

"Higher Education: Students at the Heart of the System" – an Analysis of the Higher Education White Paper ¹

John Thompson and Bahram Bekhradnia

1. The higher education White Paper, published by the Government on 28 June, followed the Browne report and the Government's statements about its policies on higher education in the light of that report. These were all underpinned by a philosophy of relying increasingly on competition between institutions, increased choice for students and greater diversity of institutions, which would determine the level of fees and lead to greater social equity and mobility.

2. The Government's plans were based on financial assumptions that included an average fee net of fee waivers (and therefore loans provided by the Government) of £7500 per year with funded student numbers remaining constant. The Government warned repeatedly that it would take whatever steps it needed in order to ensure that its budget was not breached, and among the steps mentioned were reductions in student numbers, reductions in the residual HEFCE grant, and steps directly aimed at holding down the fees charged by universities. The Government has had seriously to compromise its aspiration to create a higher education system based on competition and student choice, and the White Paper focuses very largely on direct Government measures to restrain the financial consequences of its proposals.

Financing reforms

3. The major change proposed by Browne and accepted by the Government was that the Government should no longer fund universities directly – except to a very limited extent – but that universities should instead be funded primarily through fees paid by students, with the Government providing loans to students in order to enable them to pay these fees. That aspiration remains largely intact. However, in contrast to the policy proposed by Browne, the Government capped the fee at £9000.

4. Whereas the Government insisted that the £9000 fee would be exceptional, and in their planning the average fee was assumed to be £7500, universities announced fees very much higher than this. In its earlier reports HEPI predicted that this would be the case since there were good reasons for universities to charge fees towards the top of the scale and very few incentives for them not to. If universities had been allowed to do as they planned (and, based on the Government's initial announcements they were entitled to assume they would) then the Government's budget would have been breached. It is therefore not surprising that the Government has taken steps to ensure that the level of

¹ To save space this summary report does not include references, which are available in the full report on the HEPI website – www.hepi.ac.uk/publications

fees is moderated. The most significant measures in the White Paper are directed at ensuring that fee levels are brought down.

5. Whereas the Government's early rhetoric and clear ideological preference was to rely on market forces and students exercising choice to create a degree of competition that would hold down fees, these aspirations have had to be emasculated in favour of a more direct control over the level of fees that are charged. They have created a mechanism (described in detail below) whereby universities with fees of over £6000 will have their student number allocations reduced each year. These confiscated student numbers will be used to create a 'pool' from which additional numbers will be allocated to eligible institutions. To make up these reductions universities will be free to recruit any number of 'high achieving' students, and, if they reduce their net fees to £7500 or less, they will be eligible to bid for an increased allocation of places from the 'pool'. Initially the 'high achieving' threshold will be set at AAB grades at A-level or their equivalent. Universities unable to recruit sufficient 'high achieving' students will very quickly find that they are financially unviable unless they reduce their fees to £7500 and make themselves eligible to bid for an allocation from the pool. This is an effective means for reducing the cost of loans, but the price is a heavy one in terms of the sacrifice of an approach based on the market, choice and competition in favour of state control over fees and student numbers.

6. The consequence will be an apparently bi-polar sector in which some universities (those with almost all of their students in the 'high achieving' category) will charge headline fees of £9000, or close to that. (Their net income will be less because in addition to the expenditure that they will be required to incur to meet the OFFA requirement, these universities will feel obliged to offer generous financial incentives to AAB+ students.)

7. On the other hand there will be a large number that will charge £7500 in order to be eligible to bid for those students that they lose through the core reduction mechanism. It is possible that this latter group will include some Russell and 94 Group universities whose AAB+ student numbers are not sufficient to offset the core reductions. The reality of this bi-polar system may be concealed to some extent. Some of the latter group will announce fees above £7500, while offering large fee waivers in order to reduce their net fee to £7500 (highly likely because it is a cost effective way of meeting OFFA obligations and because of the prestige associated with high fees), while most of the former group will not actually be very much better off than the lower fee group because their fees net of scholarships, bursaries and fee waivers will be much less than £9000.

