loans even before they have found a secure job. There have been calls for a reversion to the old rules, where loans were only linked to inflation.

This would be simpler and could prove popular among students and graduates. However, it would do nothing to increase the cash-in-hand of students and would have a cost. It would also be regressive. This is because the poorest graduates have much of their loans written-off, which means they would not benefit from a lower interest rate.

For this reason, it is worth considering cheaper options alongside the idea of abolishing the real interest rate. These should include ending the practice of applying a real interest rate to loans during the period of study but retaining it for those in the labour market or shifting from the discredited RPI measure of inflation to a better one (such as CPI).

Relevant HEPI publications:

- Jonathan Neves and Nick Hillman, *HEPI / HEA 2017 Student Academic Experience Survey*, HEPI Paper 96, June 2017 (and earlier iterations)
- Nick Hillman, ‘What do students really think about tuition fees?’, HEPI blog, 27 February 2018, <http://www.hepi.ac.uk/2018/02/27/students-really-think-tuition-fees/>

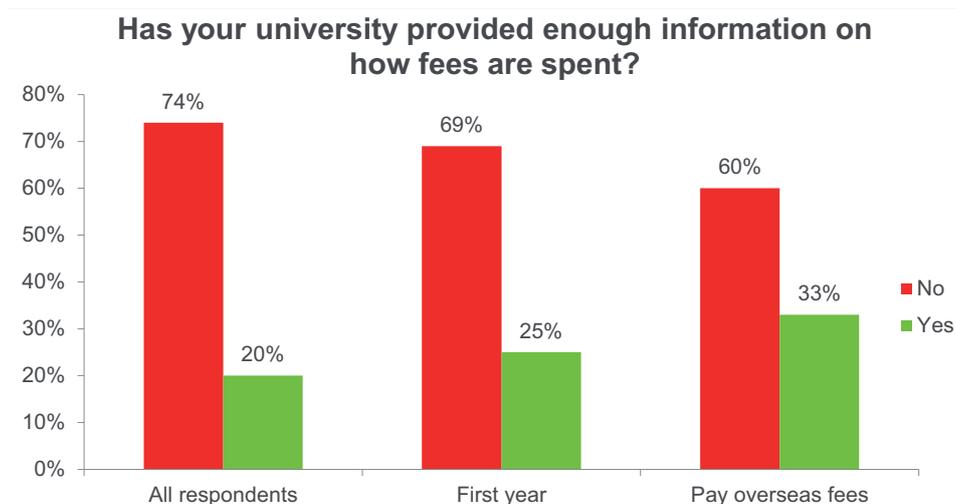
5. Uses of tuition fees

Students do not know where their tuition fees go and, according to three consecutive waves of the annual HEPI / HEA *Student Academic*

⁶ University Alliance, *H.E.L.P. UK: A new Higher Education Loan Programme: adding to the debate on funding*, 2014, p.8

Experience Survey, around three-quarters of them would like more information on this.

There are many reasons why such information has not been provided, though perhaps the most important is that institutions have been reluctant to expose their internal cross-subsidies to air. The result is that policymakers and the media have a poor understanding of the cost base of a typical university, hampering public debate.



The lack of transparency is unhelpful in other ways too, as shown in the recent strike over changes to the Universities Superannuation Scheme. Many students have undertaken overly simplistic calculations to work out how much they pay for each lecture and seminar, typically ignoring all the non-teaching aspects of university life (as well as the contribution from taxpayers in terms of expected future loan write-offs).

The previous Minister for Universities, Jo Johnson, and the new Minister, Sam Gyimah, have both called for like greater transparency on how fee income is spent. It would be more useful if the sector tackled this issue itself, rather than waiting for a bureaucratic answer that is likely to be unsuitable for some diverse institutions and imposed from on high.

If this occurred, it would be likely to have three important effects.

- It would show there are, in general, few cross-subsidies from the tuition fees of UK students to research but substantial ones from international students, amounting to around £8,000 from each international student on average over their period of study.

- It would show cross-subsidies from teaching some disciplines to teaching others, and so could encourage a healthy debate about whether the residual teaching grant from the Office for Students is sufficient and distributed appropriately.
- It would additionally encourage a healthy conversation about the right level of resource for student support services (such as counselling), and even encourage the wider but controversial debate encouraged by Sam Gyimah on whether or not universities should sometimes act *in loco parentis*.

