Financial support in English universities: the case for a national bursary scheme

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Introduction

1. The introduction of variable fees for full time UK and EU undergraduates in English universities has been accompanied by significant additional expenditure by universities[1] on means tested bursaries and other financial aid for undergraduate students.[2] In 2006-07, the first year of the new variable fee regime, universities spent at least £100 million[3] on financial support for lower income students,[4] out of total additional fee income of £470 million.[5] Whilst there is currently very little variability in the level of fee charged (the vast majority of universities charge the maximum fee of £3,145 for their undergraduate courses), there exists a highly variegated market in bursaries, with institutions largely free to determine the amount they spend on bursaries and the way these funds are distributed. The most generous purely means tested bursaries are, on average, offered by the most prestigious institutions. One analysis of institutional bursary provision suggests that, in 2006-07, the poorest students at some of the most prestigious universities – which are likely to enrol relatively low proportions of students from lower income backgrounds – received, on average, nearly three times more than their peers at some of the least prestigious institutions.[6]

2. Some have suggested that these differential levels of bursary provision undermine the government's aim to encourage successful participation in higher education by students from under-represented communities.[7]

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[1] Except where stated, the term 'universities' is used in this report to refer to those publicly funded higher education institutions in England which offer full time undergraduate courses.
[2] Except where stated, the term 'student' is used in this report to refer to full time Home and EU undergraduates and full time and part-time Home and EU PGCE students, who were all affected directly by the introduction of variable tuition fees in 2006. The report does not consider the effects on participation in higher education of current funding for part-time students.
[3] All figures in this report are given in 2008-09 prices. This figure is the amount of additional fee income spent on financial support for lower income students, according to the Office for Fair Access (OFFA), to the nearest £10 million.
[4] Lower income students are defined by OFFA as those with assessed household income £10,000 above the threshold for receipt of the maintenance grant for those students entering higher education in 2006 or 2007. This threshold is £49,305 in 2008-9 terms.
[5] Additional fee income is defined as any fee income above the 'standard' level of £1,155 per year.
[6] C. Callender, (forthcoming), 'Institutional aid in England: promoting widening participation or perpetuating inequalities?', to be published in J. Knight (ed.), Financing higher education: Access and equity (Sense Publishing, Rotterdam). The authors are grateful to Professor Callender for permission to cite this work.
[7] See, for example, L. Mitton, 'Means-tested higher education? The English bursary mess', Journal of further and higher education 31:4 (2007), 373-83. The National Union of Students has made similar criticisms at http://blogs.guardian.co.uk/mortarboard/2007/02/national_bursary_scheme.html and at http://www.compassonline.org.uk/article.asp?n=1329.

Students suffer because the bursary on offer is determined by the strategic priorities and constraints of their place of study rather than by their financial need. Specifically, those institutions with the most students from disadvantaged backgrounds can only provide significant bursaries at the expense of a significant proportion of fee income and therefore to the detriment of improvements in their teaching provision. Moreover, with each institution designing and, in some cases, administering its own schemes, access to means tested financial support is made more complex. Critics of current arrangements point to the amount of 'unclaimed' bursaries – highlighted in a recent report from the Office for Fair Access (OFFA) [8] – as evidence that such complexity prevents financial support being taken up where it is most needed.

3. One proposed alternative to the current system is a national bursary scheme that would provide eligible students with a standard guaranteed bursary out of pooled institutional income. Such a scheme was first suggested during the debates over the Government's proposed reforms to higher education in 2003, and calls for the introduction of such a scheme have featured among the commentaries on levels of spending on bursaries in 2006-07.[9] It is likely that such a scheme will be further discussed as part of the review into the impact of variable fees which the Government will commission in 2009.

4. The purpose of this report is to assess the rationale for a national bursary scheme, by considering the extent and nature of the problems to which it might present a solution. The report first looks at levels of statutory student support relative to the living costs students are likely to face. It shows that, whilst maintenance support for full time students has increased substantially since the introduction of variable fees, there remains a gap between the state support available to even the poorest students and average living costs, a gap which might be addressed through additional needs-based institutional financial aid. In other words, there is considerable scope for university bursaries to promote greater affordability for students. The report then considers some of the features of the current market in bursaries and confirms that this market is not in general resulting in institutions with the fewest poor students spending less of their fee income on bursaries. But this is only because these can afford to provide much more generous bursaries (to a smaller number of students) than those institutions with larger numbers of students from poor backgrounds.

5. The report considers in some detail the principal problems with this market in bursaries. It looks firstly at the inequity between students; at the potential effect of this inequity on widening participation and at the extent to

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[8] OFFA 2008/01, available at http://www.offa.org.uk.

[9] This argument was made by Labour MPs Peter Bradley and Alan Whitehead in 2003. For calls for such a scheme to be introduced following the publication of OFFA's findings see, for example, H. Fearn and J. Gill, 'Reaching out but still falling short', *Times Higher Education,* 24 January 2008: http://www.timeshighereducation.co.uk/story.asp?storyCode=400312&sectioncode=26*Times Higher Education*.

which this might be justified by the pursuit of 'fair access' to institutions with the most demanding entry requirements. It argues that even if fair access is accepted as a laudable political aim, there is currently no evidence to suggest the current market in bursaries is helping to achieve it.

6. Indeed, since the number of high achieving students from such backgrounds is limited, so too will be the effectiveness of the use of financial incentives to increase the number of such students in the most academically demanding universities. A disproportionately large number of institutions are competing for a relatively small number of high achieving students from lower socio-economic groups. Overall, the bursaries market is shaped primarily by institutions' financial constraints and strategic priorities rather than by the broader objective of enhancing affordability for students. Because these priorities vary, the principles and mechanisms for distributing support can also vary significantly between universities, making for high levels of complexity in the current system. As a result, it is difficult for students to compare what is on offer.

7. The report argues that it is the distorted operation of the market, rather than the existence of a market in bursaries itself, which a national bursary scheme should be designed to address. Such a scheme would not, in itself, be designed to eliminate differences between institutions in the financial support offered to students, or to eliminate the complexity censured by critics of the current market in bursaries. The former would remain: universities would still be able to offer institutional bursaries; and the latter should, it is argued, be addressed primarily through improvements in the provision of bespoke information to individual students.

8. It is acknowledged that there may be alternatives to a national bursary scheme if the intention is to create the context for a fairer market in bursaries. Such a scheme is, however, the only way to achieve this whilst also enhancing student affordability and choice.

9. Finally, the report explores some of the implications of developing such a scheme. Firstly, it suggests that the introduction of a national bursary would present an opportunity to re-examine the rationale behind the current minimum bursary level, and illustrates the impact of a more generous minimum bursary on lower income students. Secondly, it emphasises that the most appropriate method of levying funds from each institution would require detailed consideration, bearing in mind the political sensitivity of the redistribution of funding between universities. The impact of a national bursary scheme on individual institutions is illustrated using two different methods of levying funds for a national bursary.

Statutory student support

10. The introduction of variable fees for full time Home and EU undergraduates in English universities was accompanied by an increase in the level of state financial support towards both fees and maintenance. Government loans are currently available to all these students, on a non-

means tested basis, to cover the cost of tuition fees.[10] An important feature of these loans is that their repayment is income contingent – in other words, loan repayments are made as a proportion of earnings over a certain level. Furthermore, they accrue interest only at the rate of inflation and include the provision that any remaining debt is written off after 25 years. No student or their family need, therefore, meet the minimum participation costs of higher education at the point of entry.

11. Whilst the amount of government fee loan available to these students is determined solely by the fee charged on their chosen courses, the amount of state maintenance support available is determined primarily by the student's assessed household income and country of domicile.[11] All UK students are entitled to some form of maintenance loan, and many of those from lower and middle income households are entitled to non-repayable maintenance grants.[12] The maximum guaranteed annual value of the government maintenance loan and maintenance grant for the 'typical' English undergraduate starting a course in 2008 is £5,855 (maintenance grant of £2,835 plus loan of £3,020).[13] This would be available to any full time English undergraduate from a family with assessed household income of £25,000 or less. The extent to which this will cover a student's living costs will of course depend on their individual circumstances. This amount is nevertheless over £2,000 lower than the £8,204 the National Union of Students (NUS) estimates the average student will spend on living costs (including course costs in addition to the tuition fee) during the academic year. The maximum government package of maintenance support therefore covers 71.4 per cent of these estimated average costs.

12. Providing maintenance support at this level is expensive for the taxpayer. The cost, in steady state, of maintenance grants for students from England has been estimated at £1.1 billion; whilst the cost of maintenance

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[10] This support is usually only available to first degree students, and not therefore to students studying for an equivalent or lower qualification.

[11] State maintenance support refers to any support from the Westminster government or devolved administrations. The amount of loan for which a student is eligible is further adjusted to account for the higher costs associated with living away from home and with living in London.

[12] For the first two years of the variable fee regime the structures of maintenance grant support were broadly similar for England and each of the devolved administrations. From 2008, however, English undergraduates with household income of £25,000 or less will be eligible for full maintenance grants of £2,835 per year. Those with incomes between £25,001 and £60,005 are entitled to partial maintenance grants, which taper to a minimum of £50. In contrast, the income thresholds for receipt of a full or partial grant will be £18,360 and around £39,000 respectively for students from Wales and Northern Ireland. Scottish students with assessed household income of £18,820 or less will receive the full Students Outside Scotland Bursary of £2,095; partial bursaries are available for those with income under £33,300.

[13] The 'typical' full time undergraduate in this context is a student living away from home and outside London. The maximum amount of loan shown here excludes the part of the loan intended to help students meet costs over the summer vacation (i.e. the reduction that is applied to the loan in students' final year). Students in receipt of the full grant are entitled to a smaller loan than other students, since £1,260 of the loan is offset by the grant.

loans for English students is likely to exceed £600 million. This means that a total of £1.7 billion is spent by the Government on providing students with support towards their living costs. This compares with total spending of £1.2 billion on equivalent student support in 2003-04.[14]

13. The final element of guaranteed support – provided at no additional cost to the taxpayer – is the minimum guaranteed bursary from universities. The Government requires universities to ensure that the full package of non-repayable support for full time English undergraduates in receipt of full state support is equal to the level of fee charged. Thus an institution charging the maximum fee of £3,145 would be required to supplement the grant of £2,835 with a minimum bursary of £310. This minimum bursary increases the value of maintenance support for the poorest students to 75.1 per cent of the NUS's estimate of average living costs for the academic year.[15]

14. The shape of this package of guaranteed support reflects the assumption that, as household income falls, the risk that the student will not have access to sufficient financial resources to participate successfully in higher education increases. The generosity of support at the lower end of the income scale is also shaped by a concern that the increased costs implied by the introduction of variable fees may deter students from low income households from taking up a university place. Hence even though the maintenance grant is intended to help towards living costs, the combined value of guaranteed non-repayable support is designed to be at least equal to the tuition fee payable.[16]

The market in bursaries

15. Beyond this guaranteed minimum, there is a wide range of additional discretionary support provided to students through university bursaries and scholarships. The Office for Fair Access (OFFA) was established to ensure that the financial support offered by institutions charging higher fees would help safeguard and promote successful participation in higher education by students from low income households and other under-represented groups. The director of OFFA was therefore encouraged to be 'robust in expecting more, in financial support and outreach activity, from institutions whose records suggest they have furthest to go in securing a broadly-based intake

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[14] All figures rounded to the nearest £100 million. These figures are based on spending within Departmental Expenditure Limits, taken from the latest DIUS departmental report (May 2008) (Table 11, available at http://www.dius.gov.uk/docs/about/21076_DIUS%20AR&A_Web_NEW.pdf). Figures are adjusted to 2008 levels using GDP deflator.