8. Funding received at present varies according to subject and the spending required by OFFA, but on average, the headline fee before waivers required to restore recurrent funding for tuition to 2009-10 levels will range from £5930 to £8020

9. Even in the worst case it would be possible to set a headline fee of £8020 and waive fees at an average of £520 per head, so conforming to the £7500 limit. So although it needs to be borne in mind that there will be significant cuts in capital grant as well – not reflected in these calculations – even with fees reduced universities can be better off² in recurrent terms,. The losers will be students, or graduates, who will have debts about twice their present levels to repay throughout their working lives, and possibly future taxpayers if, as is likely, the Government has underestimated the long-run costs of the new arrangements (see below).

10. So the Government is likely to achieve its aim of reducing the average net fee to something closer to the £7500 it assumed in its budget calculations. The other element in the Government's calculations that impacts on the cost of loans relates to assumptions about the extent and rate of repayment of these loans. Long-term, the White Paper says that the Government expects the taxpayer subsidy for loans – the RAB cost – to amount to 30% of the value of the loans. That remains as optimistic now as it did when we did our calculations in response to the Government's earlier statements. The Government's own calculation, revealed in the impact assessment published alongside the White Paper, is that the RAB cost will be 32% – a difference that using their own estimates would amount to £190 million pa in real terms. And the supporting analysis, also published with the White Paper, refers to a report by London Economics, contracted by the Government to advise about the returns to higher education, that estimated a RAB cost of 37 per cent. If so that will add a further £490 million pa to the long-run cost of the new arrangements.

11. The reality is that the RAB cost could be even higher for reasons set out in the main report, principally because the estimate for future earnings seem unrealistic. This is justified by the historic average graduate premia, ignoring the fact that this average increasingly depends on the small number of very high earners pulling it up. If the RAB costs are higher than estimated the consequence may not be felt for many years, but will have the effect of requiring future taxpayers to pay higher taxes to compensate for revenues that have been assumed but will not arise.

An end to the burden of quotas?

12. The case for 'liberating student number controls' lies at the heart of the White Paper. Quotas for student places are said to protect universities from competition and limit student choice, leaving little incentive for universities to focus on teaching. Further, quotas, by specifying exactly how many students should be recruited, generate a burden on institutions and prevent sponsorship from employers.

² 'Can be' if they are careful with the pledges they make in their Access Agreements. Many are providing much more in student support than is required by OFFA.

13. Strict quotas such as described in the White Paper were only reintroduced in 2010–11, but looser controls over numbers have existed for many years. Controls over student recruitment are needed in a higher education system supported by public funds (as when loans are subsidised by the Government), since each additional student results in extra public expenditure. If demand exceeds supply, either the number of places needs to be controlled, or the supply increased - financed through additional funding or a reduction in the funding per place or through a combination of both. The Government does not intend to increase the supply of places, though it hopes to avoid having to make cuts through its measures to reduce fee levels.

Controlling student numbers with the new arrangements

14. The Government's planned expenditure allows for no increase in student numbers and the Government's own analysis suggest that there will continue to be unmet demand, a conclusion that mirrors HEPI's conclusion in its most recent report on demand for HE. The only potential for a growth in places is through an increase in the number of places sponsored by private sources, and indeed unless the Government succeeds in reducing unit costs it has warned that it may have to reduce the number of places in order to stay within its budget. No estimate of the number of privately sponsored places is given and it seems unlikely that these will be anything like sufficient to meet the estimates of unmet demand.

15. This combination of significant unit costs and probable excess demand suggests that student number controls will become more important, and that these will need to be extended to part-time undergraduate provision. Numbers must therefore be controlled at the sector level, but at the same time the Government wishes to relax the controls over institutions' recruitment. And it also needs to create a mechanism for reducing costs to match its assumptions (and therefore budget). This is the context for the White Paper proposals for a new system with two features: the 'high achieving', initially 'AAB+', threshold and the 'core and margin' model³.

AAB+ threshold

16. A threshold for the designation of 'high achieving' students is defined by the Government. (We will refer to these qualifications and the students with these qualifications as 'AAB+'. Qualifications below this will be referred to as 'non-AAB+'.)