Relevant HEPI publications:

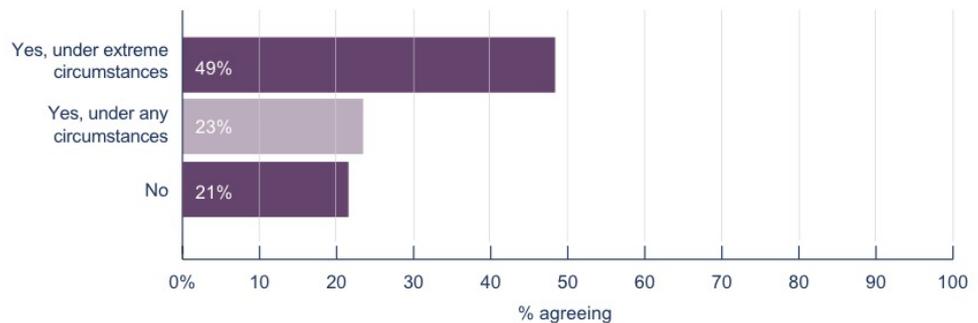
- Nick Hillman (ed.), *'What do I get?' Ten essays on student fees, student engagement and student choice*, HEPI Report 71, February 2015
- Vicky Olive, *How much is too much? Cross-subsidies from teaching to research in British universities*, HEPI Report 100, November 2017

6. *Misunderstanding among applicants*

There is considerable misunderstanding about higher education even among sixth-formers who are destined to attend. For example, research conducted by HEPI and Unite Students among those who had applied to higher education shows considerably naïvety:

- when asked what their largest expenditure apart from tuition fees is likely to be at university, under half (49%) of applicants say 'rent';
- nearly two-thirds of applicants (60%) think they will have more contact time at university than they do at school or college, yet only one-in-five entrants actually experience this; and
- three-quarters of applicants think their future university should contact their friends or family if they suffer an episode of mental ill-health, which is currently illegal for students aged over 18 because they are adults.

Would you be willing for your university to contact your parent/guardian(s) if it was worried about your mental health



Base: All Applicants (2021)

Such poor understanding is likely to be fixed only through a concerted effort from schools, universities and government about what higher education is like and how it differs to other forms of education. It calls for collective action because even well-designed and well-intentioned initiatives will miss large numbers of schools and colleges – and therefore potential applicants – if it is not co-ordinated.

Relevant HEPI publications:

- HEPI / Unite Students, *Reality Check: A report on university applicants' attitudes and perceptions*, HEPI Paper 97, July 2017
- HEPI / Brightside, *Where next for widening participation and fair access? New insights from leading thinkers* (edited by Nick Hillman, with a Foreword by Professor Les Ebdon), HEPI Paper 98, August 2017

7. Outreach versus spending on bursaries

Despite recent progress, there continues to be huge differences in the higher education participation rates of people from different parts of society. Yet much of the budget available to tackle this challenge is spent ineffectively. In particular, the continued high spending on bursaries seems unjustified. The bursaries that exist are poorly understood and they have little impact on decision making, with the current rash of unconditional offers playing a more important role.

While the most generous bursaries are on offer at the most prestigious institutions, people do not choose, say, Oxford over a non-Oxbridge institution because its bursaries are bigger. Indeed, some of the generous bursaries at the top end appear to be based on the false assumption that, in the near future, we will adopt US-style means-tested



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fees that are not underwritten by progressive income-contingent and taxpayer-supported loans. In such circumstances, the sticker price of a course becomes unaffordable to many people and bursaries are necessary. But such a system does not seem to be on the horizon and the hundreds of millions of pounds still spent on bursaries could be spent more effectively on outreach activities.

While the evidence is clear that much of the spending on large-scale bursary schemes could be more effectively spent on other activities, it is important to note that we are not arguing against hardship funds, which some students who find themselves in financial difficulties may need to continue their studies.

Relevant HEPI publications:

- Iain Martin, *Benchmarking widening participation: how should we measure and report progress?*, HEPI Policy Note 6, April 2018
- HEPI / Brightside, *Reaching the parts of society universities have missed: A manifesto for the new Director of Fair Access and Participation*, HEPI Paper 106, forthcoming [May 2018]

8. Accounting treatment of student loans

The world-class nature of our higher education system stems in part from the level of resources. But shifting resources from higher education to other parts of education – even if it were desirable, which we doubt – would not be simple. This is because lending to students does not count as current public spending for most of the money is expected to be repaid. As a result, it does not appear in the deficit, though it does appear in the national debt.

