hepi Policy Briefing

Higher Education Policy Institute

Developments in higher education policy and practice • April 2014

This briefing for HEPI University Partners provides a review of the most recent developments in the sector including the HE funding allocations for 2014/15; the impact of the March 2014 Budget; the latest set of statistics for university applications; and the ongoing scrutiny of the costs of the Government's HE reforms.

Higher education funding 2014/15

The Secretary of State's annual grant letter, published in February 2014, sets out the total HEFCE grant for the financial year 2014/15, the third year of the new fees regime, as £4.091 billion. The letter was delayed after a budget row between the Treasury and the Department for Business, Innovation and Skills (BIS). The department had been under pressure to find savings after an overspend caused in part by its failure to control spending at private providers, but the cuts that were made were smaller than had been expected.

The letter indicated that tuition fee loans – through BIS – amount to an estimated £7 billion, bringing the combined total funding to higher education institutions to £11.1 billion in 2014/15. This represents a £500 million (4.7 per cent) cash increase in funding compared with 2013/14. The indicative figures suggest that there will be a further increase in total funding to institutions of £1.1 billion (9.9 per cent) in 2015/16 compared with 2014/15.

The balance of recurrent funding between direct grant to institutions and funding through students in the form of an increased graduate contribution has shifted further in 2014/15. In 2011/12 the HEFCE teaching grant accounted for 64 per cent of teaching funding but this reduced to 30 per cent in 2013/14 and will fall to close to 20 per cent in 2014/15. The recurrent teaching grant has fallen from £2.861 billion in 2013/14 to £1.915 billion in 2014/15, a reduction of £45 million compared with the indicative figure announced last year. Total HEFCE funding is down from £5.014 billion to £4.091 billion this year.

Capital funding for teaching and research has increased from £330 million in 2013/14 to £440 million in 2014/15 and to £660 million in 2015/16. Teaching capital increases from £154 million to £300 million, including a £200 million investment in STEM capital 'to ensure cutting edge teaching facilities'. Recurrent research funding is protected to 2015/16.

The Secretary of State's letter notes that in the 'context of stretched public finances it has been necessary to make reductions to [HEFCE's] indicative recurrent teaching budget for 2014/15. Further recurrent savings will be required in 2015/16. In making these reductions HEFCE is asked to protect as far as possible high cost subjects (including STEM), widening participation and small and specialist institutions'.

The Government is to provide up to 30,000 additional full-time student places in 2014/15 for HEFCE-funded institutions and remove student number controls altogether in 2015/16. In 2014 the Government's 'high-grades' policy, which exempts students who achieve ABB grades and above at A-level (or equivalent qualifications) from student number controls, will be retained, but with greater flexibility for over-recruitment. There will also be provision for the redistribution of numbers where institutions fail to recruit their allocated numbers. In preparation for the removal of student number controls in 2015/16, BIS asked the funding council to continue its work to develop mechanisms that 'protect and assure the quality of the student experience even when the size of the student population changes rapidly'.

The letter also notes that the Government is committed to a long-term and fully rounded approach to funding all forms of knowledge exchange with all forms of partner through the Higher Education Innovation Fund (HEIF), for which £113 million a year has been allocated. HEFCE is asked to consider the issues raised in Sir Andrew Witty's

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review of Universities and Growth and also to give additional reward to institutions for measurable performance with small and medium enterprises (SMEs).

In its announcement of the funding allocations for the academic year 2014/15, in March 2014, HEFCE said that it will provide £3,883 million in funding to universities. Although the total HEFCE grant allocation is £923 million (18.4 per cent) less than last year, there is a cash increase in funding per student as a result of the higher tuition fee loans introduced in 2012. The HEFCE settlement is based on a distribution between the following key areas:

- £1,582 million for recurrent teaching grant
- £1,558 million for recurrent research grant
- £160 million for knowledge exchange
- £440 million for capital
- £143 million non-recurrent grant for national facilities and initiatives.

The process of phasing out of teaching grant for old regime (pre-2012) students and the phasing in of funding for new regime students in high cost subjects continues. For students who entered from 2012 HEFCE funding is increasingly being focused on areas where the costs incurred by institutions cannot be met entirely by tuition fees or where there is a public interest in supporting vulnerable provision. This includes a wider range of high cost subjects; strategically important and vulnerable subjects (SIVS); supporting widening participation and student retention; and small and specialist institutions.

Funding for research and knowledge exchange has been maintained in cash terms in 2014/15. There have been no changes in the allocation method for research following the decision in 2012 to exclude activity rated 2* in the 2008 research assessment exercise, with only internationally excellent research (4* and 3*) being funded. The allocations for knowledge exchange (provided through the Higher Education Innovation Fund) are the same cash figures as for last year. Capital funding is mostly allocated by formula.

HEFCE has also informed institutions of their student number limits for 2014/15 and these reflect changes to the Government's policy of managed competition for places which was introduced in 2012. The 30,000 additional places available for HEFCE-funded providers from 2014/15 have been allocated to institutions which recruited strongly in 2013/14, with allocations for those that significantly under-recruited being reduced. The funding council has also increased from 3 per cent to 6 per cent the flexibility margin for institutions which recruit above their allocation without being penalised. The recruitment of students with ABB grade at A level or higher (and equivalent qualifications) remains outside HEFCE's number controls and there is no restriction on how many of these exempt students an institution may recruit. Only the recruitment of non-ABB students is subject to number controls.

BIS has asked HEFCE to continue to recoup unanticipated student support costs from institutions that recruit above the top of their 6 per cent flexibility range. HEFCE grant reductions will be applied for up to three years to reflect the fact that over-recruitment will have an impact not just in the first year but in future years as students continue their studies.