[15] See above, paragraph 11.

[16] This measure was designed to ensure that the poorest students (those in receipt of the full maintenance grant) would be no worse off than they had been under the old system (2005-06), where they paid no fees. In fact, in terms of the balance of absolute costs and upfront payments (disregarding the benefits accruing from subsidised loans) the poorest students on courses charging the maximum fee are potentially slightly worse off under the new system since, although the effect of fees is neutralised by the combined grant and minimum bursary, the poorest students under the old system also received a higher education maintenance grant of £1,000.

of students'.[17] In its guidance to institutions, OFFA advised that it expected the 'majority' of financial support targeted at under-represented groups to be offered as cash or as fee waivers. Beyond these specifications, individual institutions charging higher fees were free to determine the eligibility criteria for their schemes and the amounts that would be available to individual students.

16. The resulting access agreements developed by institutions described a huge variety of financial support. Much of the planned spending was in the form of purely means tested bursaries, but institutions also developed non needs-based financial support (e.g. for students from local schools and colleges) and academic merit-based scholarships. Some institutions even provided bursaries to all students paying the higher fee, regardless of income. The vast majority of these awards are offered as cash payments to UK students (or, in a very few cases, as other payments in kind towards essential living costs) rather than as fee waivers.[18] Thus institutional support, like government grants, is focused on helping students meet living costs rather than fees.

17. In 2006-07, universities spent a total of 21.4 per cent of additional fee income on financial support for lower income students.[19] There were significant variations between individual institutions in the amount of additional fee income spent on these schemes. The data suggest a relative homogeneity, however, in spending on support for lower income students (as a proportion of additional fee income) between the various 'mission groups' within the sector. In 2007-07, institutions in the 1994 Group spent 18.3 per cent of their combined additional fee income on such support; those in the Russell Group spent 21.2 per cent; whilst those in the Million+ Group spent 21.8 per cent. OFFA's analysis of institutions' predicted spending suggests that these proportions will increase to 22.0 per cent, 23.5 per cent and 22.7 per cent respectively by 2010-11, meaning that the Russell Group as a whole expects to spend more than the Million+ Group in this year (23.5 per cent, compared to 22.7 per cent).[20]

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[17] Guidance letter from Charles Clarke, Secretary of State for Education, to Sir Martin Harris, Director of the Office for Fair Access (October 2004).

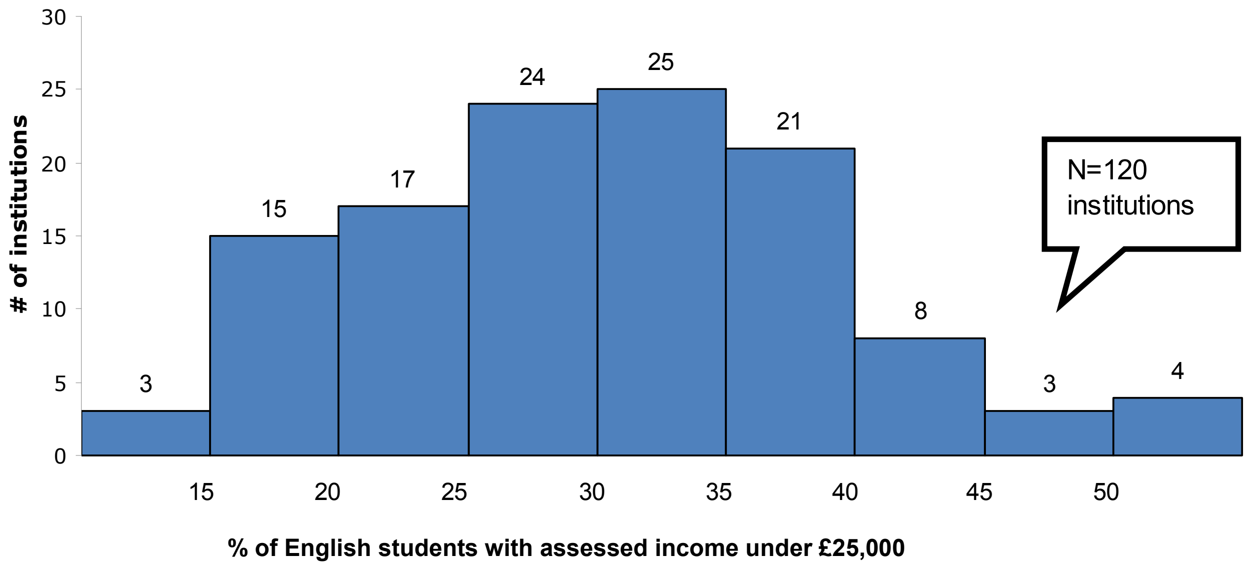
[18] This makes more sense than offering fee waivers or discounted fees, since it enables their students to receive subsidised loans for the full fee as well as the bursary. Offering means tested fee waivers would also be administratively complex, since students apply for fee loans – paid directly to their institution – at the same time as providing the information used by government to assess their household income. The decision to offer cash payments rather than fee waivers may also have been influenced by OFFA guidance stating that institutions might be obliged to offer fee waivers to EU as well as to UK students.

[19] OFFA 2008/01. In universities' access agreements and financial returns to OFFA (up to 2010-11), spending on bursaries is measured as a proportion of additional fee income, therefore this is the measure used in this report.

[20] Source: Correspondence with OFFA (note this figure includes a revised expenditure figure for University College London, about which OFFA was notified after the publication of OFFA 2008/01). There are currently 16 English universities in the Russell Group; 17 in the 1994 Group (16 of which offer full time courses)and 25 English universities (many, but not all, former polytechnics) in the Million+ Group. A

18. Similarities in average levels of spending are not, however, due to an even distribution of poorer students across the sector. They are instead due to differences in the average value of bursaries provided to such students and in the mechanisms for determining bursary eligibility. Broadly speaking, the more poor students an institution has, the less generous it can afford to be, and vice versa. The differences in the proportion of students from the lowest income households (those with income of less than £25,000) are illustrated in Figure 1, which groups English universities[21] according to the estimated proportion of all English domiciled students with assessed household income under £25,000.[22]

Figure 1: Proportions of low income students



19. Figure 1 shows, for example, that the proportion of English domiciled students with income below £25,000 is 20 per cent or less at 18 English universities (15 per cent of the total) but is more than 40 per cent at 15 universities (12.5 per cent of the total).

Problems with the market

20. This market in bursaries has been criticised in several respects. Firstly, it is suggested that it is inequitable for students, since it provides differential levels of means tested funding based largely on the composition of the student body at each institution: put simply, poor students at

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list of Russell Group institutions is available at http://www.russellgroup.ac.uk; a list of the 1994 Group institutions is available at http://www.1994group.ac.uk/memberinstitutions.php; a list of the Million+ institutions is available at http://www.millionplus.ac.uk.

[21] Figures are shown for all publicly funded universities in England offering full time undergraduate courses in 2006-07. The exception is the University of Winchester, which was excluded from the data provided to the authors by the Student Loans Company (SLC).

[22] These students are eligible, if they are domiciled in England, for the full government grant. The distribution of all student incomes is estimated using the methodology described in Annex A.

institutions with few such students can expect to receive higher bursaries than those at institutions with many such students.

21. Furthermore, this market does not, it is argued, promote the political aims of widening participation in higher education or achieving fair access to selective institutions for under-represented groups: there is no serious suggestion that students who would not otherwise have attended higher education do so because of the availability of bursaries; and there is no evidence that high achieving students who would otherwise have attended universities with less demanding entry requirements switch to those with the highest requirements, because of the availability of bursaries.

22. For institutions, the current market is seen to be inequitable since those universities with the largest numbers of poor students have to spend a higher proportion of their fee income simply to match the bursaries offered by those with the fewest such students.

23. Finally, it has been suggested that the variety in values and eligibility criteria is highly confusing to students and makes it less likely that they will access the money for which they are eligible or be able to factor the availability of financial support into their decision-making. The following section considers the extent and nature of the problems in each of these areas.

Inequity between students

24. A significant factor in determining the level of support offered to lower income students at a particular institution is the distribution of student incomes at that institution.[23] Universities with the most demanding entry requirements are likely to have smaller proportions of students from low income households and are therefore able to provide more generous means tested bursaries. This can be illustrated by comparing the financial support for students from the lowest income backgrounds (students in receipt of the full maintenance grant) at different groups of institutions. Thus in 2006-07, the average (mean) guaranteed bursary for these students was £1,104

[23] It is not possible in this report to correlate bursary provision and distribution of incomes across the sector, since institutional data were anonymised before being provided to the authors. However, some individual institutions have made public their estimates of the proportion of their students in particular income groups and it is therefore possible to give some illustrative examples. Thus the University of Bedfordshire, which has nearly two thirds of eligible students with incomes below £18,360, will offer bursaries of £820 to students below this income threshold in 2008-09. The University of Cambridge, with around 10 per cent of eligible students with income below this level, will offer annual bursaries of £3,145 to this group (data on income distribution derived from http://www.offa.org.uk and http://www.admin.cam.ac.uk/news/press/dpp/2007091101). It should also be noted that the average proportion of students from lower socio-economic groups (the published indicator closest to household income) is significantly higher for institutions in the Million+ group (41 per cent) than for institutions in the Russell Group (21 per cent).

across the sector but £1,764 at Russell Group institutions and £714 in the Million+ institutions.[24]

25. This inequity has intensified as a result of an increase in government support. Over half of the universities with access agreements revised their bursary policies following the announcement of an increase in the household income thresholds for receipt of the government maintenance grants for English domiciled students from 2008-09 (the threshold for receipt of a full grant will be £25,000).[25] Subsequently, the difference in the average value of bursaries for students with household incomes around the upper threshold for receipt of the full government grant has increased: in 2007-08, the average guaranteed bursary for first-year students with household income of £25,000 at Russell Group universities was two and a half times that of the average bursary for these students at Million+ institutions. In 2008-09, the average bursary for students with this income at Russell Group universities will be three times higher than the average bursary for their peers at Million+ universities.[26] Looked at another way, the gap between the two average bursaries has increased from £604 to £944[27] between 2007-08 and 2008-09, an increase of 56.3 per cent.