17. Institutions will be able to recruit AAB+ students without limit, so long as they are not studying to be doctors or dentists who are to continue to be subject to separate controls.

³ NB some of the details of these controls are provided in the HEFCE consultation, not the White Paper itself.

Core and margin

18. Each institution will be assigned a number of home and EU full-time undergraduate entrants, based on its historical numbers. This adjusted historical total will be reduced by the number of AAB+ entrants. Finally a further reduction of about 8 per cent (the 'margin') will be made from the remaining total of each institution whose average fee with waivers is more than £6000, and put into a 'margin pool'. The number remaining is the institution's 'core' and its initial quota for non-AAB+ entrants.

19. HE providers will be able to bid for margin pool places released through the eight per cent reduction, so long as their average fee with waivers would be less than or equal to £7500, were the bid to succeed.

Fewer controls?

20. The impact of these changes differs for different groups of institutions, which will fall into or between one of five situations.

21. The most selective universities – those who students almost all have AAB+ grades – will have only a small residue to which the 8% reductions will apply. These would have no difficulty in maintaining their numbers through AAB+ recruitment - indeed they will be able to increase numbers should they wish. However, they would not be totally free from the effects of controls. If they wanted to recruit more students with discounted or 'contextual' offers, or applicants with qualifications they judged to be of equal standing to AAB+ not on HEFCE's list, they would be limited by a very small non-AAB+ quota. If so, these measures may damage the potential for fair access – they will certainly do nothing to improve it.

22. Others with fewer but still significant numbers of AAB+ entrants and fees over £7500 could in theory reduce their net fees to an average of £7500, but this would not be seen as a viable option since it would signal a lower standing and undermine their core mission. These institutions will be vulnerable to losing some of their AAB+ students to more selective, more prestigious, institutions, and will at the same time be competing with their peers both to hold onto their existing and to recruit additional such students, generally from each other. This is likely to give rise to an arms race of 'merit-based' scholarships exclusively available for AAB+ students – if one university offers them others will be obliged to do so too or risk losing AAB+ students. The upshot may be that while there will not in reality be a large movement of AAB+ students between these universities, they will pay a high price to maintain their share of these. They will also lose 8 per cent of their remaining quota. To maintain their numbers they will have to recruit AAB+ students from other less selective low fee universities. Ultimately, and if these are unsuccessful, they will have to reduce their fees to £7500 in order to win back some of the numbers cut from their quota, or else, over time, they will become unviable.

23. Universities with mainly non-AAB+ entrants and fees over £7500 will be forced to reduce their fees and/or greatly increase fee waivers to bring the average fee down to £7500. Some may delay the decision for a year, but in the medium term there is no credible alternative. The ratchet effect of the annual cuts in their core would otherwise make them unviable. Having reduced their fees these institutions will have the opportunity to bid for 'margin' places, either to make up for the places that have been cut, or to expand. To retain its non-AAB+ quota an institution will have to enter this bidding competition on an annual basis. Institutions with fees already between £6001 and £7500 will be in the same position as those who have reduced their fee to £7500 in so far as they will have their quota reduced, though as they will already have fees of less than £7500 these will not need to lower their fees further in order to bid.

24. Institutions with non-AAB+ entrants and fees of £6000 or less will not have their non-AAB+ quota reduced in the creation of the margin. They will only have to enter the bidding competition if they want to increase their quota. Similarly, new providers (FE colleges or private universities) will also have to bid for places even if they are charging £6000 or less.

An ever reducing core

25. The White Paper is clear that in future years the AAB+ threshold will be lowered and that numbers will continue to be cut from the quota and added to the margin pool each year. It is not clear at what point this reduction in the non-AAB+ quota will stop or what kind of sector will be created. This measure has the potential to create a great deal of disruption and will impact on the viability of some institutions – which may be good institutions in high demand - simply because they misjudge how to 'play' the new game or fail to thrive in the competition to persuade the HEFCE committees to give them margin pool places.

Reduced burden?