Commentary

HEFCE funds will fall significantly again in 2014/15 as a third cohort of old regime students partly funded by teaching grant graduates and they are replaced by more new regime students funded by £9,000 fees. But the reductions in 2014/15 and for the following year are beyond those accounted for by the switch to publicly funded tuition fees. In the grant letter, BIS announced a net reduction in recurrent teaching grant of £45 million for the financial year 2014/15, but within the lower total BIS incorporated a requirement to support an increase of up to 30,000 additional numbers and absorb the Access to Learning Fund. As a result of these additional commitments, the underlying reduction to the 2014/15 teaching grant is considerably more than the net reduction of £45 million.

HEFCE's ability to make savings is limited by the continued ring-fence for research and knowledge exchange funding although cuts of £13 million have been made to funding for national facilities. Taking into account the BIS requirement to protect as far as possible high cost subjects, widening participation and small and specialist institutions, HEFCE has applied a reduction of 5.85 per cent to most teaching grant budgets. If the fact that there is no inflation proofing of tuition fees is taken into account, the reduction is significantly higher, with Million+ calculating a 9 per cent real terms decline by 2015.

As in 2013 there are wide variations in the funding outcomes for institutions. Universities with more longer courses (and therefore more old regime students), larger numbers in high cost courses and strong research performance may have seen below average reductions in their HEFCE grant for 2014/15. On the other hand, institutions without those characteristics, including a number of large post-92 universities, have seen large falls in grant, with a few losing more than 60 per cent of their HEFCE funding compared with last year.

This year's funding allocations will also have been affected by changes in the allocation of student numbers based on recruitment performance in 2013/14. Competition for places arising from the reduction of the A level grade threshold at which universities can recruit unlimited numbers of students intensified following the removal of controls from ABB students last year. As a result 115,000 places were removed from student number controls which led to more unpredictable results for many institutions. This is reflected in the outcome of this year's allocation which takes account of under-recruitment last year. Three pre-1992 universities have received a cut of more than 4 per cent in their maximum numbers and a number of post-92 universities received reductions in the 2-3 per cent range. As a result of these cuts some of the most selective universities which recruited strongly in 2013 have been allocated more non-ABB places potentially allowing them to make more offers to disadvantaged students, perhaps using contextual data.

When number controls were loosened in Australia, prior to their removal in 2012, enrolments surpassed their predicted level. The new Australian Government has been reviewing the sustainability of the system. Over the next year or two, it will be instructive to see whether enrolments in England stay closer to the forecasts.

Budget 2014

In his Budget speech on 19 March 2014 the Chancellor of the Exchequer reiterated a theme of his earlier Budget speeches when he referred to the central role of research and development in the economy: 'if Britain isn't leading the world in science and technology and engineering, then we are condemning our country to fall behind'. He linked this to the establishment of 'new centres for doctoral training, for cell therapy and for graphene – a great British discovery that we should break the habit of a lifetime with and commercially develop in Britain'. A great British discovery in receipt of substantial public funding that, coincidentally, was found close to the Chancellor's constituency.

In addition to an extra £106 million over five years to support the creation of around 20 additional EPSRC Centres for Doctoral Training, the Chancellor announced an extra £42 million over five years to establish the Alan Turing Institute, a national research centre based in a university that would focus on big data and algorithm science, named after the wartime code-breaker and pioneer of computer science. An extra £74 million over five years is to be invested in the TSB Catapult Centres network to support the commercialisation of cell therapies and graphene technologies. Some £55 million out of the £74 million will be invested in the cell therapy catapult. In total an additional £222 million was allocated for research.

The Government also made a commitment to investigate options to enhance postgraduate participation, but there is no specific spending commitment at this stage. It acknowledged that the changing nature of the labour market is demanding higher skilled workers but recognised that there were potential barriers in the postgraduate system that may be restricting the supply of these higher skills. The Government will put forward its ideas prior to the next general election, in the Autumn Statement 2014.

It will also support further study by providing £20 million over two years from 2014/15 to support apprenticeships up to postgraduate level. This investment will be provided to part-fund the training of degree level or postgraduate apprentices. The rest of the cost of the training will be met by employers. Vince Cable was reported as saying, 'we want it to be the new norm that young people either choose to go to university or begin an apprenticeship'.

The budget also contains measures to support the important role that higher education plays in economic development and to strengthen the UK's strategic partnerships with emerging markets. From 2015/16, the Government plans to triple the number of Chevening Scholarships, which provide funding for some 600 full-time places on postgraduate level courses for students from overseas. The Government is also expanding the 'Education is GREAT' campaign which aims to attract more international students by offering information and advice on studying in the UK.

The Chancellor announced several measures in support of business investment including a doubling of the annual investment allowance from £250,000 to £500,000 and an extension of the scheme until the end of 2015. These measures could have a positive effect on universities, as they are likely to encourage businesses (and particularly SMEs) to invest more in capital and R&D, potentially opening up more opportunities for university-business collaboration.

Commentary

In addition to the specific measures referred to here, the Chancellor's Budget statement included early indications of the approach the Government would take to controlling spending during the next Parliament, if it were re-elected. It plans to revise its Charter for Budget Responsibility in time for the 2014 Autumn Statement. This can be expected to give some indication at a high level of its intended overall approach to public finances in the next Parliament.

The Budget confirmed the assumption that public expenditure will continue to fall in 2016/17 and 2017/18 at the same rate as over this Parliament. In his speech, the Chancellor emphasised that the reductions to departmental spend, announced in the 2013 Autumn Statement, will be permanent and this includes a 1.1 per cent reduction to the departmental expenditure limit for the Department for Business, Innovation and Skills. The higher education budget is likely to come under further pressure from a £2.5 billion drop in forecast student loan repayments between 2013 and 2018, according to the forecast from the Office for Budget Responsibility issued at the same time as the Budget.

The Government will develop plans for efficiency savings from 2016/17 and across the next Parliament in time for the 2014 Autumn Statement. These will be set out in a new efficiency programme led by the Cabinet Office. The scope of this programme has not been announced and it is not known if higher education will be included. However, this announcement gives a clear indication that the Government is looking to make further commitments on efficiency for the next Parliament ahead of the general election. The further work on efficiency planned by the higher education sector, as discussed on page 8, is therefore timely.

