

# **The Independent Review of Higher Education Funding: an analysis**

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1. During the passage of the 2004 Education Act the then Secretary of State Charles Clarke promised a review of the workings of the new system after five years, and before any fundamental changes were made. That was in the context of persuading MPs who were concerned that the £3,000 fee then introduced was too high and would deter participation. The Browne review has taken place in very different circumstances and produced very different outcomes from those that might have been envisaged at that time.
2. At its core, the Browne Committee (the Committee) and its treatment of the student contribution is more evolutionary than revolutionary, although the changes that it proposes are likely to have a radical impact. It takes as a starting point the present system and retains many of its good features and builds on those, introducing a number of useful modifications and others that are less obviously to be welcomed.

## **The proposed system**

3. At its core, the system that is proposed is the same as the present:
  - Higher education will be free at the point of use;
  - Universities will be able to charge different fees (variable fees);
  - For those students who apply for a loan for the fee, the government will pay the university on their behalf. The "graduate" (or more accurately the student when he or she leaves the undergraduate course, whether they have graduated or not) will repay the government subsequently;
  - Former students only pay the government when in work and when their income has passed a threshold;
  - The repayment is 9 per cent of the salary earned beyond the threshold, paid through the taxation system;
  - There is to be a system of loans and grants for maintenance.
4. Building on these arrangements, there will be some important differences, among the most important of which are:
  - There is no longer to be any limit on the fees that universities may charge – £3,300 at present. However, a graduated levy is proposed on any fees above £6,000, so that for example, 75 per cent of any fee above £12,000 will be paid by the university as a levy to the government. This measure will both

deter universities from charging high fees, and will potentially tax the rich to help the poor;

- At present the rate of interest charged on student loans is the rate of inflation (i.e. zero real rate of interest). The Committee's proposal is that the rate of interest should be fixed at the government's rate of borrowing (presently 2.2 per cent). Although this will represent a real rate of interest, it will still require a substantial government subsidy;
- The arrangements for maintenance have been simplified and are slightly more generous;
- Part-time students with an FTE of one third or more are to be entitled to the same loans as full timers to cover the cost of their fees (with the strong implication therefore that the fees that part-timers pay will need to be the same, pro rata, as full timers);
- The present cap on the number of students that each university may recruit is to be removed. However, an alternative indirect control is proposed by stipulating minimum grades for entry qualifications;
- In the context of the strongly market orientation of this review is the recognition that for markets to work well, good information is required, and the Committee makes some useful suggestions about the better information that students will need in deciding whether and where to go to university.

5. In recognition of the increased burden on students the report rightly emphasizes the importance of ensuring that the teaching that they receive is sufficient in both quantity and quality. Among its proposals is that universities should tell prospective students about the number of contact hours they will have, who will teach them, etc. This is an important and welcome proposal, and if implemented will be an essential counterpoint to the increased fees that students will pay.

6. While building on the current system and retaining its basic principles and structure, the Committee, coming as it does in the context of major cuts in public expenditure, offers the prospect of a radically different higher education system in the future. It will be different both because private payments by individuals will represent a far higher proportion of the funding that universities receive, and the government will pay far less; and because there will be even more differentiation between universities than at present, with some universities able to charge much higher fees and others – those whose market position does not permit them to charge high fees – finding that their income reduces, together with the quality of what they provide. These may face serious quality and financial difficulties.

## **The shadow of the deficit**

7. In his foreword, Lord Browne writes that, "since this review was commissioned the pressure on public spending has increased significantly. This will add urgency to make funding sustainable."

8. There is a danger that this added urgency will lead to the proposals of the Committee being seen as no more than a means of reducing the public deficit. It would be a tragedy if perceived short term fiscal advantages were the reason for adopting proposals that will affect HE for decades to come.

9. So it is unfortunate that the review appears at a time of economic crisis leading to public expenditure cuts, and that the review and its timing offers the government the opportunity to cut more than would otherwise have been the case. Higher education is one of the few areas of government spending where a ready alternative to government funds can be identified. Some of what is proposed has undoubtedly been proposed only because of the economic environment and the forthcoming cuts, and it is unfortunately not possible to say what is proposed because of those constraints and what would have been proposed anyway. Also, some fundamental points are asserted by the Committee and taken as a given – that it is right that the contribution from government should reduce relative to the student contribution (and in many cases that it should disappear completely); and that the market is a sufficient mechanism for determining where students go to university and for making judgments about standards and quality. These are highly contested points, and their assertion as a given colours the entire report.