26. It seems difficult to reconcile these new arrangements with the Government's aspiration to reduce the burden on institutions. All institutions will still have a quota for some of their recruitment – many will have a quota for the majority. And a large number of institutions (those with fees of more than £6000) will have to go through a bidding process simply to retain their non-AAB+ quota, and they will have to do this year after year. Arguably satisfying a HEFCE committee will be a more arduous – and less predictable – process than having to satisfy the market. And as well as the increased burden these complications have implications for 'fair' access.

27. The Browne report proposal to set a minimum qualification level for entry to higher education has not been accepted because this would mean 'the Government taking on a new regulatory role over university

admissions, which are currently only a matter between the student and the university'. However, establishing a threshold defining high achievement is, in effect, introducing Government regulation to admissions.

More competition?

28. A theme running through the White Paper is that the quality of the academic experience is compromised by a lack of competition. The solution is to replace the 'burdens of bureaucracy' and student number quotas 'determined in Whitehall' with the 'forces of competition'. In this way 'excellent teaching will be placed back at the heart of every student's university experience'.

29. This argument contains elements of truth; it is likely that constraints on competition weaken the drive to improve teaching. However, the analysis in the White Paper is based on a misunderstanding of the nature of competition within higher education, and what constrains that competition. It follows that the prescription put forward to increase competition is, for the most part, likely to be ineffective or even damaging.

30. Quotas are identified as 'protecting universities from competition for students' thereby giving 'little incentive to focus on teaching'. However, this protection does not apply to all universities, and not as much as might be supposed. 'Not all universities' because those with the highest prestige are competing for the best students – in some cases 'the best of the best'. Neither the total supply of places, nor any quotas introduced, will reduce their efforts to maximise what they judge makes them a 'good' university. For the least popular, even when demand overall exceeds supply, and even assuming they have no interest beyond getting 'bums on seats', if a department gets a bad name, the size of the sector is such that it would not be secure. That said, increasing supply would keep all providers 'on their toes' and would put students in a more influential position.

31. What is it that constrains competition? According to the supporting analysis provided by BIS, high entry qualifications and research quality are two important measurable components of what many universities are trying to maximise. This is something of a simplification, but it provides a clue as to how competition is constrained. Both high entry qualification recruitment and success in research exhibit the 'Matthew effect', or positive feedback loops: advantage leads to further advantage. High entry qualifications enhance an institution's reputation, which further attracts entrants with high entry qualifications. Success in research leads to increased research funding, which leads to more success in research.

32. The result is a large degree of stability in the ranking of universities by reputation and prestige. This creates a large number of small markets, with products defined by entry qualification and subjects, so that each institution or department is effectively in competition with a relatively

small number of others. The effect of the proposed system for controlling student numbers will be further to amplify these differences, providing more resources to institutions most advantaged by their current situation, and so reinforcing these differences and further reducing competition.

33. It is this product differentiation that restricts competition, more than bureaucratic controls. Most students will only make one 'purchase' and will not be able to compare different providers directly, and even an improved information system will not entirely compensate for this. So what competition there is will not be anything like as effective in driving excellence in teaching as the White Paper expects.

34. When demand exceeds supply, competition is further constrained, whatever the system. The White Paper confuses 'quotas' – a consequence of excess demand - with the real cause - excess demand itself.

35. The difficulty is that the Government does not intend to increase the supply of places. The system of margin cuts and allocation through a bidding process will not increase the number of places, and is inconsistent with the competition for students that the White Paper describes, though it may result in a more diverse range of higher education providers, in itself a good thing. And the freedom to expand provision for 'highly qualified' students may make more places available at the most sought after universities. But because there will be no expansion overall, every extra place which results in one applicant gaining their preferred choice will result in another place removed elsewhere, and consequently another disappointed applicant.

36. What the system of measures to control student numbers will do is to provide a framework for a 'competition' where a large number of universities will be forced to accept funding cuts and then compete for places that have been taken from them, not on the basis of students deciding between price and their perceived value of providers, but on their ability to persuade HEFCE panels of the merits of their bid. The fact that, for the most part, it is possible to determine in advance many of the institutions that will be forced into this competition suggests that even though new higher education providers will be enabled and encouraged to bid for places, 'competition' will not in reality be more open.

Well informed students?