The Budget contained a number of positive announcements for higher education particularly relating to the increase in funding for science. The commitment to reviewing the best way of increasing participation in postgraduate studies is welcome at a time when major international competitors are investing heavily in higher education.

The costs of higher education reform

The costs of the Government's reforms of the financing of higher education remain in contention and are the subject of a current enquiry by the House of Commons Business, Innovation and Skills Select Committee. HEPI has made a further intervention in the debate, publishing *The cost of the Government's reforms of the financing of higher education – an update* (2013) which formed part of its recent evidence to the select committee. The report updates a HEPI report published in 2012 and also assesses the cost implications of the Government's plan to abolish student number controls from 2015.

Student loans are provided by the Government to pay the fees now charged by universities. The total public cost has the following elements: the number of students, their loan entitlements, the loan take-up rates and the Resource Accounting and Budgeting (RAB) cost – representing the ratio of loan subsidy to the total loans. Since 2011 the Government's estimate of the RAB cost has increased from around 30 per cent to the current figure of 45 per cent. According to London Economics, 'if the estimated RAB charge increases beyond 48.6 per cent, the economic cost of the 2012 higher education reforms will exceed the system that it replaced'. The Public Accounts Committee's report on student loans (2014) concludes that the Department for Business, Innovation and Skills (BIS) 'is not doing enough to secure value for money from its collection arrangements. The department is unable accurately to forecast student loan repayments, and does not have a sufficient understanding of the likely future cost of non-repayment to the taxpayer'.

The two most important reasons for treating the RAB estimates as uncertain and optimistic relate to official assessments of future earnings growth and especially the distribution of income growth. The HEPI report argues that even if average income growth reflects Government assumptions, it seems likely that the spread of earnings will increase. While top earners may see an even bigger growth in earnings over their lifetime, it is unlikely that those in the lower range of earnings will see the growth in earnings over their careers that has been typical, at least for men, for those in 'graduate' jobs in the past. If this group earns less than has been assumed loan repayments will be reduced and the cost to Government will increase.

A rising RAB charge will put pressure on public expenditure and one of the ways to meet any shortfall might be to hold down student numbers. For this reason the announcement in the Autumn Statement 2013 that the Government was going to remove controls on student numbers was unexpected. The cap is to be raised for publicly funded institutions by 30,000 entrants a year in 2014. From 2015 the cap is to be removed, which the Government believes will enable a total extra 60,000 entrants per year to be recruited. This is the number that it believes will meet unmet demand.

The cost of the proposed expansion of student and teaching grants is estimated to be £720 million per annum by 2018/19 and the loan subsidy will increase by £700 million per annum 'in the medium term'. An expansion of 60,000 full-time entrants a year equates to a cost of £7,900 per student year, according to HEPI calculations, showing an intention to expand without reducing the unit of resource. The Government claims that the 'expansion is affordable within a reducing level of public sector net borrowing as a result of the reforms to higher education finance [it] has enacted'. However, the Office for Budget Responsibility (OBR) has concluded that such expenditure 'would reduce the amount available for departments to spend on other things when plans for those years are set out in future spending reviews'.

Increasing student numbers will have an impact on public debt as well as on departmental expenditure. Before repayments on the extra loans start being paid, public debt will increase by about £2 billion a year. The Government says it will sell the pre-2012 income contingent loans book and use the proceeds to finance the additional loans from 2014. However, the sales will reduce the future receipts from loan repayments by £1 billion a year and repayment receipts from the additional entrants in 2014/15, which will have started to come through, will be negligible in comparison. The loss of repayments means that the net proceeds of the loan book sale will only cover the increased debt from expansion until 2019/20.

However, the HEPI report argues that the loan book sale cannot be repeated, at least not as frequently as would be required, because it was based on a loan book accumulated over many years.

Commentary on p5

Commentary

The lifting of the numbers cap has been generally welcomed in principle in so far as it will extend opportunities to benefit from higher education, although there has been some criticism of the policy which reflects broader scepticism about the likely value of further expansion. There are still some who argue that 'more means worse'. Some institutions believe that quality higher education should be prioritised over quantity, especially in times of limited funding, and they are concerned that cuts to research funding may be the price for increased participation, putting our world-class research base at risk.

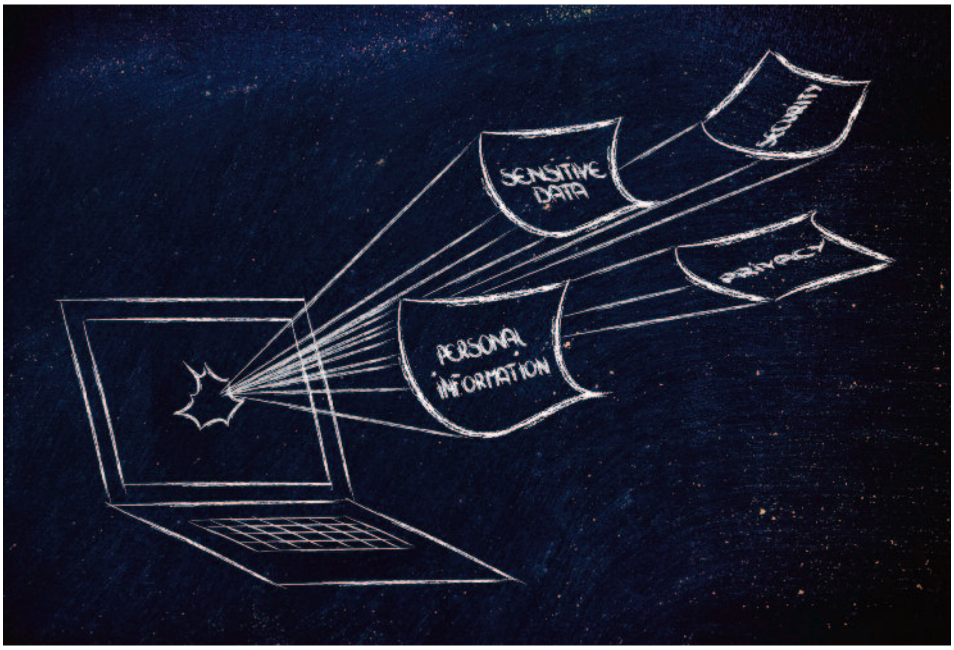
The planned expansion will bring increased risks as well as new opportunities for individual institutions, including from private providers from 2015/16 when they will be freed in a similar manner as for HEFCE-funded provision. However, it is not yet clear how big an expansion is likely – or who pays if the Government has under-estimated the number of additional students.