26. It should be noted that although the distribution of poor students across the sector plays a significant role in shaping the market, the guaranteed amount of means tested funding available to lower income students at a particular institution is also affected by the strategic priorities of each institution; specifically, the perceived role of financial aid in helping a university realise its strategic objectives. This means that even at institutions with similar numbers of lower income students, the value of purely needs-based bursaries can differ significantly. Some institutions might, for example, allocate more resources to academic merit-based scholarships (thereby hoping to attract more high achieving students and improve their academic reputation). Other examples of non needs-based funding include bursaries or scholarships offered to students at certain schools and colleges or in a particular geographical area, reflecting some institutions' particular focus on building relationships with local education providers or on encouraging participation from local students. Some institutions even offer bursaries to all students – effectively providing 'cash back' on the tuition fee.[28] Up to 40 per cent of the schemes devised in the

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[24] These figures are based on information from the Russell Group and in Callender, 'Institutional aid in England'. Bursary amounts are inflated to 2008 levels using the same inflationary increases applied to the maintenance grant for English domiciled students.

[25] According to OFFA, 55 per cent of institutions amended their bursaries in the light of these new arrangements.

[26] These figures are derived from bursary values given in access agreements and on universities' websites.

[27] These figures are based on the nominal value of bursaries in each year.

[28] Examples of 'universal' bursaries for 2008 entry include those offered by Buckinghamshire New University (£500 per year to all students paying the £3,145 tuition fee) and the University of Bedfordshire (£310 per year for all UK/EU Bachelor's students). A variant on this is the provision of 'progress' bursaries or scholarships to all students who successfully proceed through the course. Examples

first year of the variable fee regime offered financial support based on criteria other than financial need.[29]

27. The result of this is that students with the same level of assessed need receive different levels of means tested bursaries. There is a danger that this inequity can be over-simplified if the package of financial support – including any university support – is considered in isolation of the different living costs that students face at different institutions. Nevertheless, it remains the case that students enrolling in universities with large numbers of students from less prosperous backgrounds will receive, on average, a smaller means tested bursary than students at universities with fewer such students.

28. Students from the poorest backgrounds at a university with a preponderance of other such students are therefore likely to be significantly more reliant on term-time work to help finance basic living costs than their peers at another less socially inclusive university. Given what is known about the impact of term-time working on academic success, this inequity in levels of support may intensify the already unequal chances of successful outcomes for students with different levels of prior academic attainment.[30] This is particularly true of students who choose not to study locally and are therefore ineligible for any financial support offered by universities to local students. Even an average amount of term-time work can, as recent research has shown, significantly affect the chances of a student attaining a good degree result.[31]

Failure of the bursaries market to broaden participation of under-represented groups

29. It might be argued that the shape of the current market in bursaries is, however, precisely what is needed to promote the goal of fair access to higher education – in other words, to encourage high achieving students from under-represented groups to enter selective universities. Indeed, the

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of these in 2008 are the progress scholarships offered by Anglia Ruskin University (worth £2,430 for a three-year course).

[29] Callender, 'Institutional aid in England'.

[30] Because students from the poorest families also tend on average to have the lowest levels of prior attainment, which are linked to lower rates of success at university. For example, one study found that an extra 2 points at A-level (equivalent to one A-level grade) raised the probability of a 'good' (i.e. 2:1 or above) degree by around 5 percentage points (J. Smith and R. Naylor, 'Schooling effects on subsequent university performance: evidence for the UK university population', *Economics of Education Review* 24:5 (October 2005), 549-62.

[31] See C. Callender, 'The impact of term-time employment on higher education students' academic attainment and achievement', *Journal of Education Policy* 23:4 (2008), 359-377. This cross-institutional research (conducted prior to the implementation of the 2004 Higher Education Act) also showed that students with lower academic attainment were significantly more likely to work more than the average number of hours than their peers with higher entry grades. It is currently unclear what effect, if any, the new system of higher education financing will have on the extent and nature of term-time working among the student population. The latest Student Income and Expenditure Survey (due to be published in 2009) should allow for some analysis of this.

Government suggested as much when it urged OFFA to expect more in bursaries and outreach activities from institutions with the least diverse student populations, many of which have among the highest entry criteria for the majority of their courses. By this logic, the most significant strategic function of the market in bursaries is to provide additional incentives to encourage high-performing students from under-represented groups to enter universities with the fewest such students, rather than to make higher education more affordable to a wide range of students, and so widen participation.

30. However, it is far from evident that expenditure on bursaries is an effective way of increasing the socio-economic diversity of these universities. The latest performance indicators from HEFCE suggest that students from lower socio-economic groups comprised, on average, 21.1 per cent of the UK undergraduate populations of institutions in the Russell Group or 1994 Group, compared to a sector average of 32.0 per cent. If these institutions had matched their HESA benchmarks for entrants from lower socio-economic groups in this year, then the average proportion of such students at these institutions would have been only 2.9 percentage points higher, at 24.0 per cent. The number of appropriately qualified students from lower socio-economic groups who do not attend Russell or 1994 Group universities would therefore appear to be relatively small as a proportion of all university entrants, and even the HESA benchmarks may overstate the extent of their under-representation.[32]

31. A principle of fair access, however, is that even if the number of students under consideration is relatively small, the rewards of attending prestigious institutions justify policies that influence these students' behaviour. The question, then, is whether bursaries have effectively encouraged higher numbers of suitably qualified students to apply for places at Russell or 1994 Group universities. On the basis of current evidence, they do not appear to have done so. Institutions in the Russell Group and 1994 Group, for example, spent around £31 million[33] on bursaries in 2006-07, but the average proportion of full time undergraduate entrants from lower socio-economic groups at these institutions was almost exactly the same as the proportion in the previous year (21.1 per cent in 2006-07 compared to 21.0 per cent in 2005-06).[34] Looked at another way, between 2005 and 2006 the

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[32] These benchmarks reflect the entry criteria and subject mix at each institution. The Russell Group institutions – both collectively and individually – have noted the limitations of these benchmarks because they do not take into account the appropriateness of students' qualifications and subject combinations, or the number of applications from 'non-traditional' students (see, for example, http://www.russellgroup.ac.uk/news/2008/russell-group-universities-continue-to-make-progress-in-widening-participation.html).

[33] This figure is based on data from OFFA 2008/01 and additional data provided directly by OFFA (including updated figures for University College London) and is in 2008 terms, rounded to the nearest £1 million.

[34] No data were available for the University of Cambridge in 2005-06 so for the sake of consistency Cambridge is excluded from the averages for both years. Students from lower socio-economic groups are defined as those for whom the main earner in their household has an occupation classified in National Statistics Socio-economic Classification (NS-SEC) 4, 5, 6 or 7.

Russell Group's and 1994 Group's 'market share' of undergraduate entrants from lower socio-economic groups remained at around 26 per cent. It may be that bursaries in pursuit of fair access will have a more significant impact as students' awareness of variations in the market increases. It is equally plausible, however, that finance is not a critical factor in these students' decisions about which universities to consider, or that there are other factors preventing them making successful applications to some institutions.

32. Of course, it is in institutions' strategic interest that no student – whatever the declared occupational status of their parents – is put off applying for, or taking up a place purely because of financial concerns. There is no clear evidence, however, that the high achieving students which prestigious universities would hope to attract are rejecting such institutions in favour of cheaper local alternatives. For example, a recent study has suggested that high achieving students from low income backgrounds are much less likely to choose to live at home – a decision associated with minimising living costs – than their peers with lower GCSE grades.[35]

33. Attracting the highest-achieving students is not purely in the interests of the most selective universities. As mentioned above, many universities with more modest entry requirements have also developed new academic merit-based scholarships since the introduction of variable fees (some of which are restricted to lower income students but many of which are open to all). Some middle ranking universities[36] have devoted a significant proportion of spending on financial aid to these merit-based scholarships, in what can only be seen partly as an attempt to improve their competitive position against higher-ranking institutions.[37]

34. The signs are, then, that the current market is more likely to result in an 'arms race' for academically highly-qualified lower income students – whatever their socio-economic background – between a range of institutions than in a significant increase in the socio-economic diversity of the student bodies of the most selective universities. If these trends continue and this market remains unchecked, the highest-achieving students are likely to benefit disproportionately – in terms of both enhanced choice and financial support – from the financial aid offered by universities, but with little coterminous progress being made towards the Government's stated political goal of fair access for under-represented groups.

[35] P. Davies et al, *Knowing where to study: fees, bursaries and fair access* (Institute for Educational Policy Research and Institute for Access Studies, Staffordshire University (Conducted for the Sutton Trust), February 2008).
[36] In terms of their entry requirements.
[37] According to one analysis, merit-based schemes make up 50 per cent of the financial support schemes offered by institutions ranked 31-50 in the *Times Good University Guide 2007* (compared to 25 per cent across the sector) (Callender, 'Institutional aid in England'). There are also a number of academic merit-based scholarships at institutions in the Million+ Group, including a £500 one-off payment at the University of Gloucester, only available to students with 360+ points at A level (equivalent to AAA).

Inequity between institutions

35. Institutional bursaries are explicitly intended to enable universities with fewest poor students to increase the number of such students. Since, by and large, these universities have higher entry qualifications than institutions with larger numbers of poor students, the implications of this policy are that these universities should increase the number of poor students with high grades, consequently reducing the number of more able students going to those universities with the most poor students.

36. While it is true that some institutions with a high proportion of students from economically disadvantaged backgrounds have offered relatively generous bursaries to lower income students, which may help them to hold on to the more able of such students that they succeed in recruiting, they have had to sacrifice a significantly larger proportion of additional fee income in order to do so, at the expense of the amount they can spend on learning and teaching.[38]

37. The ghettoisation of some universities is therefore a necessary – although perhaps unintended – consequence of the present policy. However, neither the benefits of this policy, nor even the effectiveness of using bursaries as a means of promoting it, are certain. As far as those universities with the highest entry requirements are concerned there may be something to be said for this policy in terms of fair access – encouraging those students with high qualifications to attend the most demanding university that they are able (though as discussed above, most eligible students already attend such institutions). But there are a larger number of universities that have less demanding entry requirements but also have fewer poor students than proximate institutions, and the benefits of enabling these universities effectively to poach the most able students from their neighbours with larger numbers of poor students is at least open to question. We do not have evidence that this is occurring – but neither do we have evidence that it is not, and this is a logical consequence of the policy.

38. Differences in the value of bursaries provided by different institutions are not in all cases the result of free decisions taken by those institutions, nor are they a manifestation of the market at work in any real sense – all these universities are charging the same fee.[39] The differences are largely just a function of the number of low income students at a particular university, with institutions with the most such students disadvantaged in relation to neighbouring institutions with fewer such students.

[38] In 2006-07, the University of Teesside, for example, spent 38.3 per cent of its additional fee income on bursaries for lower income students, including bursaries of £1,365 (in 2008 terms) for students in receipt of the full maintenance grant. This university estimated that 31 per cent of its intake came from households with income of £25,000 or less.