37. In Chapter Two of the White Paper it is argued that better informed students will drive teaching excellence by taking 'their custom to the places offering good value for money'. This is classic market orthodoxy, but as student choice will not operate in the way this assertion implies, this is largely irrelevant. Nevertheless, the more students know about what to expect, the better prepared they ought to be: the provision of

reliable, relevant and comprehensive information is important for prospective students and for all those with an interest in higher education.

38. There is in fact a great deal of information available at present, and although not recognised in the White paper itself, the situation is summed up in the BIS supporting analysis:

“There is a large amount of information available to prospective students about the value of undertaking HE (such as employment prospects, earnings of previous graduates), the different courses available, the quality of those courses (for example, student satisfaction surveys, success rates), as well as various league tables, reputation and marketing. The amount of information available, the tools to analyse the information and increased provision of independent websites with tools to facilitate sorting and comparing information, is making it easier for students to use and compare courses and HEIs.”

39. So the provision of information is important, but it is difficult to achieve in an accurate and meaningful way. However, despite appearing to recognise the importance of accurate and meaningful information, the Government’s proposals do not match this recognition. The BIS impact assessment says:

“The Government does not have the resources to develop commercial standard information tools (such as consumer price comparison websites) and the current Government supported website, Unistats, has relatively low usage. So our long-term strategy is to ensure that relevant student data is made available to third party providers, so that they can turn the raw data into meaningful information, innovatively presented.”

40. Despite stating that information is ‘fundamental to the new system’ the Government ‘does not have’ (or cannot find) the resources to develop information tools. According to the BIS impact assessment the Government plans to spend £150,000 pa on information provision. To put that in context it is expected that the Student Loan Company and HMRC running costs will increase by £10 million pa with the introduction of the new fee and repayment schemes. Given the importance the Government attaches to information for the proper working of the new system, and given the new role that it sees for HEFCE as ‘consumer champion for students’, this is something about which it is to be hoped that it will think again.

41. Third parties should continue to be given access to data and this service can be extended where possible, but this is quite different from seeing the provision of data to private providers as the main strategy for giving students the information tools that they need.

42. BIS does not explain the business model it expects these private providers to adopt, and we must assume that in most cases their income will be from advertising revenue. It may be possible to separate these advertisements from content, but there can be no certainty of this. Further, in order to maximise income from advertisements there will be a strong incentive to increase the number of hits, so creating a preference for the 'interesting' or even the 'sensational' over the 'informative'. The US based ratemyprofessors website has 10 million student comments and, no doubt, a huge hit list. Promoted as a fun way to choose the best courses and professors, it includes ratings of a professor's appearance as 'hot' or 'not', and ratings of 'easiness' - useful for finding a module which will not involve hard work. This is not to say that every private provider would emulate ratemyprofessors, but it does show how high usage can be achieved. It also indicates why it is unwise of the Government to duck its responsibility in the key matter of information provision.

Improved social mobility

43. Social mobility is likely to be an unintended victim of the White Paper's proposals, and the new methods of allocating resources and controlling student numbers look likely to reinforce relative disadvantage rather than remove it.

Widening participation

44. The increased grants, maintenance loans, bursaries and scholarships available to students from low income backgrounds should improve their experience of university, reduce their need to take paid work for excessive hours (which has been shown to reduce their chances of success), and increase their chances of qualifying with a good degree, all making participation in higher education a more attractive proposition. On the other hand, and crucially, we do not know whether, or to what extent, the headline figures of increased debt will reduce participation in general, and by those from low income backgrounds in particular.

45. If we assume that the changes do not reduce demand for higher education to any significant extent, progress in widening participation will depend on the number of places available. The planned Government expenditure only allows for student numbers to be maintained, so progress in widening participation will be slowed by a lack of places.

46. While the improvements in student support are to be welcomed, the effects of the core and margin system will very likely be to create places which are less attractive to students (while FE colleges have some strengths, there is no reason to believe that they are likely to be more in demand than universities, which will have fewer places available). If this is the case it will affect students from disadvantaged backgrounds disproportionately, because they are less likely to have the qualifications

to gain access to the reduced number of university places. These will be obliged to accept a place at an FE college, or if they are unwilling to do so, to miss out on higher education completely.

