Financial support in English universities: a national bursary scheme

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Introduction

1. The introduction of variable fees for full-time Home and EU undergraduates in English universities has been accompanied by significant additional expenditure by universities on means-tested bursaries and on other financial aid for undergraduate students. In 2006-07, the first year of the new variable fee regime, universities spent at least £100 million[1] on financial support for lower income students, out of total additional fee income of £470 million.[2] 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 full-time undergraduate degree courses), there exists a highly variegated market in bursaries, with higher education institutions largely free to determine the amount they spend on financial support and the way these funds are distributed. However, as is shown below, this market is a highly distorted one, with serious consequences.

2. This report therefore assesses the rationale for a national bursary scheme, by considering the extent and nature of the problems with this bursaries market. It concludes that there is a strong case for introducing a national bursary scheme, which would provide eligible students with a guaranteed bursary from pooled institutional income – and promote greater affordability for students – but which would nevertheless allow individual universities to develop their own financial support schemes.

Current arrangements

3. The reforms to tuition fees introduced in 2006 were accompanied by an increase in the level of state financial support towards both fees and maintenance. Support towards maintenance costs for Home students is available in the form of government loans and, for some students, means-tested maintenance grants.[3] 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). This is significantly 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.

4. Providing maintenance support at this level is nevertheless expensive for the taxpayer. The cost, in steady state, of maintenance grants for students from England

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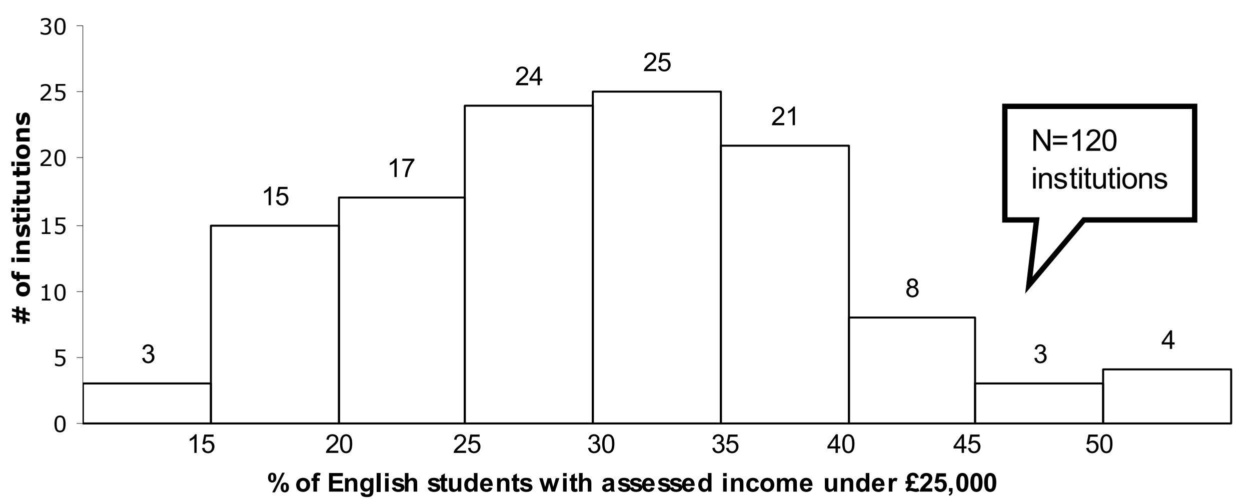
[1] All figures in this summary report are given in 2008-09 prices.
[2] Additional fee income is defined as any fee income above the 'standard' level of £1,255 per year.
[3] Following reforms to the household income thresholds announced in July 2007, around two thirds of English students starting courses from September 2008 will be eligible for a government maintenance grant.

has been estimated at £1.1 billion, whilst the cost of maintenance loans for English students is likely to exceed £600 million (because these loans are subsidised).

5. A second element of guaranteed maintenance support – provided at no additional cost to the taxpayer – is the minimum guaranteed bursary from universities: any institution charging the maximum fee of £3,145 is required to offer a minimum bursary or fee waiver of £310. Beyond this guaranteed minimum, there is a wide range of additional discretionary support provided to students through university bursaries and scholarships.