The main criticism of the expansion plan has focused on the sustainability of the announcement and the implications for other parts of the higher education budget or for any future revisions to the student support system if the Government's assumptions are not realised. It is not clear what will happen if it is unable to sell the loan book at a price that represents good value or, as the HEPI report discusses, how the cost of increasing debt is to be met in the longer term. It is difficult to avoid the conclusion that providing higher education for everyone who wants it will require substantial long-term contributions from public funding and will present challenges for any future government that is unwilling or unable to continue to fund a larger system.

For these reasons it seems unlikely that the Treasury would agree to the open-ended financial commitment implied by a complete lifting of the student number limits. If the numbers assumed in the Budget are exceeded it may be necessary to restore number controls or establish some other mechanism such as setting minimum entry requirements, although this will raise difficult questions about university autonomy and widening access to higher education.

www.hepi.ac.uk/2013/12/17/the-cost-of-the-governments-reforms-of-the-financing-of-higher-education-an-update/

Cyber security in higher education



A report on *Cyber security and universities: managing the risk* (November 2013), published by Universities UK, discusses the increasing threats to universities' digital information and considers how these threats may be effectively managed in order to minimise the risk of unauthorised remote access. The report argues that universities face a variety of cyber security threats ranging from the disruption of university networks to more targeted attacks. The latter may include obtaining personal data for identity fraud or the theft of sensitive corporate or research data.

Cyber security vulnerabilities are caused by a combination of human and technical dimensions of a system. Technical elements may include software vulnerabilities that allow unauthorised access through a particular program. Security failures may also relate to user vulnerability or unauthorised physical access through laptops and other unsecured media.

The National Cyber Security Strategy (2011), issued by the UK Government, underlines the central role that online networks play in facilitating many aspects of economic and personal life and the commensurate need to maintain confidence in the security of these systems. The strategy is a response to the growing range of criminal threats alongside the attempts by foreign states to gain economic, military and political advantage through the theft of information online. It identifies universities as a major national asset which underlines the need to address the security challenge.

The report argues that the technical expertise necessary to implement appropriate and proportionate targeted controls is already largely available to UK universities. It suggests that institutions develop effective cyber security arrangements based on three main steps:

- assessing institutional risks by identifying valuable information, assessing their vulnerabilities and establishing management priorities;
- establishing effective oversight and reporting of information between the institution's governing body and the users of information assets; and
- implementing network controls targeted on the basis of risks.

Establishing ownership of cyber risks at governing body level and identifying valuable information is an essential first step in striking an informed balance between protecting information and other data management priorities. The report argues that responsibility for effective cyber security extends across the whole institution and recommends that institutions consider devolved models of risk management that link to research data management policy and practice. Measures should establish proportionate controls that focus protections on high risk information, while supporting the research, teaching practices and cultures that are central to the long term success of the institution.

www.universitiesuk.ac.uk/highereducation/Pages/Universitiesandcybersecurityreport.aspx#.Ux8hqfl_uSo

A level playing field?

The White Paper *Students at the heart of the system* (2011) confirmed that universities were at the forefront of the Coalition's plans to open publicly-financed services to new providers. It aimed to empower students by improving student choice and one of the ways of achieving this was to create a more diverse sector in which all higher education providers could compete on a level playing field. In the Government's original plans the creation of a more diverse system was based on creating a new legal framework, but it has now decided not to legislate because of political tensions within the Coalition about the new fees regime.

In the absence of legislation, it has decided to amend existing mechanisms to regulate the new system of student-based funding and alternative providers. An operating framework has been cobbled together with a new category of 'designated provider' whose students may access public loans and other public support – though not HEFCE funding. This now applies a similar set of requirements on alternative providers to those that have been in place for HEFCE-funded providers on quality assurance; financial sustainability; management and governance; and course eligibility.

Despite the creation of a common framework, the absence of legislation raises the question of how much progress has been made in creating a level playing field, an issue that a HEPI report on *Unfinished business?: Higher education legislation* (2014) addresses. It argues that despite the absence of a new legal framework, the Government's desire to foster a more diverse sector has made some progress:

- students at alternative providers are now allowed a fee loan of up to £6,000 – almost double the previous figure of £3,375;
- the minimum number of students required for securing university title has been reduced from 4,000 to 1,000;
- the creation of a new route for obtaining university title via Companies House;
- inclusion of alternative providers in the competition for students from 2015, bringing 'forward the market based higher education system, as it removes a major barrier against competition'.

Despite the progress that has been made, the report confirms that many differences – including eight 'pinch points' – remain between HEFCE institutions and alternative providers. A major difference relates to students' access to fee loans which were set at a maximum of £6,000 a year at alternative providers compared with £9,000 for HEFCE-funded institutions. Since the fee loan was increased from £3,375, the total of students at alternative providers claiming student support has increased five-fold from under 6,000 in 2010 to 30,000 in 2012.

Although alternative providers may charge whatever fee they like and are beyond OFFA's jurisdiction, many have opted to keep their fees within the available £6,000 fee loan. However, others price their courses higher and expect their students to make up any gap between the £6,000 fee loan and the actual fee. The HEPI report considers whether alternative providers should continue to have more freedom on fees than other institutions or whether this freedom should be extended to all. Alternatively it asks whether a fee cap should apply to alternative providers.

