

Demand for HE to 2010: Some Political and Policy Implications

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Background

1. The HEPI report "Supply and Demand in Higher Education" projects increased demand for higher education from between 180,000 and 250,000 additional young people qualified with two A-levels by the year 2010. These are conventionally qualified young people who in the past have demanded and secured access to higher education, usually at degree level. The majority of this increased demand arises from demographic growth, and the remainder arises from improvements in A-level achievement. The last two years have seen strong increases in the number of students with at least two A-levels, and, assuming that this is not reversed, this alone will generate significant increased demand. If these A level improvements prove to be the beginning of a trend, then the 250,000 figure may actually be modest.
2. This note looks at the implications of the policies of the different political parties (and some alternatives being proposed within the Labour Party) in the light of this projected increase in demand. Some of the workings are shown in the Annex. It does not espouse a particular approach. Instead it seeks to spell out some of the implications, and even here it cannot be comprehensive, as not all these can be identified or quantified. Only the implications of the policies for fees and institutional funding are considered.
3. In order to enable a fair and proper basis for comparison, certain common assumptions are made, in particular that all options will maintain the same average amount of funding per student (whether from public funds or from fees). In addition, assumptions are made in respect of individual policies, based on the best information that is at present available, and these are made explicit at appropriate points in the discussion. The calculations here are of course entirely dependent on these assumptions, and different assumptions will lead to different results. However, the methodology used here provides the means to recalculate the implication as further information about the policies becomes available.

The Labour Government

4. Assuming that Government policy remains to enable all fully qualified students to have access to a higher education place, and putting on one side the question of whether demand will be shoehorned into foundation degrees (it is interesting that in its response to the Select Committee report the Government has modified the policy stated in the White Paper that the majority of additional places would be in foundation degrees) then the additional places will cost something over £1 billion in direct additional public expenditure. That assumes that the Government will continue to provide the same funding per student as it does at present. Additional income will be generated from fees - both the current level of fee and the top up fees which will be permitted on the Government's policies - but this will go to institutions.
5. Since the Government will pay fees (both the basic fee and top up fees) in advance on behalf of all students, and secure repayment subsequently on an income contingent basis, there will be some public expenditure implications arising from the student fee, both because of the delay between paying out the money and receiving it back, and also the fact that there will be some element of non-repayment.
6. What this Resource Accounting and Budgeting (RAB) cost will be is speculation at this stage, and any calculation requires assumptions about, for example, the proportion of students who defer repayment, the proportion who default and the average length of repayment. The Government must have made some assumptions about the costs of its policy, but have not revealed these. The most authoritative estimate has been provided by Professor Nicholas Barr of the London School of Economics, and based on his calculations this paper has assumed that around 30 per cent of the fee raised in any year will fall as a cost to the Government. Therefore, in addition to the £1 billion direct cost to the Government that arises from increasing student numbers, it is here estimated that there will be a further £600 million or so RAB cost.
7. How much top-up fees raise for the sector will depend on how many institutions charge them, and for the purpose of this calculation it is assumed that two thirds will do so. However, not all the income from top-up fees will be available for institutional expenditure. It is widely assumed that the Government will require a proportion to be put aside for bursaries for poor students, and it has here been assumed that one third of the roughly £1.5

billion raised from top-up fees will be used for this purpose. That leaves £1 billion or so of additional institutional income that top-up fees will raise.

The Labour dissenters: No increase in fees

8. There seem broadly to be two groups in the Labour Party opposed to the Government's policy: those who oppose any increase in fees, and those who wish to see a standard fee charged to all, at a higher level than present. For the purpose of this calculation, it is assumed that those in the Labour Party who wish to maintain fees at current levels wish also to see the total income of institutions raised by the amount that would be raised by top up fees, but for this income to be provided entirely from taxation. It is estimated that the net amount raised by top up fees (after bursaries) will be about £1 billion. Therefore, in addition to the more than £1 billion of additional public expenditure that will be required on the Government's policies, this policy implies a further £1 billion of public expenditure -- £2 billion in total.
9. Under this policy the current level of fee would still be charged, but it has been assumed that its supporters wish to adopt the Government's policy that HE should be free at the point of use, and that, as in the case of the Government and the EDM 994 policies (see below), deferred repayment would be allowed. This gives rise to a RAB cost of about £200 million per year.
10. It should be noted that no allowance has been made for the fact that under the Government and the EDM 994 proposals about £0.5 billion will be raised for student bursaries. If the 'No increase in fees' policy were to make equivalent provision, that policy would cost approximately £0.5 billion more than has been shown here.