6. The £100 million that universities spent on bursaries in 2006-07 represents 21.4 per cent of additional fee income. Although there were significant variations between individual institutions, there was relative homogeneity between the various 'mission groups' within the sector. Institutions in the Russell Group, for example, spent 21.2 per cent of their combined additional fee income on support for lower income students, whilst those in the Million+ Group spent 21.8 per cent. This similarity of total spend is despite the fact that the proportion of students from the lowest income households (those with income of less than £25,000)[4] differs significantly between institutions. This is illustrated in Figure 1 below, which groups English universities according to the estimated proportion of all English domiciled students with assessed household income under £25,000.

Figure 1: Proportions of lowest income students



7. This similarity of total spend despite a very unequal distribution of low income students is due to differences in the average value of the bursaries provided by institutions in the different mission groups. Broadly speaking, the more poor students an institution has, the less generous it can afford to be, and vice versa. This is an incidental and aberrant effect of the present arrangements, and has consequences that are unfortunate in policy terms.

[4] These students are eligible for the full government grant if they are domiciled in England and are starting courses from September 2008.

Problems with the market

Inequity between students

8. 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: 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.[5] 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 across the sector but £1,764 at Russell Group institutions and £714 in the Million+ institutions.[6]

9. The result of this is that students with the same level of need may receive very different levels of means-tested bursaries. 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.[7]

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

10. It might be argued that the shape of the current market in bursaries is precisely what is needed to promote the goal of widening access to higher education. Indeed, the government suggested as much when it urged the Office for Fair Access (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.

11. However, it is far from evident that expenditure on bursaries is an effective way of increasing the socio-economic diversity of these universities. The great majority of students from lower socio-economic backgrounds with high levels of prior academic attainment already attend research-oriented universities. For those who do not, there is no evidence that bursaries are having any impact on their behaviour: institutions in

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[5] Whilst the exact shape and level of financial provision for students are of course shaped by the priorities of individual institutions, the parameters within which these priorities are defined are determined primarily by the distribution of lower income students across the sector.

[6] It has not been 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, 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).

[7] 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.

the Russell Group and 1994 Group spent around £31 million 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).

12. The signs are, then, that the current market is more likely to result in an 'arms race' for academically highly-qualified lower income students between a range of institutions than in a significant increase in the representation of students from lower socio-economic groups at prestigious 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. This does not seem to be a good use of money in pursuit of widening participation or fair access. Nor is it an efficient way of increasing the affordability of higher education for low income students, the majority of whom will not benefit from this 'arms race'.

Inequity between institutions

13. 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.

14. 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 to (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.

15. 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 – nearly all these universities are charging the same fee.[8] The differences are largely just a function of the number of low income students at a particular university, with institutions with the most such

[8] For first degree undergraduate students.

students disadvantaged in relation to neighbouring institutions with fewer such students.

Complexity of bursary schemes

16. The complexity of the current system of bursary provision 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. 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.

17. 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 may not have taken up the bursaries for which they were eligible, since they did not consent to share the income data they provided to their Local Authority with their university.

18. Admittedly, the variation in bursary provision 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. Furthermore, the Government has recently made some changes to the system of applying for financial support, which should reduce the effect of this variation on the uptake of bursaries in the future. Firstly, the mechanism by which students consent to share their income data with universities has been simplified; the proportion of new students consenting to share data has subsequently increased from 65.6 per cent in 2007 to 95.9 per cent in 2008. Secondly, from September 2008, students applying for financial support will have access to an online financial calculator, which will allow them to compare the bursaries offered at different universities, and should therefore go some way towards filling the current information gaps.

Possible approaches to these problems – a national bursary scheme

19. 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, and restricts some institutions' capacity to promote affordability for students purely because of the number of lower income students at those institutions. 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.

20. A number of possible responses are considered in the main report. These include:

a. Reallocating the government (HEFCE) grant to universities in favour of those with the largest numbers of poor students, to allow these to spend more on bursaries.

b. Increasing government spending on student support (maintenance grants), and funding this expenditure by reducing the subsidy on student loans.

c. Requiring institutions with fewest poor students to spend more on outreach and other widening participation activities – thereby effectively reducing the amount available for bursaries in those universities.

d. A national bursary scheme.

None of these, other than the last, comes close to addressing the range of issues identified above.

21. A national bursary is understood here to mean a standard level of student support provided to eligible students on a means-tested basis and funded out of pooled institutional income. Under such a scheme each university could pass its contribution to the Government so that the bursary could then simply be added to the student's maintenance grant, without any need for a separate assessment and administration process. Alternatively, funds for a national bursary scheme could be appropriately distributed between universities, leaving individual universities responsible for the distribution of bursaries to eligible students. In either case, such a 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.