Another important difference relates to the renewal of degree-awarding powers. Publicly-financed institutions with degree-awarding powers have been given them in perpetuity. Since 2004, there has also been a process by which other organisations can secure degree-awarding powers for a period of six years on a renewable basis. In 2011 the Government proposed that all new degree-awarding powers would be renewable in the first instance but with the possibility of them becoming indefinite afterwards. There was to be a new power to remove degree-awarding powers on quality grounds from any provider, including those previously awarded them in perpetuity. However, in the absence of legislation, alternative providers continue to face more onerous duties in maintaining their degree-awarding powers than other institutions.

The report points to other differences including access to research funding, the rules on employment for international students, liability for Value Added Tax (VAT) and access to student loans for those studying external degrees. Another important difference relates to access to the Office of the Independent Adjudicator (OIA), the student complaints scheme which publicly-funded universities in England and Wales are required to join. Other providers may apply to do so and are admitted if they meet the OIA's due diligence criteria and pay the fees.

Commentary on p7

Commentary

The HEPI analysis provides further evidence that the present arrangements for regulating English universities leave a good deal to be desired. Primary legislation to establish a new regulatory framework will be needed but there is no agreement about the powers of a new regulator, whether it should have funding and regulatory powers and whether it should accredit all higher education providers, publicly funded or not. The terms on which HEFCE funded institutions and alternative providers should compete will also need to be addressed before legislation can be prepared.

The Government's aim of establishing 'a single regime for all providers, regardless of their historic origins' is far from being achieved. Progress in creating a more level playing field has been limited since the introduction of the new fees regime and in its place HEPI suggests that there is an 'unkempt meadow'. The most important areas of progress relate to the convergence of funding rules for undergraduates at HEFCE-funded and other providers and the decision to open the competition for student numbers to all providers.

But fundamental questions remain to be resolved. Greater clarity is needed on how a more diverse sector should develop and the balance between HEFCE funded providers and other institutions. Policy-makers need to take a view on the future growth of private providers and how large a part of the sector they should ultimately represent. Addressing these underlying issues would help policy-makers to decide whether the playing field should be made level - or more level - and if so in what ways. The report argues that a choice needs to be made between the following principal options:

- continue to let a thousand flowers bloom without significant change; or
- deliver the long-promised level playing field with identical rules for all; or
- introduce a new regulatory regime that aims to provide equitable (rather than equal) treatment to different sorts of providers.

Continuing uncertainty about the regulation of higher education is likely to be damaging and provides a compelling reason for political action. As the HEPI report recommends, the main political parties should be pressed on the question of whether they intend to legislate for a new regulatory framework after the next election.

www.hepi.ac.uk/2014/02/20/unfinished-business-higher-education-legislation/

Higher education in England: an OFT call for information

The Office of Fair Trading (OFT) has published (March 2014) the outcome of its call for information on higher education in England, launched in October 2013, with the aim of understanding whether the benefits of increased competition are materialising to the benefit of students, and whether any associated risks are being managed effectively.

The OFT report notes that it had 'received no complaints or evidence' of collaboration on pricing, after it examined the clustering of university fees around the £9,000 maximum and no competition enforcement has been recommended. It also reviewed the UCAS rules that stop undergraduate applicants from applying to both Oxford and Cambridge, and that limit applicants to five choices of university, but has decided to take no further action.

The report concludes that further changes may be needed in order to encourage greater choice, competition and innovation and that 'there is significant scope for clarifying institutions' responsibilities in relation to students and for the sector to ensure their practices are fair. In addition, there may be more scope for the sector to address more proactively common complaints, for instance in relation to any unexpected costs that may be faced by students.

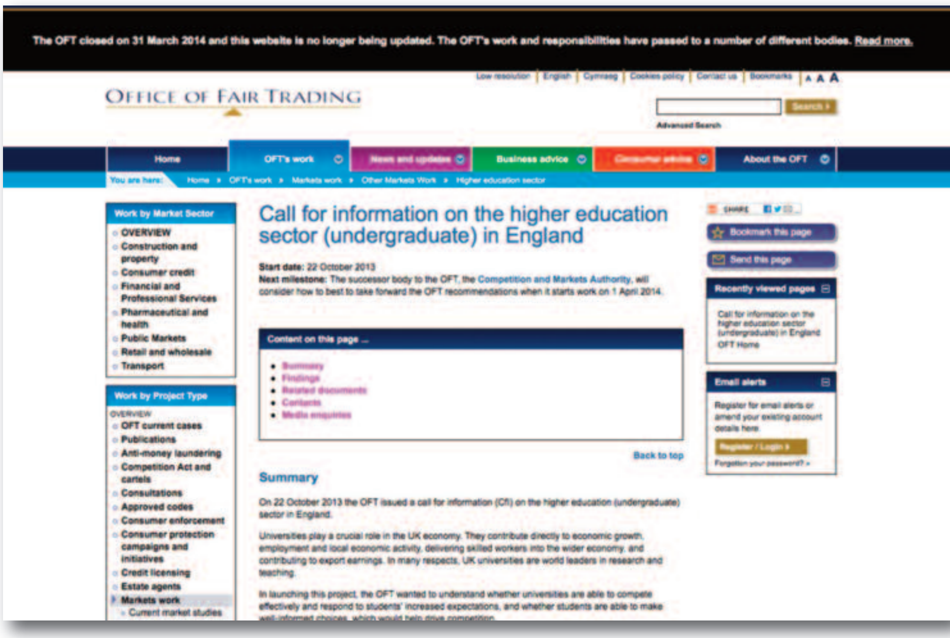
The specific concerns raised by OFT include the following:

- the absence of key information, including the experience of teaching staff or long-term employment prospects, so that students are able to choose the most appropriate course;
- some university practices such as making course changes or increasing fees that could put students at a disadvantage and might breach consumer protection legislation;
- while the complaints process has improved, it could be quicker and more accessible;
- the regulatory regime is overly complex and does not reflect the increased role of student choice and the wider range of institutions.