The Labour dissenters: EDM 994

11. Others within the Labour Party, who recognise the need of universities for additional funding, are concerned that the Government's proposals will lead to poorer students being unable or unwilling to attend those universities that charge the highest fees. They propose instead that there should be an increased flat fee, but that the Government should, as now, provide financial support to ensure that the fee does not inhibit participation by disadvantaged students. This is the policy enunciated in Early Day Motion 994 (EDM 994).
12. The details of this proposal have not yet been spelled out, but a figure of £2000 has been widely discussed as the new proposed fee level. For the purpose of this note, this figure is assumed, and it is also assumed that those who have their fees at present partly or fully paid by the Government will not pay any extra (it is reasonable to assume that if they cannot afford £1125, they will not be able to afford more). It is further assumed that a small number of those who at present pay the full fee will fall within the bracket of those who have part at least of the higher fee paid for them, and that whereas at present 40% pay the full fee an average of 35% will in future.
13. The amount raised for universities by the EDM 994 proposal (about £1 billion) is very similar to that raised under the Government's proposal, and both proposals will raise similar amounts for student support. There are two main differences. The EDM 994 proposal will spread the money equally among universities, whereas under the Government's proposal the income will be differentially spread, depending on which institutions charge fees.
14. And secondly, under the EDM 994 proposal, the additional funds for student support will be provided from taxation, whereas under the Government's proposal better off students would provide the funds for bursaries for poorer students. That is why, under the EDM 994 proposal, something over £0.6 billion of direct extra public expenditure will arise, over and above the additional direct cost of the Government's policy. This is calculated as the total raised by a £2000 fee, less the amounts that will be paid by students, and from this is subtracted the amount that would be paid by the Government on its current policies.

15. The same public expenditure considerations apply to the EDM 994 proposals as to the Government's, in respect of the effects of deferred repayments and possible default. Using the same assumptions, it has been estimated that in addition to the £1.7 billion direct cost of these proposals, the RAB cost of EDM 994 will be about £300 million.

The Liberal Democrats

16. The position of the Liberal Democrats is taken to be that they adhere to the Robbins principle that all those who are qualified with two A-levels and wish to participate in higher education should be able to do so. The Liberal Democrats' oft stated policy is that they believe that all higher education should be free and there should be no fees charged.
17. Thus, in addition to the cost of the policy of the Labour 'no increase in fees' dissenters, public expenditure would need to replace the basic fees – both those paid by students currently in the system, and those that the 250,000 additional students would generate. The implication of the Liberal Democrats' policies is therefore that they will need to provide an additional £2.6 billion of public expenditure. There have been suggestions that this cost can be reduced if some potential students were to pursue vocational qualifications. This is not so. Vocational qualifications are funded, if anything, at a higher rate than non-vocational, as witnessed by the recent HEFCE proposal to fund Foundation Degrees and part-time courses at a higher rate than others.
18. There is no RAB cost arising out of the Liberal Democrats' policies, as there is no element of deferred payment. On the other hand, as with the 'No increase in fees' policy, the calculations have made no allowance for the fact that under the Labour Government and the EDM 994 proposals about £0.5 billion will be raised for student bursaries. If the Liberal Democrats were to make equivalent provision, their policy would cost approximately £0.5 billion more than is shown here.

The Conservative Party

19. The Conservative policy appears to be as follows. There should be no growth in student numbers. Nor should there be any fees charged -- the current fee would be abolished and top up fees would not be permitted. More general Conservative policy also appears to be firmly against any

increase in public expenditure. This means, therefore, that the demand from the additional 250,000 young people with two A levels projected by 2010 will not be met. But it also means that universities and colleges will need to be compensated both for the fees they currently receive and the top-up fees they would raise under the Government's proposal. If there is to be no increase in public expenditure on higher education, this can only be achieved by reducing the number of students. This will not increase the money provided to universities, but it will increase per capita funding.