[39] For first degree Home and EU undergraduate students.

Complexity of bursary schemes

39. There is some evidence to suggest that prospective students lack awareness of the range of financial support for which they might be eligible. A 2006 survey of pupils in their final year of school or college, for example, indicated patchy knowledge of the financial support available under the new variable fee regime.[40] A survey of sixth formers in 2007 did find that around three quarters of students knew what a bursary was and knew that bursaries varied between institutions. However, knowledge of the availability of additional bursaries for local applicants was weak among students with lower GCSE grades, who were much more likely to intend to go to a local university.[41]

40. It is currently difficult for students applying to English universities to make themselves fully aware of the various financial packages on offer and to compare information about different bursaries at different institutions, on the basis of their individual circumstances. This is because the eligibility criteria and income thresholds differ between institutions, and there is no easy way for students to make comparisons between the different packages of support on offer.[42]

41. These information gaps may be partially responsible for the significant number of students who did not access the financial support to which they were entitled in 2006-07. OFFA has suggested that as many as 12,000 of the poorest students (those in receipt of the full maintenance grant) may not have taken up the bursaries to which they were entitled, since they did not consent to share the income data they provided to their Local Authority with their university.[43]

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[40] *HEIs' provision of financial information* (Ipsos Mori for OFFA, December 2006), available at http://www.offa.org.uk/about/research-good-practice/improving-information/.

[41] Davies et al, *Knowing where to study*.

[42] Research into the financial support offered by universities in 2006-07 illustrates the level of complexity involved. See, for example, Callender, 'Institutional aid in England', and Mitton, 'The English university bursary mess'. See also H. Carasso, 'The new quasi-market in English Higher Education – comparing policy and practice' (Paper presented at the annual conference of the Society for Research into Higher Education (SRHE), December 2007), which proposes five broad categories onto which individual institutions can be mapped, depending on the balance between bursaries and scholarships and the criteria for their distribution.

[43] OFFA 2008/01. All students and parents/guardians supplying income details were asked in 2006-07 to sign a 'bursary consent statement' so that their personal data could be shared with their university. The vast majority of institutions use this data to assess bursary eligibility. The figure of 12,000 is based on the number of students in receipt of a full maintenance grant at institutions subscribing to the full Higher Education Bursaries and Scholarships Service (HEBSS), who did not provide this signed consent on their form. The figure is indicative of bursary take-up for the poorest students, since not all institutions subscribe to the full HEBSS service. The figure does not include PGCE students or Scottish students from low income backgrounds, who were eligible for most institutional bursaries. It also excludes students with partial maintenance grants who met the criteria for receipt of their institutional bursary.

42. The impact of this on students starting courses in 2006-07 is hard to assess because the total value of any 'unclaimed' bursaries is not known. It would certainly be misleading to suggest that the £19 million difference between predicted and actual expenditure on bursaries reported by OFFA is entirely accounted for by students not taking up the bursaries to which they were entitled.[44] OFFA has acknowledged, for example, the considerable difficulty institutions had in estimating the likely number of eligible students from low income backgrounds in a given year.[45] It is also difficult to judge the extent to which information gaps are responsible for the number of students not consenting to share their income data; an alternative explanation is that this was due primarily to the design of the form itself, which required both students and their parents to provide signed consent so that universities could access their information. The Government changed the design of the form for students applying for support for 2008-09, so that they had to 'opt out' if they did not want their data to be shared with universities.[46] Subsequently, 95.9 per cent of new students have consented to share their data with universities, compared to only 65.6 per cent applying for support for 2007-08.[47] This significant improvement in consent to share rates is likely to have been primarily due to the change in the form's design, although it may also reflect an increased awareness among students about the support on offer from universities. In any case, it is fair to say that whilst this change does not appear to have eradicated the problems of data sharing, it has substantially reduced its negative influence on bursary take-up rates.

43. The initial problems with data sharing also highlight, from one perspective, the advantages of the English system of bursaries over other more 'developed' financial aid systems. The vast majority of institutions (90 per cent) rely on the Student Loans Company (SLC) to distribute their bursaries, or receive student data directly from the SLC,[48] so most students are automatically considered for institutional support once they have supplied the income data required for means tested government support. Even those

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[44] OFFA 2008/01. This £19m refers to expenditure by universities only.

[45] Many institutions are likely to have estimated the number of eligible students for their proposed bursary schemes using data showing the number of students with full or partial fee remission (under the system of full time student funding introduced in 1998). However, the income threshold for receipt of fee remission is £22,326, whereas many institutional schemes offered bursaries to students with income up to the threshold for receipt of the grant (£38,305 in 2008 terms). It was also difficult for institutions to estimate the number of students from low-income groups who would receive non needs-based scholarships.

[46] Instead of signing a 'bursary consent statement', applicants and their parents/guardians will be offered the opportunity to opt out of data sharing by ticking a box.

[47] Based on figures provided to the HEBBS Steering group by the SLC, relating to students at English universities. The consent to share rates among students with full state support was 95 per cent. The authors are grateful to OFFA and the SLC for access to these figures.

[48] 71 per cent of institutions subscribe to the full HEBSS administration service, a further 19 per cent subscribe to the information-only HEBSS service and therefore receive income data from the SLC rather than directly from students. The Students Awards Agency for Scotland (SAAS) also provides data for Scottish students.

institutions that collect data separately from students do not require them to undergo an additional assessment of their financial resources. In contrast, students applying for financial aid to study at universities in the United States will have to provide more detailed information about income and assets and may have to complete both federal and institutional applications for financial aid.[49]

44. The complexity of the current system of bursary provision therefore lies principally in the different criteria used to determine eligibility for financial support rather than in any substantial differences in the methods used by individual institutions to assess a student's financial resources. The messages to students may be further complicated by the different responses of universities to the increase in the thresholds for government support: for example, a number of institutions that had previously provided bursaries to all students in receipt of maintenance grants have now set their income thresholds lower than the threshold for receipt of a government grant. Admittedly, this variation could also have its advantages: the encouragement of institutional innovation and exploration at such an early stage in the new fee regime may help, in the long term, to provide a clearer picture of which measures are most effective in targeting under-represented groups. Of course, this would depend on individual universities' schemes being systematically evaluated.

45. The introduction in 2008 of a new online financial calculator should go some way towards meeting the information needs of prospective students. New students will be able to access bespoke information about the support available to them, including details of the bursaries at the universities to which they are applying.[50] This resource will not, however, provide students with all the information they need to make a full assessment of their potential financial resources at different universities. To obtain a fuller picture they will continue to rely on the information about average living costs provided by individual institutions.

Possible approaches to these problems

46. In summary, the uneven distribution of poor students across the sector plays a significant role in distorting the operation of the current market in bursaries, restricting some institutions' capacity to promote affordability for students purely because of the number of lower income students at those institutions, and vice versa. It is this, and institutions' assessments of their own strategic priorities, rather than the assessed financial need of individual students or the potential benefits of wider participation that are the primary drivers of the market in bursaries. Early indications suggest that this market does not help meet the political objective

[49] At one Ivy League institution, for example, students and their parents have to complete separate federal and institutional forms and supply additional tax returns in order to be considered for needs-based financial aid (http://www.fao.fas.harvard.edu/application_instruct_us.htm).
[50] See http://www.dfes.gov.uk/hegateway/hereform/studentfinance/index.cfm. The new measures were announced in July 2006: http://www.dfes.gov.uk/pns/DisplayPN.cgi?pn_id=2006_0093.

of encouraging successful participation in higher education. The current operation of bursaries represents a case of market failure, and given the responsibility of governments to intervene where there is a failure of the market, there is a clear case for government action to correct this.

47. Most universities have made significant efforts to provide information about the financial support on offer to prospective students and have made use of government means testing to avoid students having to provide additional information about their financial resources. It is also likely that, in future, it will become easier for students to obtain a full picture of the means tested support for which they might be eligible at the point of applying for a university place. This will not address, however, the problems of a market in which the most generous support is, on average, provided by institutions with only limited potential to recruit students from under-represented socio-economic groups (because such students are much less likely to have the required entry qualifications). Nor will it address the consequences of the present system whereby a student from a poor background attending a university with few other poor students can expect to receive, on average, a substantially greater bursary than an equally needy student attending a university with a greater number of such students.

48. The discussion hitherto has identified the extent to which differential levels of bursaries are linked to the uneven distribution of lower income students across the sector as a central problem with the current market in bursaries. A number of possible responses to this problem are considered below, and for the purposes of this report, the following assumptions are made about future spending commitments by the Government and by universities:

a. There is very little scope for increasing the public funding committed to higher education (including student support).

b. There will be no further significant alteration in the balance between government spending on support given directly to students in the form of grants and loans, and teaching grants to institutions. This is because the 2006 reforms implied a significant increase in the amount of public expenditure on student support, without a concomitant increase in public funding of institutions.

c. The amount of fee income from across the sector spent on widening access activities (bursaries and outreach work combined) will remain around its current level.

49. On this basis, there are four possible responses to the problems described above.

a. Option 1: Provide some institutions with additional government funding towards bursaries

Under this option, part of government funding for teaching in higher education could be top sliced and allocated to institutions based on the income distribution of their student bodies. This would be intended to enable institutions with the most poor students to provide competitive bursaries without sacrificing more of their fee income than comparable institutions with fewer such students.

b. Option 2: Increase the government grant by reducing the student loan subsidy

Under this option, funding currently used to subsidise student loans could be redirected towards enhanced maintenance grants for students. This approach would not reduce differences in institutional resources linked to the uneven distribution of poor students across the sector. It would, however, increase the national minimum level of support, meaning that the poorest students would receive a financial support package that came closer to meeting their likely living costs.

c. Option 3: Spend more institutional income on outreach activities, and less on bursaries

Under this option, part of the funding currently directed towards financial support for students at some institutions would be redirected towards activities designed to raise aspirations and attainment among pre-university students. This would reduce the ability of these institutions to provide significant means tested bursaries.

d. Option 4: Redistribute current institutional spending on bursaries (a national bursary scheme)

Under this option, the balance of spending across the sector between bursaries and outreach activity would not necessarily alter significantly, but a proportion of institutional income would go into a 'pot' of pooled institutional income, which would be distributed to all eligible students across the sector.

Option 1: Additional government funding towards bursaries

50. One way of addressing the issues outlined above would be to use government funding to increase the resources of higher education institutions with the highest number of students from lower income households. This would not, in fact, be unprecedented: allocations of the Government's Access to Learning Fund are determined in part by the number of low income students at each institution and a proportion of this funding can be allocated to bursaries which are distributed according to an institution's own criteria.[51] The sums implied here are relatively small, however – a maximum of around £5.5 million could be spent on such bursaries by English institutions in 2007-08 – and therefore do not significantly redress any differences in resource linked to the uneven distribution of lower income students across the sector.