## **Government funding and fees**

10. The Committee proposes a decisive shift towards a privately funded higher education system, with massively reduced government funding. In 1998, and again in 2006, there was a suspicion, that turned out to be unfounded, that the introduction of fees, and then higher fees, would simply substitute public funding with private funding. On this occasion, there can be no doubt that fees will replace public grants, and indeed that is stated as a desirable outcome.

11. The other outcome that is sought is that there will be a more differentiated higher education system. Although there is in principle a "variable" fee at present, the limit on the amount that universities may charge (now around £3,300 per year) has effectively stifled differentiation. In future some universities will charge substantially more than others. Knowing what it knows about the cuts that are to come, the Committee suggests that £6,000 in fees will be the amount that will allow universities to maintain funding levels equivalent to today's (actually £6,000 would be less than today's level of funding according to the Committee, but in an alarming return to the language of the 1990s it speaks of "efficiency" reductions to

justify a figure of £6,000. These “efficiencies” are likely in reality to mean worse student:staff ratios – England already has one of the worst in the OECD area – or fewer books in the library). Many universities may feel that they will be unable to charge fees even at that level, and many will charge less. They may find ways of maintaining quality while being more “efficient” but in that case similar “efficiencies” should be required of others. Most likely, their quality will suffer. They may be able to attract students because of their price. As likely is that they will enter a spiral of decline. We cannot know, nor does anybody else. No market research underpins the report, and so a substantial risk is being taken.

12. The Committee appears strangely unconcerned with the effects of its proposals on universities whose market position may not be strong and which may not be in a position to sustain even a “lower resource” fee of £6,000. The country needs these universities to thrive and succeed. The reason they may not be strong in the marketplace may have nothing to do with their quality or their standards. There is ample evidence that one of the principal things that motivates students in their choice of university is to acquire a positional good; and historic reputation, longevity and institutional wealth (largely driven by research income) are the prime drivers of this. The market undoubtedly has a role, but the apparent absence of any recognition of public interest in the health and well-being of those universities that may not thrive in the marketplace is to be regretted. Universities are part of the national infrastructure, and it is in the interests of the country and the responsibility of the government of the day to ensure that universities at all levels of excellence thrive.

13. Much has been made – though not in the Committee’s report – of comparisons with the United States. However, England is not the United States, and it is not clear what useful comparisons can be made. On the one hand, it does not make sense to point to United States as an example of a country with much higher participation despite much higher fee levels. For a start, the fees of public universities there are on average considerably lower than they will be in this country (at £6,000 minimum, or even average, fees here will be the highest of any public university system in the world). And in the United States, knowing that their children will have to pay high university fees in due course, parents begin preparation for that eventuality at an early stage. On the other hand, the fee regime we have had in England, and will continue to have under the Committee’s proposals, means that no students will have to pay their fees upfront, and that their fees will be heavily subsidized by the government – so the disincentives are much less than in the States. Other than to note that fees here in future will be much higher than in the States it is probably best to put the United States to one side.

14. There is another respect in which we are different to the United States. That is the lamentably low proportion of the government’s investment in higher

education. There, public investment in higher education amounts to 1 per cent of GDP. That compares with just 0.7 per cent of GDP in this country (and now set to decline), which puts us among the laggards of the OECD, where the average is also 1 per cent of GDP.

15. The government appears largely to be withdrawing from investment in higher education teaching, and the Committee appears to endorse this as a matter of principle, rather than an unfortunate consequence of the economic crisis. If that is the Committee's view, it is a pity that this fundamental point was not argued in more detail rather than offered as a given. If that is not the Committee's view then it is equally a pity that it did not argue more vigorously for greater government investment.

16. The argument in favour of a higher fee is convincing, particularly if the government is unable to maintain its share of funding. Universities need adequate funding to provide high-quality education. Also convincing is the case for a real rate of interest on loans. Previous HEPI reports among others, have pointed out that the extent of the subsidy on the interest rate is one of the reasons why fee levels could not be increased in the past and why higher education numbers have had to be restrained.