The OFT also says that there are concerns over 'whether the regulatory system treats all higher education institutions in a fair and equitable manner'. It notes that private providers 'were particularly vociferous in their view that regulation is heavily biased' towards supporting traditional providers, an issue that is discussed on page 6.

On the basis of these findings, the OFT has recommended that its successor body, the Competition and Markets Authority (CMA), should undertake further work to assess the extent to which the practices identified may affect students, clarify the responsibilities of universities under consumer protection law and identify the best way to address these issues.

www.oft.gov.uk/shared_oft/markets-work/OFT1529.pdf



Value for money

The Secretary of State's grant letter to the Higher Education Funding Council for England (HEFCE), February 2014, stressed the importance of institutions demonstrating value for money. It also announced that the Efficiency and Modernisation Task Group, chaired by Professor Sir Ian Diamond, Principal of Aberdeen University, has been asked to take forward further work to examine and promote efficiency in higher education. The task group was originally established by Universities UK in 2010 in recognition of the fact that universities needed to demonstrate good value for money in a changing funding environment. The aim was not to identify how universities could save money in the short-term, but to place efficiency at the heart of universities' long-term plans in order to ensure their future effectiveness.

The task group's initial focus was on identifying improvements in 'back office' functions, including information technology, finance, estates, and procurement. In its first report, published in 2011, the group acknowledged the efficiencies already achieved by universities but said there was substantial scope to do more. It identified how universities could work across the sector more effectively in order to overcome duplication or fragmentation and how this could be brought about through strengthened leadership, both at institutional and sector level. It identified the following areas where action was needed:

- strengthening information on the costs of operational activities;
- more effective use of benchmarking;
- improving the processes for creating shared services;
- increased outsourcing and the development of strategic relationships with the private sector;
- better use of collaborative procurement.

In response to the report, which made 17 recommendations, HEFCE launched a £1 million stimulus fund to support projects that would help to further the task group's efficiency objectives. Nine projects have been funded through this innovation and transformation fund. Funding has been used to develop the benchmarking of costs, launch a website to support the sharing of good practice and create a Higher Education Procurement Academy.

A progress report issued by the task group in 2013 pointed to the fact that the sector had delivered over £1.38 billion in efficiency and cost savings between 2005 and 2011 against spending review targets of £1.23 billion. These savings are largely based on the implementation of the Wakeham Review of 2010, which looked at the efficiency and sustainability of research. The report recognised that with austerity set to continue beyond the next general election, the pressure to make further progress in delivering cost savings would intensify. The recent grant letter confirmed this and commented that 'the sector needs to make greater progress in delivering efficiencies. Students will rightly expect value for the fees they pay'. It asks HEFCE 'to drive further and faster improvements. There are excellent examples of good practice to build on'. It also expresses concern about the substantial upward drift of salaries of some top management: 'We want to see leaders in the sector exercise much greater restraint as part of continuing to hold down increases in pay generally'.

The new phase of work announced in the BIS grant letter will be wide-ranging and cover six main areas:

- space and infrastructure utilisation, and asset sharing;
- the higher education workforce;
- the sector's ability to record, quantify and analyse efficiency gains, and demonstrate the use to which these are being put;
- investment strategy and operational plans of institutions;
- academic practices and processes;
- open data and efficiency.

The Government has asked for the task group's new work to be completed early in 2015. It is not yet clear how this project relates to the recent Budget announcement on efficiency but it indicates the priority that is being given to achieving efficiency savings in Whitehall.

Commentary

The Efficiency and Modernisation Task Group's reports point to the significant efficiency cost savings that the sector has achieved in recent years. A recent analysis estimated that universities have delivered £481 million in efficiency savings in 2011/12 and this has helped them to maintain levels of investment in infrastructure following significant reductions in capital funding from public sources.

The delivery of efficiencies in the last few years reflects the impact of increasing competition between institutions as well as the reinvestment of savings to increase performance. Despite these competitive pressures, the drive for greater efficiency has also meant increased collaboration. There has been significant progress in the sharing of research equipment and collaboration to purchase equipment that would not be affordable by one institution alone.

Apart from the direct impact of the task group's work, efficiency programmes in research funding are due to produce further savings of £420 million by 2015. There are other examples of improved efficiency. Since 2008 there has been pressure on the higher education sector to show pay restraint in line with austerity in the public sector and this has been reflected in recent national pay awards – though not always for senior leaders. Changes to pension benefits and workplace reform have also played a significant role in delivering efficiency savings and controlling costs.

Although universities have already made significant progress in improving efficiency, there is a need to respond to enhanced student expectations and increased political pressures to deliver savings, as is evident from the Secretary of State's recent intervention. It is unlikely that these pressures will ease. The BIS budget will be under further pressure as a result of the need to make further cuts after the general election and of the increasing cost of the loans system. The sector may need to take a more fundamental look at its largest item of expenditure – staff – and the wide variations in staffing levels that exist between institutions, particularly when benchmarked against comparator universities overseas.

University applications 2014

The latest set of statistics on applications to full-time university courses in 2014, the third year of the new fees regime, was published by the Universities and Colleges Admissions Service (UCAS) in February 2014. The final deadline for the submission of applications was 15 January 2014. The data reveal that a total of 501,940 UK-domiciled applicants have applied for university in 2014, compared with 486,260 applicants at the same point last year, an increase of 3 per cent. (The equivalent figure for 2012 was 476,910 applicants while in 2011 it was 521,350.)

Numbers from the rest of the EU have risen by 5 per cent to a total of 40,920, but the total remains below the levels seen in 2011 when there were 42,330 applicants. The number of non-EU international student applicants continues to grow year on year and has increased by 9 per cent in the last year. The total number of applicants for all courses has increased by 4 per cent to 596,260, up from 574,380 last year.