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[51] The Access to Learning Fund is a non-repayable discretionary fund introduced in 2004-05 for students in financial hardship who may need extra financial support to access and remain in higher education. Funds are allocated to institutions by HEFCE using a weighting which takes into account certain student characteristics: level and mode of study; age; and ward HE participation rate. There is then an additional weighting for students with maximum fee remission. For the 2007-08 allocations, see http://www.dcsf.gov.uk/studentsupport/administrators/dsp_section_114_10.9.shtml.

51. A much more significant funding stream for supporting students from under-represented groups is HEFCE Widening Participation funding, which is carved out from within the recurrent teaching grant. This funding is currently used to help institutions meet the additional costs of recruiting and retaining students who are less well prepared for higher education because of their circumstances. Funding for the additional costs of recruiting students is weighted using the rate of higher education participation in the postcode areas from which an institution's students are recruited; funding to improve retention is weighted using the prior educational attainment of the student body.[52] If the remit of the HEFCE grant were to be extended to include the provision of some direct financial support to students as well, the amount carved out from the teaching grant would have to increase from its current level (around 8 per cent), and a mechanism would need to be found to weight funding according to the distribution of student incomes at each institution.

52. From the perspective of universities, the effect of this approach would be very similar in practice to the national bursary scheme discussed below. It would reduce the net income of those universities with the fewest students from poor backgrounds and increase that of those with the most such students. The difference is that it would do this by top-slicing the government grant to institutions rather than the fees that institutions receive from students. It would therefore tip the balance of public funding (as distinct from the resources of institutions themselves) further towards direct student support, and so this option is not considered in detail here.

53. Whilst the recruitment and retention of students may be accepted as aspects of an institution's teaching provision, the same is less likely to be true of direct payments to students. The effect of this approach would therefore be to increase the amount of government funding for higher education spent on student support, even if such funding reached students through an institutional bursary rather than through a government grant. Since one of the assumptions here is that the balance of public funding will not tip further towards direct student support, this option is not considered in detail here.

Option 2: Increase the government grant by reducing the student loan subsidy

54. An alternative approach would involve increasing the level of support provided to students through the government's means tested grant to students. In order for this approach to result in no net increase in costs to the taxpayer, the level of expenditure on other forms of student support would have to be reduced. This could be achieved by reducing or removing completely the interest subsidy on student loans. Offering all loans[53] at a

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[52] In actual fact the two sets of criteria are closely correlated.

[53] It is assumed that both fee and maintenance loans would be offered at a real rate of interest rather than maintenance loans only, because of the problems with 'mixed' interest rates discussed in an earlier HEPI report (*Funding higher fees*, April 2008, available at www.hepi.ac.uk).

real rate of interest would save the Treasury approximately £1.3 billion per year.[54] If this amount were redirected to the government grant for English domiciled students, the maximum grant for students from households with incomes up to £25,000 could be around £6,380, whilst the minimum grant for students from households with incomes of £60,005 could be around £110.[55]

55. This means that even the poorest students liable for fees of £3,145, and with annual living costs of around £8,200 (total costs of £11,345), would require an additional £4,965 from interest-bearing loans to meet these total costs. Because the availability of additional fee income would not be affected by this policy, it is much more likely that institutions with fewer low income students would be in a position to offer institutional bursaries to cover these costs. This approach would therefore do little to reduce the inequity between two otherwise similar students with different institutional bursaries. Indeed, in some respects this inequity would be exacerbated if some students received significant non-repayable bursaries whilst others were reliant on interest-bearing loans.

56. This approach would also draw substantial opposition from student groups and others who regard the availability of income-contingent, subsidised loans as the keystone of the 'buy now, pay later' principle that was emphasised by the Government following the introduction of variable fees.

Option 3: Shift funding away from bursaries and towards outreach activity

57. A rather different approach to the problems outlined above would involve taking the view that the level of support for students is not the critical issue, but rather the problem is the efficacy of current spending on bursaries. The appropriate response in this case would be additional regulation of current spending on widening access activities, so that a greater proportion of institutional resources would be spent on outreach projects designed to raise aspirations and attainment. For example, OFFA could require of institutions that they match any spending on bursaries with spending on new outreach projects or the development of structural links with schools and colleges.

58. Such a policy would, in fact, chime with the recent suggestion by the director of OFFA that some of the money currently spent on bursaries might, in future, be more usefully directed towards outreach activity with – and

[54] This is the cost of loans for English and EU students. Other loans are funded by the devolved administrations.

[55] These estimates (rounded to the nearest £10 and given in 2008 terms) are based on expenditure estimates for 2010-11 provided by DIUS. If the estimated RAB cost of loans in this year (£1.3 billion in 2008 terms) were added to expenditure on maintenance grants in this year (£1.1 billion in 2008 terms) then the available funds for the grant would increase by 125 per cent. The estimates are based on the grant being offered on the same sliding scale and with the same income thresholds as at present.

financial support for – younger students.[56] The Government, too, has made it clear that it expects universities to strengthen their structural links with academies and trust schools, since these collaborative partnerships are seen to be successfully raising aspirations and attainment.[57] There has been no explicit suggestion that additional fee income currently used for bursaries should be channeled instead to such projects. However, the Secretary of State for Innovation, Universities and Skills has suggested that low aspirations and attainment are more damaging to widening participation than students' financial concerns.[58] The Russell Group welcomed this statement, reiterating that under-achievement at school is the 'root and primary cause' of the under-representation of students from lower socio-economic backgrounds in university.[59]

59. Despite this widespread acknowledgement of the primary importance to fair access of raising aspirations and attainment, however, it would be difficult for OFFA to adopt an enhanced regulatory role of this kind without clearer evidence that outreach activities were yielding the intended results in these areas. It might be argued, moreover, that the short-term strategic priority for outreach work is to identify sustainable ways of funding existing activity, rather than to release new funds that would inevitably bring new project ideas and high expectations. If this option were taken, its effect would be similar to the national bursaries discussed below – effectively reducing the amount of fee income that universities with few poor students have with which to provide bursaries.[60] However, it would reduce the bursary differential between universities purely by reducing the values of the highest bursaries rather than by increasing the values of the lowest. This option would, moreover, only indirectly address a central problem of the current market in bursaries – the extent to which it is shaped primarily by the composition of institutions' student bodies, rather than by the objective of enhancing student affordability.

Option 4: A national bursary scheme

60. The final approach considered here is the development of a national bursary scheme. Firstly, it is important to clarify what is meant by such a scheme. A national bursary is understood here to mean a standard level of student support provided to eligible students based on national assessments of household income and funded out of pooled institutional income. It is

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[56] http://education.guardian.co.uk/egweekly/story/0,,2089733,00.html
[57] See the speech by John Denham, Secretary of State for Innovation, Universities and Skills, at the Action on Access Conference (11 December 2007), 'The Future of Widening Participation' (http://www.dius.gov.uk/speeches/denham_action_access_111207.html).
[58] P. Wintour, 'Man with a mission to open universities to the many', *The Guardian*, 14 April 2008: http://education.guardian.co.uk/higher/news/story/0,,2273417,00.html.
[59] http://www.russellgroup.ac.uk/news/2008/russell-group-response-to-john-denham-s-speech-on-widening-participation.html.
[60] A policy such as this would be likely to impact the additional fee income of institutions with low proportions of lower income students to a greater extent than those with high numbers of such students, since the latter are more likely to receive significant HEFCE widening participation funding to pursue outreach projects.

important to specify that such a scheme would be funded out of a national 'pot' of income from institutions, since this distinguishes a national bursary scheme from a mandatory minimum level of support, provided individually by each institution to its eligible students. As described above, this latter system already operates in England and, in fact, in Wales, although the latter is, somewhat confusingly, officially described as a national bursary scheme.

61. A national bursary scheme would therefore ensure that at least a proportion of sector spending on bursaries was based on a common assessment of students' financial means and was intended to promote choice and affordability for a wider range of full time undergraduates. Such a scheme could help address the problems with the take-up of bursaries, since each institution's contribution could be passed to government, and then simply added to the student's maintenance grant, without any need for a separate assessment and administration process.[61] As long as students applied for means tested government support, therefore, they would be given the guaranteed bursary for which they were eligible. Alternatively, funds for a national bursary scheme could be appropriately redistributed across the sector, which would leave universities responsible for the distribution of bursaries to eligible students.[62]

62. In either case, a national bursary scheme need not prevent institutions from offering additional financial aid in pursuit of their own strategic priorities or to more accurately reflect the likely costs faced by their own students. It need not, therefore, prevent continued innovation and exploration with regard to the full range of measures designed to promote widening participation and fair access. But it would mean that the ability of institutions to do this would not depend so much on the number of students they recruit from poor backgrounds. Of course, institutions would need to balance the strategic benefits of additional funding against the potential additional administrative costs and potential complexity for students of developing additional schemes.[63] The provision of a standard guaranteed level of support out of pooled institutional income could nevertheless address some of the distortion in the market in bursaries that is caused largely by the uneven distribution of lower income students across the sector.

63. Institutions with higher numbers of low income students would then be better placed to compete in the market in financial aid, rather than being

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[61] Of course, institutions would still need access to students' household income information if they wanted to use this to distribute additional support.

[62] In other words, universities could choose to outsource this administration to the SLC or administer the payments to students themselves.

[63] Of the two approaches described in paragraph 61, the second is perhaps more likely to encourage universities to develop additional purely or partially means tested support, since they would already need access to students' household income data in order to distribute the mandatory bursaries. Conversely, if the national bursary were simply added to the student's maintenance grant, institutions might question whether the additional costs of subscription to the SLC's bursary service (HEBSS) or their own administrative costs outweighed the potential benefits of offering additional support. If fewer institutions made use of this SLC's service the cost to those which did so would, of course, be likely to increase.

disadvantaged purely because of the composition of their student populations. Unlike the alternative approaches outlined briefly here, the introduction of a national bursary scheme would not imply any changes in the distribution of fee income (or equivalent sources of funding) between bursaries and outreach activities. Neither would it require any changes in the distribution of public funding for higher education between teaching and direct financial support for students. On the other hand, OFFA believes that it is possible that the existence of a national bursary scheme would mean that universities would be less likely to offer their own bursaries, and so the total available in bursaries would be reduced. That is possible. However, if the analysis of this study is correct, then bursaries and other forms of financial support for students are not offered by universities out of altruism but largely as a means of obtaining competitive advantage and in order to attract more able students than they would otherwise recruit (and of course in part as a defensive mechanism against other universities offering bursaries and recruiting students they might otherwise have recruited). If so, then the existence of a national bursary scheme would make no difference to the motivation of universities to offer bursaries. It would reduce the ability of some to do so, but it would increase the ability of others.

64. The remainder of this report focuses on the decisions that would determine the shape and impact of a national bursary scheme, and discusses some of the issues that might arise in relation to its implementation. Firstly, it considers in more detail the principal limitations of such a scheme in addressing the problems with the market outlined above. Some possible mechanisms for determining the value of a national bursary for an individual student, and for determining universities' contributions to a national scheme, are then discussed in some detail. Finally, the report addresses some of the objections that might be raised in relation to such a scheme.