17. What is less convincing is the argument for removing any cap and allowing unconstrained fees. If these proposals are implemented then England will be virtually the only public higher education system in the world (including in the United States) with no government imposed fee cap. The reason all other countries regard university fee levels as a matter where the government has an interest is that the fees charged by universities – and the implications of this for access and participation – are matters of public interest. It is implausible to say, as the Committee does, that it felt unable to set a limit because there was no objective way of doing so. All other jurisdictions find it possible.

18. As it is, the Committee proposes a graduated levy on fees charged above £6,000, payable by the university to the government. This may well act as an effective fee cap. However, how it operates will be essential. Its effects, for example, will be different if the levy is charged on what students actually pay, the average fee charged by the university across all its students or the published fee. Under the new arrangements (and indeed under the present) universities may charge different fees for different courses and for different students. Transparency will be required of universities, and students will know whether they are paying a fee that is higher or lower than their colleagues. The truth is that the effects on fee levels of the levy are not known, but could be an important break on excessive fees.

## **Will the proposals decrease the public contribution to HE?**

19. One purpose of the Committee's proposals is to reduce the demands on the public purse, and a number of claims are made regarding this. It is difficult though to evaluate these, because the report fails to provide information about key assumptions that would allow the calculations to be tested, and in particular has made no estimate of the Resource Accounting and Budgeting (RAB) cost to the government.

20. The Committee proposes many measures which can be expected to increase public expenditure, and others that will lead to a reduction, and calculates that the net effect will be to reduce the demands on taxpayers by £1.8 billion annually. A large part of this is the reduction of HEFCE teaching grant from £3.5 billion annually to £0.7 billion, but the next largest is an increase in fee loan repayments to £2.9 billion – a highly uncertain figure that it is not possible to test because the underlying assumptions have not been revealed.

## **Moving to a market system**

21. So we must take the claim that the proposals will reduce the taxpayers' contribution by £1.8 billion annually as at best unproven and at worst unlikely, but the claims made for moving closer to a free market are not just to save public money. Here we briefly examine some of the other claims.

### *Increased student choice*

22. The Committee is undoubtedly correct that student choice is important, not only as a 'nice to have' for the students themselves, but as a mechanism to maintain and improve the quality of teaching, and the wider student experience. Where there is room for debate is in the extent of choice in the current system, and the extent to which choice will increase under these proposals.

23. Students who can move away from home, or whose home is within easy access of a variety of institutions, already have a wide choice. This does not mean they can study anywhere they want: they must have sufficient of the non-monetary 'currency' measured by their qualifications and other evidence of potential to succeed in higher education. In future, given the expectation that more students will study part-time, and the possibility that increased debt will lead students to constrain their choice to a course they can attend while living at home, it is possible that students will have less effective choice.

24. What the new system will do is enable institutions that are oversubscribed to increase the number of places more quickly than they have been able hitherto. This means that potentially, more students will be able to attend university. But this

depends on the institutions making this choice. They may alternatively restrain demand by increasing the fee. Indeed, it will be a rational economic decision to maximize income by charging a higher fee, rather than by recruiting more students.

25. And on the other hand, if there is rapid change, institutions with lower demand may have to close courses, or may even become unstable and have to close, reducing the breath of choice available.

26. Increasing choice is not the simple concept described by the Committee.

### *Market mechanisms*

27. There is a strong emphasis by the Committee on the market as a mechanism for setting fees and for enabling students to exercise choice and for improving quality. It is this that underpins the Committee's recommendation that there should be no constraints on universities recruiting students. However, the report also acknowledges that much better information is required for the market to work correctly. To this end it makes ambitious proposals – repeating proposals that have been made previously but have never been fully implemented – concerning advice and guidance for potential students. It does not go so far as to say that until the information needs have been addressed its recommendations that rely on market mechanisms should be put on hold, but that is the clear logical conclusion. Reliance on the market to the extent proposed by the report will be positively dangerous if the market is not working properly and in particular if good and accurate information is not available to inform choice.

### **Student support**

28. The Committee's proposals regarding student support represent a worthwhile but small change from the present situation. They are to be welcomed, to the extent that they attempt to clarify and simplify matters. One particular issue touched on by the Committee concerns institutional bursaries. At present, a very large amount of money is given by universities in bursaries. These are given at each university's own discretion and to their own students only. This means that students with the same needs attending different universities can receive very different amounts of support. A recent report by the Office for Fair Access concluded that bursaries played no role in widening participation, and that the very large amount spent on bursaries would be better spent on outreach activity. However, the Committee envisages that while the present requirement to provide a minimum bursary for eligible students should be withdrawn, universities will continue to provide their own bursaries. The reality, though, is that as fee levels increase and diverge, tuition fee waivers are likely to become more common than bursaries as instruments of competition between high-fee universities.