Cross-border flows

There have been more marginal changes in cross-border flows within the UK than were in evidence in 2013: English applicants to Scottish institutions increased by 1.5 per cent compared with 14.7 per cent the previous year. The flow of Scottish students to England also increased by a similar small margin. The number of Welsh domiciled students applying to English universities increased this year by 5.6 per cent compared with a small decline last year. There has been a similar percentage rise in the number of English applicants applying to study in Wales following a 10.1 per cent increase last year.

By the January 2014 deadline, 333,700 women had applied to university compared with only 246,300 men, a difference that has increased by 7,000 this year. In England, women aged 18 were a third more likely to apply to university than men; they were 55 per cent more likely to apply in disadvantaged areas compared with 18 per cent in advantaged areas.

There are significant variations in the number of applicants by age compared with 2013. There was an average rise (3 per cent) in UK applicants aged 18 but larger increases in those aged 20-29, with a 6 per cent increase in the number of applications from women aged 20-24. There were above average increases in the number of older applicants over the age of 35, partially reversing sharp falls in demand from this age group in 2012 and 2013. The number of applications in 2014 from women over the age of 35 is still more than 11 per cent lower than it was in 2010.

There have been significant changes in subject demand compared with 2013, ranging from an increase of 11 per cent for computer sciences to a further decline of 7 per cent in European languages. Non-European languages also fared badly with a reduction of 6 per cent, as did architecture (-3 per cent), education (-2 per cent), combined arts (-2 per cent), social sciences combined with arts (-2 per cent) and law (-2 per cent). There were above average increases in applications for engineering (11 per cent), veterinary science (6 per cent), biological sciences (7 per cent) and physical sciences (4 per cent) continuing the trends seen last year. Social studies and combined social sciences also recorded above average increases.

Commentary

There has been a 4 per cent increase in the total number of applicants for full-time undergraduate places this year, representing a continuation of the recovery in demand - and admissions to university - evident in 2013 after the sharp decline in 2012 following the raising of the fee cap to £9,000.

The 3 per cent increase in the number of English domiciled applicants in 2014 compares with a rise of 2.5 per cent last year and a 10 per cent fall in 2012. This compares with an increase of 6.3 per cent in applicants in 2007 following a 4.5 per cent decline in 2006 when variable fees of £3,000 were first introduced. Although the recovery is taking longer this time - applicant numbers are still below their 2011 peak - the total number of applications is at a record 2.5 million, reflecting the fact that more applicants are exercising all five of their choices.

Further evidence that long-term demand remains buoyant includes the fact that applications from 18 year olds in England show an average increase of 3 per cent this year despite the continuing shrinkage in the size of the cohort. A record 35 per cent of 18 year olds in England have applied this year, which represents a 4 per cent increase in their likelihood of applying to higher education than last year. The number of applicants age 20 or over has increased by 5 per cent (to 133,950), partially reversing some of the sharp falls seen since 2012.

It is notable that students from poorer families have been less affected by the new fees regime than many expected. Application rates of 18 year olds living in disadvantaged areas in all countries of the UK increased to the highest levels recorded in 2014 and in England this group is twice as likely to apply as they were a decade ago. The application rates from the most disadvantaged areas in 2014 were 21 per cent in England compared with 26 per cent in Northern Ireland, 15 per cent in Scotland and 18 per cent for Wales.

The overall changes conceal further wide variations in subject choices with sciences and vocational courses that apparently offer greater career prospects holding their position better than some arts and social science courses. Applications for engineering are up from 127,080 to 141,100 and for computer science they are up from 86,290 to 97,110. There has been a continuing drop in applicants for both European and non-European languages despite evidence of demand for these graduates in the wider economy. The number of applicants for European languages is down from 20,350 in 2013 to 19,280 this year and for non-European languages the number is down from 5,750 to 5,420. It is likely that the decline in languages is a knock-on consequence, at least in part, of the ending of the compulsion to study a language to GCSE level, which took effect a decade ago.

International students

The continuing impact of the Coalition Government's immigration policies may be seen in figures published by the Higher Education Statistics Agency (HESA) early in 2014 which showed that, in 2012/13, for the second consecutive year the number of non-EU students entering the first year of their course has declined. The number of non-EU students commencing courses in 2010/11 was 174,225, following a period of rapid growth. Two years later this had fallen to 171,910 – a drop of 1.3 per cent. During the same period competitor countries were making significant gains: in the United States overseas student numbers increased by 7.2 per cent and in Canada by 9.0 per cent in 2012/13; the equivalent figure for Australia was 8.1 per cent.

HESA data show that the number of students from India starting courses in the UK in 2012/13 fell by 25 per cent and has almost halved in two years - from 23,985 to 12,280 students; there was also a 21 per cent decline in students from Pakistan. Declines are also evident in other key markets such as Nigeria, Saudi Arabia and Thailand. On the other hand, there has been continuing strong growth from China, Hong Kong and Malaysia. In total, 17 per cent of students enrolled in UK universities are non-UK students and about half of them study at postgraduate level; 43 per cent are from Asia, 8 per cent from Africa, 6 per cent from North America, 6 per cent from the Middle East and less than 1 per cent from both South America and Australasia. A report on *Global demand for English higher education* (HEFCE, 2014) examines shifts in enrolments of international students in higher education in England, and explores what might have caused them.

Although the decline in international students starting courses in 2011 and 2012 points to a loss of market share, the latest statistics from the Home Office on university visa applicants suggest a more encouraging position. These cover a more recent time period (the latest running to September 2013) and show a growth in the number of applicants of about 7 per cent. Whilst it is apparent that not all of those granted a visa will actually come to the UK and enrol at a university, these statistics provide more positive evidence of the buoyancy of international demand.

Despite the fact that the growth in international student enrolments has stalled recently a British Council report, *The future of the world's mobile students in 2024* (2013), predicts that the UK will be one of the world's fastest growing destinations for international students over the next ten years. According to the report, over this period the UK will retain its position as the second strongest market after the United States, attracting an extra 126,000 international students. The Government wants to see the number of international students in UK universities grow by up to 20 per cent over the next five years.