Implementation of a national bursary scheme

Limitations

65. A national bursary scheme of this kind could promote student affordability, but it would not seek to meet the full financial need of every low income student. This conception of the purpose of a national scheme contrasts with the view of the NUS that a national bursary scheme should 'cover living costs'. This would ensure, the NUS has argued, that bursaries would be offered based on 'what students need, not where they study' and would replace the 'emerging market in bursaries' which is said to be 'damaging to students and to higher education'.[64]

66. There are a number of problems with attempting to use a national bursary scheme to fully meet financial need. Firstly, there are varying views on what might constitute basic necessities that should be covered by the

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[64] http://www.compassonline.org.uk/article.asp?n=1329; http://www.timeshighereducation.co.uk/story.asp?storyCode=401303&sectioncode=26. At its most recent annual conference on education funding, the NUS resolved to campaign for a National Bursary Scheme to cover living costs.

minimum package of financial support and, therefore, the extent of any shortfall between basic living costs and funding available. Secondly, no national scheme – i.e. a standard level of financial support at a given level of government-assessed household income – could expect to meet even the basic needs of all students. This is partly because costs will vary significantly depending on the student's individual circumstances once at university. Furthermore, since no account is made of differences in the cost of living between different regions in these government assessments, the ability of two households with the same level of assessed household income to contribute towards a student's time at university will also vary.

67. It is partly for these reasons that a national bursary scheme would not be designed to preclude the development of additional institutional schemes. This would mean, of course, that a national scheme of this kind would not *eliminate* inequity between institutions – since universities with fewer low income students, and especially those with considerable resources other than fee income, would still be better placed to offer supplementary means tested bursaries – but the level of inequity would nevertheless be reduced. The co-existence of additional institutional schemes would mean that students would still encounter different packages of financial support at different institutions. As suggested above, however, the critical problem here is not necessarily the very existence of different bursary and scholarship schemes with different eligibility criteria, but rather the difficulty a prospective student would have in attempting to compare the overall packages of financial support offered at different institutions. One appropriate solution to this problem would be a common method of presenting financial information about a particular institution. In order to effectively inform student decision-making, this information would need to include a breakdown of the financial support available from various sources alongside a breakdown of estimated living costs. It is possible that the bespoke information about bursary availability, which the Government intends to offer students starting courses in 2009-10, could be developed to include published information about average costs at different universities.

Determining the value of bursaries to students

68. This report assumes that determining the value of a guaranteed national bursary to individual students would be the foundation for determining institutional contributions to a national scheme. This contrasts with the starting point for discussions around this issue at the time of the 2003 HE Bill, which focused on determining a proportion of additional fee income that might be levied from institutions as a contribution towards a national bursary scheme, with a view to obviating the need for any additional provision by individual institutions.

69. The introduction of a national bursary scheme would therefore offer the opportunity to review the level of the current mandatory bursary, which is linked to the cost of tuition rather than to living costs.

70. The guiding principles of such a scheme would be:

a. the national bursary should improve affordability and choice for students.

b. the majority of fee income should be retained by institutions, with an expectation that this would be spent on teaching provision – broadly defined – for students at that institution.

c. it should continue to be possible for institutions to use part of their fee income to provide additional financial aid for students, and to fund their own initiatives to promote successful participation in higher education by students from under-represented groups.

d. the amount levied should help ensure that some institutions are not severely restricted from successful participation in the market in means tested bursaries because of the skewness in the distribution of lower income students across the sector.

71. The amount of bursary could be determined with reference to estimates of average student expenditure, with a view to using bursaries to 'top up' the state support to provide for expenditure on basic necessities and a proportion of leisure activities. A new standard minimum could be offered to students, which would, firstly, remove the somewhat confusing link between the current minimum bursary and the level of fee and, secondly, open up the entitlement to a means tested bursary to students with a wider range of household incomes. Such a scheme could build on a common feature in the design of many current institutional schemes – namely, that financial need is likely to increase as household income declines. Instead of students from households with income of £25,000 or less being guaranteed a bursary equivalent to the difference between the fee charged and their maintenance grant, students with income up to a defined threshold could be offered a (maintenance) bursary equivalent to a proportion of their maintenance grant. This proportion could be adjusted depending on what level was deemed to fit best with the principles described above.

72. This would raise the question of whether bursaries should be offered to all eligible students regardless of the fee for which they were liable, or whether, as at present, the level of fee should determine the level of bursary. The logic appears to point in the direction of providing bursaries to all eligible students, since they are intended to help with maintenance rather than fees. This would also make it simpler to provide information to students about the minimum bursaries to which they would be entitled.

73. Table 2 below illustrates the value of a national bursary, and of the total package of guaranteed support at different levels of income, if students from households with an income of £39,305 or less were offered a bursary

proportionate to their maintenance grant.[65] Two illustrative amounts are shown here: a bursary equal to at least 20 per cent of the maintenance grant for students from England, and a bursary equal to at least 30 per cent of the maintenance grant.[66] For comparative purposes, the table also shows the levels of guaranteed maintenance support for the academic year under current arrangements (for students paying the current maximum fee). For each of these scenarios, the table shows the proportion of average living costs met by the combined package of government and bursarial support.

Table 2: Illustrative national bursary provision [1]

	Current arrangements			**Bursary worth 20% of maintenance grant**			**Bursary worth 30% of maintenance grant**		
Income (£)	Minimum bursary (£)	Total support (£) [2]	% living costs met [3]	National bursary (£)	Total support (£) [2]	% living costs met [3]	National bursary (£)	Total support (£) [2]	% living costs met [3]
0	310	6,165	75.1%	567	6,422	78.3%	851	6,706	81.7%
25,000	310	6,165	75.1%	567	6,422	78.3%	851	6,706	81.7%
26,000	0	5,689	69.3%	534	6,223	75.9%	801	6,490	79.1%
27,000	0	5,522	67.3%	500	6,022	73.4%	751	6,273	76.5%
28,000	0	5,355	65.3%	467	5,822	71.0%	701	6,056	73.8%
29,000	0	5,189	63.2%	434	5,623	68.5%	651	5,840	71.2%
30,000	0	5,022	61.2%	400	5,422	66.1%	601	5,623	68.5%
31,000	0	4,855	59.2%	367	5,222	63.7%	551	5,406	65.9%
32,000	0	4,689	57.2%	334	5,023	61.2%	501	5,190	63.3%
33,000	0	4,522	55.1%	300	4,822	58.8%	451	4,973	60.6%
34,000	0	4,355	53.1%	267	4,622	56.3%	401	4,756	58.0%
35,000	0	4,280	52.2%	247	4,527	55.2%	370	4,650	56.7%
36,000	0	4,280	52.2%	237	4,517	55.1%	356	4,636	56.5%
37,000	0	4,280	52.2%	228	4,508	54.9%	342	4,622	56.3%
38,000	0	4,280	52.2%	218	4,498	54.8%	328	4,608	56.2%
39,000	0	4,280	52.2%	209	4,489	54.7%	314	4,594	56.0%

Notes

[1] All figures are given to the nearest £1.

[2] The value of total support is based on the maximum maintenance grant and loan available to full time English domiciled undergraduates living away from home outside London. The maximum amount of loan shown excludes the part of the loan intended to help students meet costs over the summer vacation (i.e. the reduction that is applied to the loan in students' final year).

[3] This proportion is based on the estimated cost of living expenses for the academic year (including course costs in addition to the annual tuition fee) of £8,204. This figure is based on data from the National Union of Students for

[65] £39,305 is the threshold for receipt of a government grant under the 'old' system (i.e. prior to the introduction of revised thresholds for students starting courses in 2008). This figure is chosen rather than the £49,305 used by OFFA as a threshold for lower income students, as it is closer to the estimated median income for households with university-age children (around £41,750). The authors are grateful to the Institute of Fiscal Studies for the provision of this information.

[66] The bursary described here would decrease with every £1,000 of income, so some students would receive bursaries equivalent to slightly more than the determined proportion of their maintenance grant.

students living outside London in 2005-06 (http://www.nusonline.co.uk/info/money/270609.aspx), uprated to 2008-09 prices using the latest CPI figures (http://www.statistics.gov.uk/downloads/theme_economy/Focus_on_CPI_March_2008.pdf). Each of these bursaries would, when combined with the package of government support for students with a full grant, cover 26 per cent and 32 per cent respectively of estimated 'leisure' costs.

74. It can be seen from Table 2 that providing bursaries equal to at least 30 per cent of the maintenance grant would ensure that students with incomes of £30,000 or less were guaranteed a package of support covering over two thirds of average annual living costs for the academic year. The poorest students would receive a package of support covering over 80 per cent of average living costs for the academic year.

75. Further consideration of the appropriate design of such a scheme would of course be needed were it to be implemented. For example, it might be considered prudent to add an additional income threshold between £0 and £25,000, and to offer a bursary equivalent to a higher proportion of the maintenance grant to these students. This would mean that, under the scenarios in Table 2, students from the very lowest income groups would receive a higher bursary than the maxima shown here. This would reflect the most recent bursary policies of a number of universities, since not all institutions plan to offer their maximum purely means tested bursary to all students in receipt of the full maintenance grant.

The cost of a national bursary scheme

76. Table 3 shows the estimated annual cost to English higher education institutions of providing these bursaries to eligible students, and what this cost represents as a proportion of additional fee income across all higher education institutions (under the current fee cap of £3,145 per year). Estimated additional fee income is around £1.4 billion in steady state 2008 terms.[67] For comparative purposes, the table also shows current predicted spending on financial aid for lower income students.

[67] Predicted levels of additional fee income and spending on bursaries are routinely collected from institutions by OFFA. The figure of £1.4 billion is the latest predicted additional fee income for 2010-11 - when the vast majority of students will be students liable for variable fees – adjusted to 2008 prices using OFFA's assumed inflation rate of 2.5 per cent. The figure is rounded to the nearest £100 million.

Table 3: Cost of national bursary provision

		Estimated cost of bursaries (£m) [1]	Bursaries as proportion of additional fee income [2]
National Bursary Scheme (20% of grant) [3]	English domiciled students with income up to £39,305	180	13.1%
	UK domiciled students with income up to £39,305	190	13.6%
National Bursary Scheme (30% of grant) [3]	English domiciled students with income up to £39,305	270	19.7%
	UK domiciled students with income up to £39,305	290	20.8%
Current predicted spending [4]	All students with assessed income up to £49,305	320	23.5%

Notes

[1] Figures are rounded to the nearest £10 million.

[2] The estimate of the cost of bursaries as a proportion of additional fee income (any fee income above the 'standard' £1,255 fee) is based on the number of students in publicly funded English universities offering full time undergraduate courses in 2006-07. For the purposes of these calculations, it is assumed that bursaries would be offered to all eligible undergraduates (i.e. not just those on first degree courses) and that bursaries at the same level would be offered to all students on initial teacher training courses (mainly PGCE students).