## **Widening and increasing participation**

29. Clearly a lot of thought has gone into the question of whether these new arrangements will impact on participation. The Committee repeats several times that it is important to increase participation in higher education and to ensure that more of our young people are highly educated. That is one of the principles stated as a justification for its proposals. It certainly is true that to provide for increased numbers more money is needed, and that indeed was one of the arguments in favour of introducing fees in the first place. It remains to be seen whether a doubling of the fee leads to some level of disincentive that will offset any increased ability on the part of universities to provide for more students: whether the effect of dampening demand will be greater than the effect of increasing supply. As it is, and as the Committee notes, we fare badly in comparison with other countries in respect of the proportion of our young people that we educate at university, and there must be concern that the high fees that will be charged in future, combined with the declining investment by the government, will make this worse.

30. Although the loan and repayment arrangements are similar – and although the previous fee regimes did not impact participation – the amounts concerned are much higher now, both the absolute amount of the fee and loan, and the interest payable. We cannot be so confident in future that the financing arrangements will have no impact on participation. Indeed, to the extent that the decision to participate in higher education is an economic one, it will be entirely reasonable to assume that the much higher costs will put some people off higher education. And it is reasonable also to assume that these will disproportionately be from poorer backgrounds, who tend to derive the least financial benefit from having attended university.

31. Although the Committee's confident conclusion that "if fees can be deferred, then participation can be protected" seems at best optimistic, a fair conclusion is that we do not know how the proposed changes will affect decisions about whether and where to go into higher education.

32. The way that the arrangements are described and "sold" will be important. The Committee's proposals are not for a graduate tax in the commonly understood sense – and the sense in which such a tax was proposed as an alternative to the student fee in the discussions preceding finalization of the report. Nevertheless, they are much closer to a tax than they are to any conventional debt, and given the emotion and concern about debt, it is a great pity that the terminology of loans, debts and debt repayments has been retained. It would be far more accurate to describe these arrangements as a contingent tax liability which ends at some defined point in the future. Even then, a 9 per cent tax on earnings above a given threshold may seem steep, but that would be a more benign, accurate and less frightening way of describing the proposed new arrangements. To a student the

new arrangements will in reality represent a tax, although to a university they represent a fee. That is one of the reasons why terminology and presentation are important. Debt is offputting; tax less so.

### *Part-time study*

33. On the one hand, it is excellent that part-time students will be able to benefit from the same loans for fees as full-time. On the other hand, whereas part-time fees have been held down in the past – for the very reason that loans were not available – these will very likely now rise to match the full-time fee. Yet part-time students are often in work already, and earn more than the threshold for repayment. And we know also from HEFCE research published in 2009 that part-time graduation rates are very low (in part no doubt because a qualification is very often not the aim of those undertaking part-time study).

34. The new arrangements will be mixed for part-time students, but on balance there may well be a disincentive to study part-time in the future – ironic in view of the well-meaning intention of helping and encouraging part-time students.

### *Increasing student numbers*

35. The Committee recommends that there should be a further 10,000 places each year<sup>1</sup> provided in higher education. It also recommends that universities should be free to admit as many eligible students as they wish and who wish to apply to them. There is a tension here between the free-market ideology of the report and the reality of needing to constrain public expenditure and therefore to limit the number of places. It needs to be remarked in passing also that the latent demand for higher education is far greater than the 10,000 additional places per year for three years that the Committee recommends<sup>2</sup>, although what is not known is whether that latent demand will be dampened because of the increased fees. The Committee has attached no cost to this proposal, though there will be a cost and it could be substantial, because the interest rate that is to be charged will be lower than the cost to the government of providing loans. The absence of any assessment of the Resource Accounting and Budgeting costs of their proposals is a curious and serious omission on the part of the Committee, both here and in the discussion of the costs and benefits of their proposals.