There is a head of steam behind the idea that the current accounting treatment of student loans unhelpfully binds the hands of policymakers and forces them to make sub-optimal decisions. But this problem was even more acute under the old system that counted loans as current public spending, as the Dearing report identified:

We are very concerned that the constraints of the definition of the PSBR may force the adoption of solutions which ease short term problems, but which are poor value for money for the nation over the long term. We are even more concerned

that the value being lost would come out of the contributions we feel it necessary to seek from graduates in work.

At the very least, any change to the accounting treatment of student loans should be led by the accounting sector. Pushing politicians to change the accounting rules to give themselves more leeway could be a long-term recipe for disaster across government as a whole.

Relevant HEPI publication

- Andrew McGettigan, *The accounting and budgeting of student loans*, HEPI Report 75, May 2015

9. Level 4 and Level 5 qualifications

The supply of technician-level skills, such as sub-degree Level 4 and 5 provision, has declined sharply in recent years, hampering the UK. The shortage of such skills is a distinctive difference between the UK and many of our competitors, as shown in OECD data.

In a HEPI report published in 2015, Dr Scott Kelly called for 'comprehensive reform of the way technical and professional qualifications are accredited and funded.' The report argued for a distinctive funding mechanism for work-oriented post-secondary education that would simplify funding for those higher and further education institutions that achieve the standard for accreditation.

A HEPI Policy Note written by Mary Curnock Cook in 2017 separately argued that the new Technical Level qualifications (T-Levels) have some fundamental design flaws that should be reconsidered.

Instead of looking for ways to encourage people who, in the current system, are successfully completing Level 4 and Level 5 qualifications, we plan, in future, to look in more detail at the pipeline. This will explore what more universities could do to help raise the low number of learners who progress past Levels 2 and 3.

Relevant HEPI publications:

- Scott Kelly, *Raising productivity by improving higher technical education: Tackling the Level 4 and Level 5 conundrum*, HEPI

Occasional Paper 11 produced in conjunction with Pearson, July 2015

- Mary Curnock Cook, *Misunderstanding Technical and Professional Education: Six Category Mistakes*, HEPI Policy Note 1, June 2017

10. *Student number controls*

The best way to ensure under-represented groups have the chance of higher education is to have more places: otherwise, entry is a zero-sum game that those with the sharpest elbows will win. We do not ration other forms of education the way we used to ration higher education places. So the removal of student number controls is, in many respects, a more important policy than the tripling of fees, although it only happened as a result of the fee increase.

Re-imposing student number caps looks like a real risk not only because of the reinvigorated campaign to abolish tuition fees but also because of growing demand for higher education. On relatively conservative assumptions, we have recently calculated likely extra future demand for full-time undergraduate places in England at 300,000 by 2030. If wider social changes were to occur, such as young men attending university in similar proportions to young women, then the number of necessary extra places would be around half a million.

Australia is relevant here because they removed student number controls before England but their subsequent attempts to reduce the cost to taxpayers of each higher education place, which is higher than in England, failed for political reasons. As a result, they are now putting the brakes on their 'demand-driven system'.

There are likely to be other useful lessons for improving our current system from similar systems abroad too. For example, there has been much public disquiet about the low student loan repayment rates from UK citizens and those from other EU countries who study here and then move abroad to work. In New Zealand, they have fixed their own similar challenge by introducing a much less leaky regime for the repayment of loans by graduates who move abroad. It is a mixture of carrots (such as easy online repayment mechanisms) and sticks (such as tougher repayment terms and even potential arrest if you return to New Zealand while in default), with backstops for those who cannot afford to repay. It was expected to be very unpopular but has turned out to be popular



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because those who are doing the right thing regard it as fair that those who have left the country also have to repay their debts.⁷

Relevant HEPI publications:

- Sam Cannicott, *Higher Education in New Zealand: What might the UK learn?*, HEPI Report 87, July 2016
- Bahram Bekhradnia and Diana Beech, *Demand for Higher Education to 2030*, HEPI Report 105, March 2018

⁷ Nick Hillman, 'How Philip Hammond could turn £1 of spending into £22 of savings', HEPI Blog, 12 November 2016