[3] The estimated cost of a national bursary scheme is based on the assumption that the bursary decreases with every £1,000 of assessed income. The income distribution of students is derived from SLC data for students domiciled in England, Northern Ireland and Wales; this data has also been used to estimate the income distribution for Scottish students. See Annex A for further details.

[4] Figures on current predicted spending are derived from data provided to OFFA by individual institutions for 2010-11 – when the majority of (although not all) students will be eligible for the bursaries described in institutions' latest access agreements.

77. It can be seen from Table 3 that to provide bursaries to English domiciled students equivalent to at least 30 per cent of their maintenance grant could cost around £270 million per annum, or 19.7 per cent of additional fee income under the current fee cap.[68] If the same levels of bursary were offered to all UK students,[69] this would cost the sector around

[68] This figure assumes that the minimum bursary would be offered to all undergraduates (including those undertaking courses such as foundation degrees or HNDs). It also assumes bursaries at the same level would be made available to full time and part-time PGCE students.

[69] In the context of this report, UK students refers to students with 'Home' fees status (from England, Wales, Scotland or Northern Ireland). If funding for students in Northern Ireland and Wales were to remain at its current level then the bursary amounts described above would not equal 20 per cent of the maintenance grant for these students. The same would be true if the bursaries were offered to students from Scotland (data for Scottish students are not available from SLC). There would be no statutory obligation for institutions to provide equal maintenance support to EU as well as Home students. Government support for maintenance is only obligatory for EU nationals resident in the UK for at least three years prior to beginning their university course and who prior to this were ordinarily resident within

£290 million, or 20.8 per cent of additional fee income. By way of comparison, universities' current predictions suggest that they will spend around £320 million, or 23.5 per cent of additional fee income, on financial support for lower income students by 2010-11. The cost of providing a national bursary at this level to English domiciled students would therefore equate to around 84 per cent of current expenditure on institutional financial aid for lower income students.

Determining institutional contributions

78. Having determined an appropriate amount of bursary per student, a decision would be required as to the most appropriate mechanism for levying funds from individual institutions. Two options are modelled here:

- Option A levies funding from each institution on the basis of the income distribution of students across the sector as a whole.
- Option B levies an equal proportion of additional fee income from each institution.

Option A

79. This option would see all institutions contributing to a pot of centralised funding based on the estimated income distribution of students across the sector. For example, if the bursary were equivalent to at least 30 per cent of the maintenance grant for English domiciled students and if 30 per cent of all students were estimated to have incomes of £25,000 or less, then an institution with 3,000 students would contribute £765,900 per annum to bursaries for these students.[70] Similar calculations would be required to determine contributions for each of the other income groups. This would mean that some institutions would spend less on their contribution to a national bursary scheme than they would on providing bursaries of the same value to their own students, whilst others would spend more. Table 4 illustrates the effect on the three institutions with the lowest, median, and highest proportion of students in the lowest income group, in terms of the percentage difference in cost between their annual contribution to a national bursary scheme and the annual cost of providing bursaries of the same value to their own students.

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the EEA (SSIN 08/05, issued by the then DfES in response to ECJ (Bidar) judgement).

[70] The calculation would work as follows: 30% of 3,000 = 900; 900 x £851 (value of bursary for these students) = £765,900. Note that the distribution of lower income students would be an estimate, since this data is not routinely collected for all students (see Annex A for further details in relation to estimates of student income distribution).

Table 4: Effect on illustrative institutions of option A

Institution description	Annual cost of bursaries to own students (£m) [1]	Annual cost of national bursary (£m) [1]	% difference in cost
Lowest proportion of students with income <£25,000	0.04	0.06	56.6%
Median proportion of students with income <£25,000	5.98	5.62	-6.1%
Highest proportion of students with income <£25,000	3.97	2.56	-35.4%

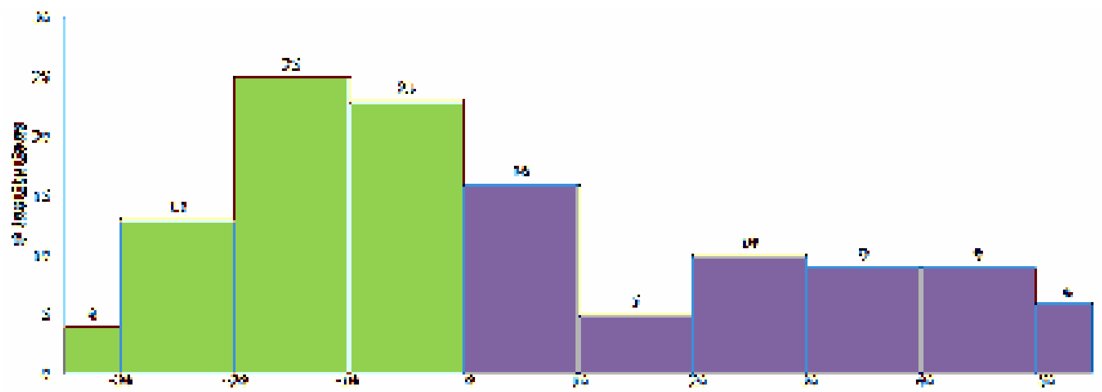
Note

[1] Figures are rounded to the nearest £10,000. It is assumed that the bursary is equivalent to 30 per cent of the maintenance grant for English domiciled students, and is only offered to these students.

80. It can be seen that the cost of providing bursaries at this level would increase by 56.6 per cent for the institution with the lowest proportion of students in this income band; whereas the cost would be reduced by 35.4 per cent for the institution with the highest proportion of these students.

81. Figure 5 groups all universities[71] by the percentage increase or reduction in the cost of providing these bursaries via a contribution to a national scheme rather than directly to students at the institution (negative values indicate a reduction in costs; positive values indicate an increase in costs).

Figure 5: Effect on universities of option A



% change in costs (own bursary vs national bursary)

82. Figure 5 shows that, for example, 65 universities (54 per cent of the total) would experience a reduction in costs through contributing to a national bursary scheme, in comparison with providing bursaries of the same value to their own students. Four universities (3 per cent of the total) would

[71] Figures 5 and 6 include data for all English universities offering full time undergraduate courses, with the exception of the University of Winchester.

experience a reduction in costs of 30 per cent or more; six institutions (5 per cent) would experience an increase of more than 50 per cent.

Option B

83. The second option (option B) would involve levying an equal proportion of additional fee income from each institution. As shown in Table 3 above, approximately 19.7 per cent of additional fee income (under the current fee cap) would be required to provide bursaries worth at least 30 per cent of the maintenance grant to lower income students; therefore each institution would contribute 19.7 per cent of any income from fees above the standard level (£1,255). Table 6 illustrates how this would affect the same three institutions shown in Table 4 – those with the lowest, median and highest proportions of the poorest students – based on estimates of additional fee income for each institution.[72]

Table 6: Effect on illustrative institutions of option B

Institution description	Annual cost of bursaries to own students (£m) [1]	Annual cost of national bursary (£m) [1]	% difference in cost
Lowest proportion of students with income <£25,000	0.04	0.07	63.4%
Median proportion of students with income <£25,000	5.98	5.51	-7.8%
Highest proportion of students with income <£25,000	3.97	2.50	-37.1%

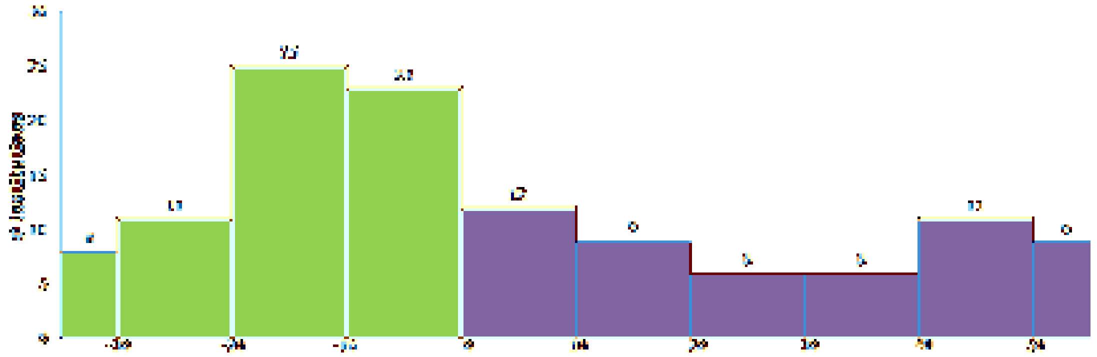
Note:

[1] Figures are rounded to the nearest £10,000. It is assumed that the bursary is equivalent to 30 per cent of the maintenance grant for English domiciled students, and is only offered to these students.

84. It can be seen that the differences between institutions are slightly more significant under option B than under option A: the cost of providing bursaries equivalent to 30 per cent of the maintenance grant would increase by 63.4 per cent for the institution with the fewest students in this income band (compared to 56.6 per cent under option A); whereas the cost would be reduced by 37.1 per cent for the institution with the highest proportion of these students (compared to 35.4 per cent under option A). This pattern is confirmed by looking at the picture for the sector as a whole (Figure 7, below).

[72] For the purposes of this modelling, it is assumed that the average annual additional fee income per Home or EU student (£1,467, based on 2006-07 student numbers) is the same for each institution.

Figure 7: Effect on universities of option B



% change in costs (own bursary vs national bursary)

85. Figure 7 shows that eight institutions (7 per cent of the total) would experience a reduction in costs of 30 per cent or more through contributing to a national bursary scheme (compared to four institutions under option A); nine institutions (8 per cent of the total) would experience an increase of more than 50 per cent (compared to six institutions under option A).

Issues arising with a national bursary scheme

86. Although the arguments in favour of a national bursary scheme appear to have a considerable amount of logic to support them, the question is nevertheless not entirely straightforward. There are a number of issues that have to be considered, some of which were rehearsed at the time of the passage of the 2004 Higher Education Act:

a. It would be possible to characterise a national bursary scheme as taking some of the fee paid by a student attending one university to provide bursaries for students attending another. If that perception arises then students may be unhappy about attending a university that is a net contributor and particularly one that, in a variable fee environment, charges high fees.

b. Alumni might be unhappy about making donations to a university - particularly to support the creation of supplementary bursaries - if they knew that some of the income that the university earned was top sliced and used to provide national bursaries for lower income students regardless of the university that they attended.

c. Universities would be disincentivised from charging higher fees if a proportion of that fee were to be top sliced into a national bursary fund.

d. Institutional bursaries are only one element of expenditure that universities incur in their efforts to widen participation, and it is wrong to single these out. Analysis of the case for a national bursary scheme ought to take into account all the expenditure that is devoted to widening participation, including outreach projects.

e. Those universities with large numbers of lower income students receive significant funds from HEFCE through its widening participation premium. Under HEFCE's present funding method, around 8 per cent of the recurrent teaching grant is top sliced for the widening participation grant[73], allocated to institutions based on the postcodes and prior attainment of their students. If these universities are to gain by paying into a national bursary scheme, on account of the number of poor students they have, they ought to benefit less from the widening participation premium.