36. What the report says about liberalizing recruitment is confusing, if not confused. On the one hand, the Committee recognizes that there has to be a limit

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<sup>1</sup> The report in fact recommends “an increase in the number of places by roughly 10%” over three years. It is presumed here that what is meant is an increase in full-time admissions rather than places. If it really means places, then that suggests an increase of 200,000 or so.

<sup>2</sup> HEPI, forthcoming.

on the total number of students in the system because of the impact of numbers on public finances. The more students there are, the more loans the government has to make and the greater therefore the public subsidy. On the other hand, the Committee wishes to allow the market to rule, and for universities to take as many students as apply to them. It is unable to offer a satisfactory resolution to this conundrum. It seeks to resolve this by setting a national threshold for higher education admission according to the number of UCAS tariff points achieved. So universities will be told by the government whom they may and whom they may not admit – a major new intrusion into university autonomy.

37. But the Committee recognizes also that significant numbers of students go to university without having been through the UCAS system, often without points that would count towards the UCAS tariff. In order to enable the market to be seen to be working unconstrained, the Committee ends up by proposing a complex and probably unworkable scheme which involves two types of application and “pass marks” which will shift year by year according to the government’s finances. Thus the problem is solved by turning the potential student who is qualified but cannot get a place into someone who is unqualified to enter higher education.

38. In reality, so long as the government is involved in funding – in this case by paying fees upfront through a student loan – and, even more, so long as there is some public subsidy for each student recruited, then it seems difficult to see how controls on the number of student recruited by each university can be avoided, even if that were desirable.

39. Whether it is desirable is another matter. In the neoliberal environment advocated by this report, where the market is the determining agent that determines which students go where and how many students each university recruits, the Committee is clearly uneasy about any controls on numbers. However, universities are part of the national infrastructure, and the government cannot be careless of the health of universities – and that health to some extent depends on the number of students they recruit. It is too simplistic to argue, as the report does, that those universities that are not as popular as others will “raise their game” if they see their numbers falling, or will be allowed to fail. Those universities may be doing a perfectly good job, but be less well endowed, have less appeal, may be geographically disadvantaged – there may be a whole host of reasons why they are not so popular. But nevertheless the national interest would be ill served if they were to fail.

### **More autonomy for institutions or does Whitehall still know best?**

40. Without any explanation or argument, the Committee recommends the transformation of HEFCE into a Higher Education Council, that takes in the functions of the QAA, the OIA and OFFA. It is difficult to conclude other than that the

Committee has been encouraged to make this proposal by the government's plan for a "bonfire of quangos". Certainly, there is no suggestion that the functions performed by the existing bodies are not required, nor that they are not being satisfactorily performed at present. The OIA was created only five years ago and it would have been possible then to incorporate it into an existing body if that were a better arrangement. And quality assurance was in fact accommodated within HEFCE until the QAA was created as a separate agency in 1997 as a result of the Dearing proposals. While there is a certain appeal to taking responsibility for quality and standards away from the control of those very institutions whose quality and standards are being monitored, this would be a major step, would run counter to international developments, and should only be done after proper consideration. In the absence of any argumentation, the reality is probably that the impending emasculation of HEFCE's funding role led the Committee to look for other things for it to do.

41. More generally, the move to a market system is presented as increasing institutional autonomy, and the Committee is clear this would be a change for the better. With respect to the setting of fees for home and EU undergraduate students, and the lifting of restrictions on the numbers of students recruited, institutions would gain significant freedoms. However, there are a number of other proposals which will increase the sphere of control of government.

42. The proposal to bring the QAA under the HE Council, is likely to bring issues concerning standards closer to government control – something that was proposed by the Universities and Science Select Committee in 2009, but which has generated much opposition within the sector.

43. Also proposed is that government should decide, in any given year, the minimum number of tariff points for students to be entitled to loans and grants, and therefore effectively to play a decisive role in deciding on admissions to university; that institutions that do not meet their targets for access and completion will have to agree with the HE Council a minimum level of spend to address the concerns; and – even more radical and intrusive – that the HE Council should decide the minimum number of laboratory hours for applied science courses. It will – no doubt – adjudicate exactly what constitutes a 'laboratory'.

44. So although it is true that under these proposals universities will have some greater freedoms, they will also be subject to new and intrusive government controls. And the greater freedom will, in reality, be exercised by only a minority – those able to command higher fees while at the same time recruiting more students – while the increased constraints will be more general in their effects.