22. A national bursary scheme of this kind would address most of the problems with the present arrangements discussed above. It would help ensure that at least a proportion of sector spending on bursaries was based on a common assessment of students' financial means and needs and would help promote choice and affordability. Universities with higher numbers of low income students would then be better placed to compete in the market in financial aid, rather than being disadvantaged purely because of the composition of their student populations.

23. 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.

Implementation of a national bursary scheme

Determining the value of bursaries to students

24. 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. The introduction of a national bursary scheme would therefore offer the opportunity to review the level of the current mandatory bursary, which at present is linked to the cost of tuition rather than to living costs. This report does not propose an 'ideal' level for a national bursary, but suggests that it would need to be high enough both to promote student affordability and choice, and to address some of the inequities caused primarily by the skewness in the distribution of lower income students across the sector, whilst still allowing institutions to use part of their fee income to provide additional financial aid for students.

25. One option would be to offer a national bursary in proportion to the maintenance grant to all lower income students.[9] Table 2 illustrates the annual value to students of bursaries worth 20 per cent and 30 per cent of the maintenance grant, in comparison with the current level of mandatory bursary for which they would be eligible if they were charged the maximum fee. The table also shows the total support for the academic year (government loan, grant and guaranteed bursary) and what proportion of average living costs this would represent.[10]

Table 2: Illustrative national bursary provision

	Current arrangements			**Bursary worth 20% of maintenance grant**			**Bursary worth 30% of maintenance grant**		
Income (£)	Minimum bursary (£)	Total support (£)	% living costs met	National bursary (£)	Total support (£)	% living costs met	National bursary (£)	Total support (£)	% living costs met
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%
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%
35,000	0	4,280	52.2%	247	4,527	55.2%	370	4,650	56.7%
39,000	0	4,280	52.2%	209	4,489	54.7%	314	4,594	56.0%

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

[9] Lower income students are defined here as students with incomes up to £39,305.
[10] This is based on the National Union of Students' estimate of living costs for a 39-week academic year.

The cost of a national bursary scheme

27. Table 3 shows what it would cost for English higher education institutions to provide these bursaries to eligible students, and what this cost represents as a proportion of additional fee income across all higher education institutions.

Table 3: Cost of national bursary provision

		Estimated annual cost of bursaries (£m)	**Bursaries as proportion of additional fee income**
National bursary scheme (30% of grant)	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	Students with income up to £49,305	320	23.5%

28. It can be seen from Table 3 that to provide bursaries to English 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. If bursaries of this value were offered to all UK students, this would cost the sector around £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.

Determining institutional contributions

29. 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 in this report:

a. Option A levies funding from each institution on the basis of the income distribution of students across the sector as a whole. 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 (30 per cent of 3,000 multiplied by the value of bursaries for these students).[11]

b. Option B levies an equal proportion of additional fee income from each institution. For example, a bursary worth at least 30 per cent of a student's maintenance grant would require each institution to contribute 19.7 per cent of its additional fee income.

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[11] 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 information is not routinely collected for all students (see Annex A in the full report for further details in relation to estimates of student income distribution).

30. Under either of these options, 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. Figure 4 shows the effect on different institutions of implementing option A; Figure 5 shows the effect of implementing option B. In both charts, English universities are grouped 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 4: Effect on universities of option A