20. The number of students implied by the loss of the £450 million currently generated by fees is 94,000, and the number of students implied by the loss of top up fees from the existing student cohort is 120,000. So under the Conservatives' policy there is a funding gap equivalent to over 450,000 student places (250,000 additional demand plus 214,000 existing numbers). A very large number of potential students with at least two A levels would be unable to gain access to higher education of any sort (not just universities to do a degree).
21. The Conservatives' policy does not actually say that they intend to maintain the same unit of funding as the other parties, and there is an implication that money can be saved -- for example by students pursuing vocational qualifications. As stated above, this would not lead to savings. Expansion could be achieved at lower cost than with the other proposals, but only by cutting the unit of funding per student. It is perfectly legitimate to have a policy of cutting the unit of funding, but this is not what is implied in the Conservative statement. The alternative, if the Conservatives wish to maintain the same unit of funding per student as the other parties and do not wish to deny HE to large numbers of students, will be to increase public spending on HE, notwithstanding the general policy of limiting public expenditure. The amount needed will be between £1.2 billion (implying a standstill in student numbers, and therefore unsatisfied demand of 250,000) and £2.6 billion (if additional demand is to be met).
22. There is no RAB cost arising out of the Conservatives' policies, as there is no element of deferred payment. However, as with the 'No increase in fees' and Liberal Democrats' policies, the calculations have made no allowance for increased student bursaries that would be provided under the Labour Government and the EDM 994 proposals. If the Conservatives were to make equivalent provision, their policy would cost approximately £0.5 billion more than has been shown here.

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Annex

		Income/Expenditure	Student Numbers
Current FT student numbers	860,000		
Current Income from Fees		£450,000,000	
Current cost to public funds per student	£4,277		
Current resource (public funds plus fee income) per student	£4,800		
No of students implied by current income from fees at cost per student of £4800			94,000
Projected additional demand to 2010 - between 180,000 and 250,000			250,000
Cost to public funds of 250,000 students on current policies		£1,069,000,000	
Current standard fee income that 250,000 students would generate		£131,000,000	
Additional net income (after bursary deduction) from top-up fees, from existing students	£744,000,000		
Student number equivalent implied by this amount			120,000
Additional net income (after bursary deduction) from top-up fees from 250,000 students	£216,000,000		
Total Raised (net of bursaries) from top-up fees		£960,000,000	
Total extra raised by EDM 994		£971,250,000	
So Policy of Government has a direct cost of	£1,069,000,000		
RAB cost of Government Policy	£587,000,000		
Total public expenditure cost of Government policy		£1,656,000,000	
EDM 994 policy has a direct cost of	£1,701,000,000		
RAB cost of EDM 994	£277,000,000		
Total Public Expenditure cost of EDM 994		£1,978,000,000	
Policy of no extra fee would cost (public expenditure)	£2,030,000,000		
RAB cost of No Extra Fees Policy	£174,000,000		
Total public expenditure cost of No Extra Fees policy		£2,204,000,000	
Total public expenditure cost of Liberal Democrats' policy		£2,610,000,000	
Policy of Conservatives implies a funding gap equivalent to			464,000

Note: 1. All figures are at 2003 prices, and rounded, and relate to 2010

Note: 2. Government and EDM 994 policies will raise about £0.5 billion for bursaries, etc. No account has been taken of this in costing the Lib Dem, Conservative or no fee increase proposals. If Account were taken of this those policies would cost about £0.5 billion more.

66%	Assumed percentage of students who would pay top up fees in full (assumed also that a small number will pay part of the fee)
33%	Assumed percentage of top up fees to be used for bursaries
40%	Proportion of students paying full fee at present
35%	Proportion of students on average assumed to be paying difference between the present fee and the new standard fee under EDM994
30%	Resource Accounting and Budgeting (RAB) cost, as a net percentage of the relevant income