47. The 'core and margin' system will also reduce the funds available to those very universities that have been responsible for the recent advances in widening participation, at least relative to other universities, despite the fact that their teaching costs are higher.

Fair access and the AAB+ threshold

48. Those from relatively disadvantaged backgrounds have a lower representation in the AAB+ group. The introduction of the AAB+ threshold was designed to increase competition for these students, and as their non-AAB+ quotas are cut, institutions will have to recruit more AAB+ students if they are to maintain their numbers. Consequently they will need to cut their non-AAB+ students, even if at present they might be inclined to admit such students on the basis of their potential. This would further concentrate AAB+ students in high prestige institutions and, as a consequence, reinforce the social segregation between groups of institutions, as well as reducing the number of disadvantaged students at the most selective universities. This risk was identified in the BIS impact assessment but not in the equality impact assessment.

Aimhigher

49. In November 2010 the Minister for Universities and Skills announced that the funding for Aimhigher - the Government-funded programme of activities to widen participation in HE - would be discontinued. At the time the funding for Aimhigher was £78 million pa and the Government emphasised that it would spend £150 million on the National Scholarship Programme instead. This, together with the outreach work that OFFA would oblige universities to conduct, was presented as a better alternative.

50. It is not clear that the decision to discontinue Aimhigher and use the money saved on a National Scholarship programme is necessarily well founded. An evaluation of Aimhigher (not referred to in the decision to discontinue it) found that it had contributed, albeit modestly, to improved participation by disadvantaged groups; and the only solid research on the effects of scholarships and bursaries - by OFFA - casts doubt on increasing payments to students as a way of increasing participation. There is no basis for the Government's conclusion that the new arrangements will be a better way of widening participation than the old. Indeed, as they mean that students themselves, through their fees, will fund outreach activity instead of the Government, as well as the bursaries that universities provide, they will seem to many to be regressive.

The Office for fair Access (OFFA)

51. OFFA was created by the last Government to address fears that raising fees to £3000 would deter students, and was charged by the present Government to use Access Agreements as a mechanism to limit the fees that institutions charged. However, it is not surprising that all English HEIs have successfully negotiated Access Agreements, and that the average fee for 2015-16 is well above the Government's plans. These agreements have two main parts. Firstly, a commitment to spend in three areas: student support, outreach and activities to improve student retention. Secondly, to set targets for improving 'fair' access.

52. In 2010 OFFA published research that concluded that the bursaries provided hitherto had not influenced disadvantaged young people's choice of institution. So it is surprising that OFFA has put so much emphasis on financial support, which accounts for 69 per cent of spending pledges for 2015-16. Fees of £9000 are of course different from fees of £3000, and may impact participation, but it would be more efficient, effective and just to channel money for student support through the established national system of loans and grants which ensure that support is provided according to need. A similar approach was argued in HEPI's report on a national bursary scheme in 2008, and that is reinforced by the OFFA research. That conclusion is supported too by the inequitable results of Access Agreements, which lead to students with similar needs receiving different levels of support. Moreover, one effect of the new arrangements is that the ultimate source of funds for institutional bursaries is the repayments that students themselves will make when working.

53. Without Access Agreements universities would spend less on student support. So the main achievement of an increasingly elaborate system will be to provide student support in an inefficient and inequitable way.

What will be the consequences?

54. These proposals largely address the financial consequences of proposed fees higher than anticipated by the Government. However, their logic is to create two sets of institutions - a new binary divide. One set will charge up to £9000, the other up to a lower limit - currently £7500. The size of these groups will depend on the speed of the changes, but as long as the lower limit is not reduced even the latter group will generally be no worse off. There may be some increase in provision in FE and private institutions, but that is unlikely on a large scale unless the lower limit is significantly reduced. The Government and HEFCE will play a much greater role than at present in determining the universities that students may attend and the fees they pay, and in general the choices available to students will be no greater and the burden on institutions no less than now. And the cost - in terms of disruption and uncertainty for institutions and financial cost to students and taxpayers - is likely to be considerable.