Despite challenging economic conditions, the mobile student market globally is set to grow from 3.04 million in 2011 to 3.85 million in 2024. The United States, UK and Australia are likely to continue as the dominant host countries in 2024, but they will face growing competition from China. The British Council report notes that China hosted more than 328,000 international students in 2012 and has set a target of 500,000 by 2015 and suggests that 'China will be competing with the US, UK and Australia as one of the world's leading destinations'. As China invests in its universities and colleges over the next decade there may be a reduction in the number of Chinese travelling abroad for higher education. Such a downturn could be significant for host nations, since China was the source of 40 per cent of the growth in international student numbers between 2009/10 and 2011/12.

The report argues that the UK would be less affected by a drop in Chinese students going abroad than some other countries, because of its 'strong position in several other fast-growing outbound markets', but it is evident that the future of the some of these markets is now uncertain because of recent sharp falls in demand. This could have a material impact on the sector as international fee income represents a significant source of income for many institutions. In 2011, 435,235 international students paid £3.9 billion in tuition fees and £6.3 billion in living expenses.

Commentary

It is evident from the latest enrolment data that the UK will need to work harder to maintain its status as the second most popular destination for overseas students as international competition increases. Although the Government recognises the benefits of the student market to the UK economy, its immigration policies and anti-immigration rhetoric have had a negative effect on institutions' recruitment efforts. The new Immigration Minister, James Brokenshire, has recently said that the 'trusted status given to universities who want to attract foreign students isn't an automatic right', while noting 'considerable concerns' about some institutions.

The Tier 4 visa route (the main route for international students) was reviewed in 2011 and as a result tougher entrance criteria, limits on work entitlements and the closure of the post-study work route were introduced from 2012. The main stated aim of the changes was to close down bogus colleges and prevent students without a graduate-type job from staying in the country and claiming benefits after they had finished their course.

Changes to visa policy were intended to reduce net migration to the 'tens of thousands' by 2015 but little progress has been made and the Government will need to continue to bear down on immigration or reconsider its ambitions. International students, who are the largest category of migrant, continue to be counted as immigrants, despite sector lobbying for these students to be removed from the Government's immigration target. The continued inclusion of students in the Home Office's drive to reduce net migration is incompatible with the official ambition to expand this market.

Further evidence of inconsistency in public policy is provided by the Immigration Bill, which is currently in the House of Lords. It seeks to remove the appeal rights for students applying for further leave to remain; introduces a surcharge for access to NHS services; requires private landlords to check the immigration status of their tenants; and increases the scope for fees for visa services to be increased.

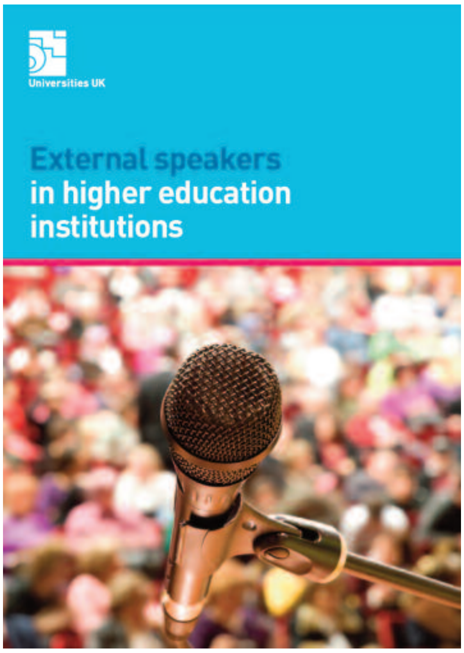
www.hefce.ac.uk/pubs/year/2014/201408a/name,86921,en.html

http://ihe.britishcouncil.org/news/new-report-future-worlds-mobile-students-2024

External speakers in higher education institutions

A publication on *External speakers in higher education institutions* (November 2013) was issued by Universities UK with the aim of providing guidance to institutions in managing the process for inviting external speakers to events on campus. It has generated considerable public debate. The guidance, which followed a series of controversial events at several universities at which audiences were segregated by gender, provided practical assistance to institutions in making decisions about who they choose to invite to speak on campus, steering them through the different considerations that apply, focusing on the need to uphold principles of free speech and to comply with the law.

The guidance includes a hypothetical case study involving an external speaker invited to talk about his orthodox religious faith, who had subsequently requested segregated seating areas for men and women. The case study considers the relevant law and the questions that the university should ask, and concludes that if neither women nor men were disadvantaged it might be appropriate for the university to agree to the request. For example, if women and men were seated separately side by side rather than men at the front and women at the



back, the report argued that there would not necessarily be any gender inequality, and voluntary segregation could be permitted.

In response to widespread criticism, Universities UK argued that the guidance did not seek to promote gender segregation. When faced with requests for segregated seating, it said that universities would consider questions of disadvantage to men or women, and would inform themselves about the speaker's views and the context of the event. Many, taking account of all factors, could legitimately refuse the request. It suggested, for example, that it was very hard to see any university agreeing to a request for segregation that was not voluntary and did not have the broad support of those attending. However, Universities UK suggested that in different circumstances, as described in the case study, the university might agree to it.

Following an intervention by the Prime Minister, Universities UK withdrew the case study pending a review, acknowledging that universities should not enforce gender segregation at the request of guest speakers. However, it continued to argue that where the gender segregation was voluntary, the law was unclear, although this has been widely challenged. The Equality and Human Rights Commission, which is currently reviewing the issue at the request of Universities UK, said that, while the law allows segregation by gender in premises being used for religious purposes, it was 'not permissible' in an academic meeting or in a lecture open to the public.

www.universitiesuk.ac.uk/highereducation/Documents/2013/External%20Speakers%20FINAL%20UPDATED%20FOR%20WEB.pdf

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