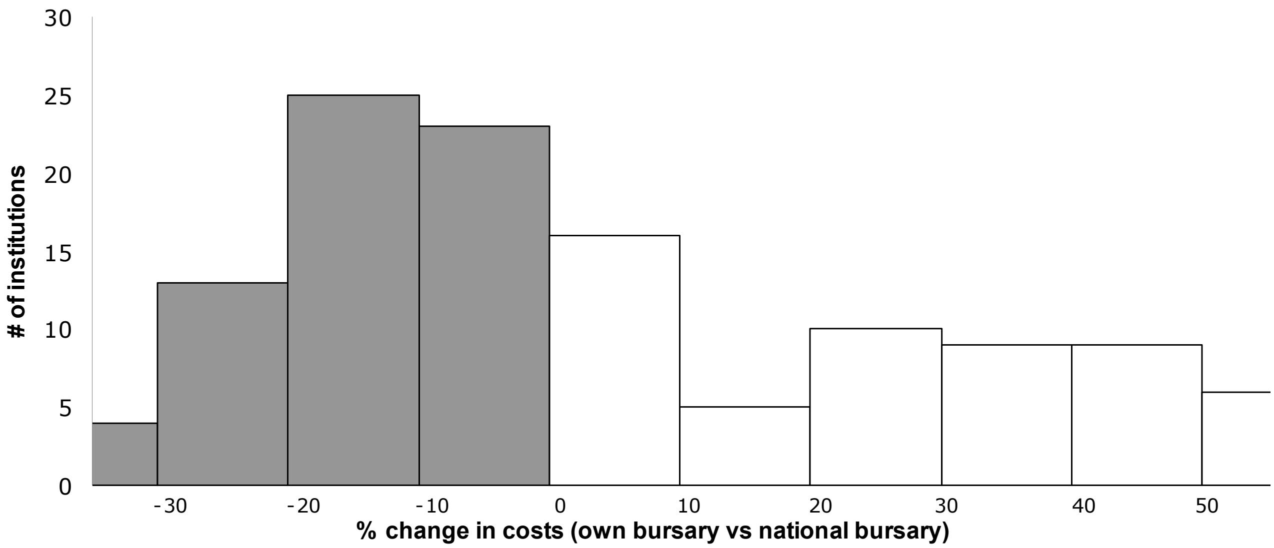
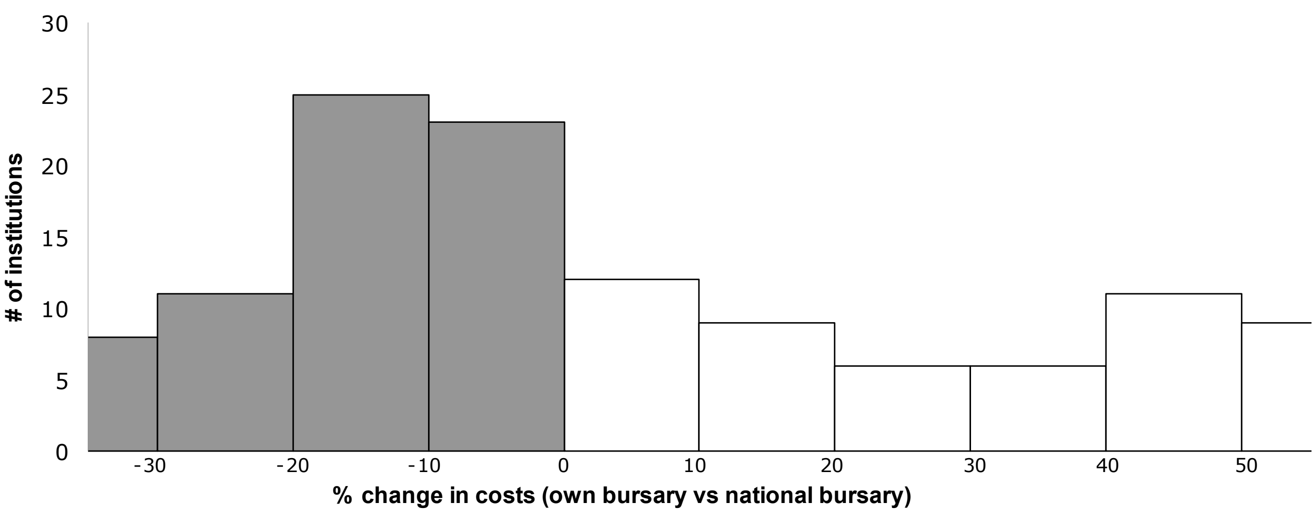


Figure 5: Effect on universities of option B



31. It can be seen that the differences between institutions are slightly more significant under option B than under option A: under option B, 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

32. 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. In particular, it has been suggested that:

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. Similarly, alumni might be unhappy about making donations 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. 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.

33. 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: even under present arrangements students already know that some of the fee that they pay will be used to provide bursaries for other students, albeit at the same university. 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.[12]

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. 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. Any rise in the fee cap might, it is true, lead to calls to increase the value of national bursaries to individual 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 impact 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.

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

Conclusion

35. 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 each institution charging the

[12] Most recently the National Union of Students in their report 'Broke and Broken' published on 3 September 2008.

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

36. 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 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.

37. 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.

38. This report argues that a national bursary scheme would, on balance, be a positive development for the sector as a whole. However, because the introduction of a national bursary scheme would benefit some universities and disadvantage others, careful consideration would be needed concerning the mechanism for determining institutional contributions.

39. 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 of 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.