87. Some of these arguments have greater force than others, but none is sufficient to undermine the case for a national bursary scheme.

a. The presumption that students would be unwilling to attend a university charging higher fees simply because some of the fee that they pay would not benefit the student concerned is untested and implausible: students already know that some of the fee that they pay will be used to provide bursaries for other students. A student's decision about whether to attend the university is unlikely to be influenced by such considerations, and certainly students collectively have argued in the past in favour of a national bursary scheme, not against it. [74]

b. Similarly, there appears no logic in the suggestion that a national bursary scheme would reduce the willingness of alumni to donate to a university. All of the donations from alumni to a university will benefit that university and its students, and only that university and its students. There is no suggestion that donations of alumni will be used to benefit other universities or other students. The donations of alumni are unaffected by a national bursary scheme.

c. A university's judgement about whether to charge higher fees will always be a fine one and will undoubtedly take into account the likely market effect of the fees charged and the benefit to be gained. It is by no means certain, however, that the introduction of a national bursary scheme under the current fee cap would reduce the benefit from any higher fees that universities might be permitted to charge in the future. A higher average fee across the sector might, it is true, lead to calls to increase the value of national bursaries to individual

[73] The recurrent teaching grant for higher education institutions in 2008-09 was £4.42 billion, of which £340 million was for widening participation (to the nearest £10 million).

[74] Both the National Union of Students and the Aldwych group (representing the Student Unions of Russell Group universities) have argued in favour of a National Bursary Scheme, most recently the NUS in their report 'Broke and Broken' published on 3 September 2008.

students, thereby increasing each institution's contribution to a national scheme. But whatever the total monetary value of the contribution, it would only account for a very small part of the fee charged, and so it seems implausible that the existence of a national bursary scheme, in addition to any institutional bursaries, will have an impact on these decisions, except at the margin.

d. It is wrong to dismiss the argument that the present arrangements are not only unfair but run counter to the Government's widening participation policy on the basis that this argument does not take account of other, non-bursary, spend. Those who dismiss the argument on these grounds miss the point that these other activities and expenditures do not impact affordability, which is what bursaries ought to be about; nor do they disadvantage those very universities that admit the largest number of poor students.

e. Finally, and similarly, the suggestion that the HEFCE widening participation premium should be reduced curiously conflates income that a university receives with that received by students through bursaries. The HEFCE premium is not to provide bursaries, but to meet the costs encountered by those universities with large numbers of students who are more difficult to recruit and at much greater risk of dropping out, and therefore require greater support. There is no evidence to suggest that those demands will be reduced because a national bursary scheme is introduced, and HEFCE's premium existed before bursaries were introduced following the new fee arrangements. The argument for reducing the HEFCE widening participation premium in response to the introduction of a national bursary scheme is political rather than logical: specifically, a reduction in the HEFCE premium would enhance the public resources available to the universities which would be most likely to be net contributors to such a scheme.[75]

88. So although there are counter arguments, both empirically and in logic the case for a national bursary scheme remains substantial and strong.

Conclusion

89. By 2010-11, English universities expect to spend around £320 million, or 23.5 per cent of additional fee income, on financial support for lower income students. Beyond the small mandatory minimum required by

[75] For example, if the current value of the widening participation grant were reduced to 2 per cent of the value of the total teaching grant, all but one of the post-1992 universities would experience a decrease in public funding; conversely, all but three of the pre-1992 institutions would experience an increase in this funding (these figures relate to English universities offering full time undergraduate courses in 2008-09).

each institution charging the maximum fee, each university has its own way of determining exactly how its share of this spending is distributed to students.

90. This report has highlighted four problems with this market in bursaries.

- First is the extent to which it is the financial constraints and perceived strategic priorities of each institution, rather than the assessed needs of students, that determine the value of bursaries at different institutions: students with similar needs attending different institutions may receive very different amounts of financial assistance – differences that are unrelated to different needs.

- Second is the fact that while this market benefits high achieving students from low income backgrounds, there is no evidence yet that it is a cost-effective way of furthering the political goal of fair access to the most academically demanding universities, and certainly not of widening participation in higher education.

- Thirdly, the present arrangements are unfair and penalise those very universities that recruit the most students from poor backgrounds.

- Finally, bursary arrangements are complex, and it is difficult for students to make meaningful comparisons between the different packages of financial support on offer at different institutions.

91. The introduction of a national bursary scheme is not the only possible response to these issues. However, a national bursary scheme would appear to be the most effective means of addressing them, and of thereby both improving the affordability of university for students and promoting the operation of a market that benefits both students and institutions. Unlike the other options discussed here, it could enhance the guaranteed support for lower income students without requiring adjustments to the government grant and loan policies which underpinned the introduction of variable fees in 2006. Furthermore, the introduction of a national bursary scheme would present an opportunity to re-examine the current level of the guaranteed minimum bursary for students paying higher fees. The bursary values modelled here would be linked to living costs rather than fee levels and would be guaranteed to more students than is currently the case.

92. A national bursary scheme could help ensure that some of the additional fee income which institutions are currently prepared to pass back to lower income students contributes to greater affordability and choice for students across the sector. If a national scheme were to be introduced along the lines described in this report, it would still be possible for institutions significantly to enhance the needs-based and other financial support offered

to students, even if they were substantially dependent on additional fee income to do so. The average value of means tested support for students under such a system would depend both on the design of the national bursary and on the behaviour of institutions.

93. Of course, a national bursary scheme of the type described here would not be without its own limitations. It would not seek comprehensively to 'meet' the needs of students at different institutions, nor would it be intended to derail competition between universities. This means that it would not remove the complexity of different financial aid policies at different institutions. It is suggested, however, that alternative mechanisms could be developed to ensure that individual students can make reasonable comparisons between the financial provision made by the different universities they may be considering.

94. This report argues that, on balance, a national bursary scheme would be a positive development for the sector as a whole. Because the introduction of a national bursary scheme would benefit some universities and disadvantage others, however, careful consideration would be needed concerning the mechanism for determining institutional contributions. Two options have been considered here – levying contributions based on the estimated income distribution of students across the sector and levying an equal proportion of additional fee income from each institution.

95. The provision of means tested cash support to full time students in order to increase affordability is only one means of promoting the aims of widening participation and fair access. It is not in fact certain that it is a good way of spending resources in pursuit of these aims, but undoubtedly bursaries increase the affordability of university for students from poor backgrounds. The Government has said that it intends to examine all aspects of the experience with the new arrangements for student fees introduced in 2006. HEPI has previously argued that, broadly, those arrangements have provided an effective and equitable way of introducing additional funding to universities. However, this report has highlighted problems with one aspect of those arrangements – and a possible approach to resolving them – that should certainly be addressed in the Government's review.

Annex A: Income distribution of students

1. The estimated distribution of incomes among students eligible for the national bursaries modelled here is derived from:

    a. Student Loans Company data showing assessed residual household income for student support applicants to publicly funded universities in England.[1]

    b. HESA data for 2006-07 showing the total number of full time Home undergraduates and Home PGCE students in these universities.

2. The data show:

    a. the total number of applicants for student support

    b. the number of applicants with income assessments, divided into £1,000 income intervals (from £4,999 to 39,999).[2]

    c. the applicant's domicile.[3]

    d. whether the applicant is a new student or a continuing student.

3. The estimated proportion of new student applicants in 2006 with assessed income of £39,305 or less[4] is used to estimate the approximate number of all English students, and of all UK students, with residual household income below this level.[5]

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[1] Data were made available to the authors for all publicly funded universities in England offering full time undergraduate courses, with the exception of The University of Winchester. For the purposes of estimating the income distribution of all students in English universities, it is assumed that the proportional distribution of incomes and the overall proportion of applicants among registered students remains the same once University of Winchester students are added. The data used are for the 2006-07 academic year so the income thresholds shown in Table 1 were deflated to 2006-07 levels to estimate the distribution of incomes.

[2] Full time undergraduates and all PGCE students are able to apply for support towards tuition fees and maintenance. Applicants need only provide their income details if they are applying for means tested benefits.

[3] Data are available for students from England, Northern Ireland and Wales.

[4] £38,305 in 2006 terms.

[5] It is assumed that the number of new applicants for means tested support provides a more accurate indication of the total proportion of applicants likely to have residual household income of £39,305 or less. This is because new students from a broader range of income groups had a greater financial incentive to apply for means tested support under the new fee regime. An estimate was made for the number of Scottish students with income below this level by combining the available data for the rest of the UK with the HESA data.

4. The estimated total number of UK applicants for student support with household income of £39,305 or less is 364,021, or 40.6 per cent of UK students.[6] This leaves the following groups of students:[7]

   a. Applicants with income assessments above £39,305 = 8.8 per cent.

   b. Applicants with no income detail (i.e. applicants for non-means tested support) only = 28.3 per cent. These students are assumed to have income over £39,305.

   c. Students not applying for support = 22.4 per cent. These students are either:

      i. Those who have chosen not to apply. These students are assumed to have income over £39,305.

      ii. Those ineligible for state support (e.g. second undergraduate degree students).

5. Similar proportions apply for English students only.

6. The full assumed distribution of incomes across the sector – for English and for all UK students – is shown in Table 1.

[6] This includes an estimated number of Scottish students applying for support to the Student Awards Agency for Scotland (SAAS) and an estimated number of students from the University of Winchester.
[7] The proportions do not sum exactly to 100 per cent, due to rounding.

Table 1: Income distribution of full time undergraduates and PGCE students

Lower limit of residual household income (£)	Upper limit of residual household income (£)	Number of English domiciled students	Number of UK domiciled students	Proportion of English domiciled students	Proportion of UK domiciled students
0	24,999	259,557	269,056	30.04%	30.01%
25,000	25,999	7,132	7,443	0.83%	0.83%
26,000	26,999	7,112	7,464	0.82%	0.83%
27,000	27,999	6,762	7,047	0.78%	0.79%
28,000	28,999	6,743	7,083	0.78%	0.79%
29,000	29,999	6,859	7,129	0.79%	0.80%
30,000	30,999	6,911	7,159	0.80%	0.80%
31,000	31,999	6,730	7,030	0.78%	0.78%
32,000	32,999	6,518	6,825	0.75%	0.76%
33,000	33,999	6,434	6,720	0.74%	0.75%
34,000	34,999	5,980	6,273	0.69%	0.70%
35,000	35,999	5,905	6,186	0.68%	0.69%
36,000	36,999	5,866	6,178	0.68%	0.69%
37,000	37,999	5,259	5,496	0.61%	0.61%
38,000	38,999	4,959	5,230	0.57%	0.58%
39,000	39,305	1,623	1,704	0.19%	0.19%
>39,305 or ineligible	--	513,702	532,494	59.45%	59.40%
TOTAL		864,053	896,515	100.00%	100.00%