A guide to the removal of student number controls

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About the author

Nick Hillman is the Director of HEPI. The removal of student number controls was announced on his last day working as the special adviser to David Willetts, the former Minister for Universities and Science.

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Executive Summary

In December 2013, the higher education sector was caught by surprise when the Coalition announced the ending of student number controls for England. If the changes happen as planned, by 2015/16 institutions will be free to recruit as many full-time undergraduate students as they can attract. This is another step in the liberalisation of English higher education, though it also marks a change in direction as over-recruitment penalties have been tightened in recent years.

There were practical, economic and political reasons behind the announcement:

- demand for higher education will remain strong;
- more higher-level skills can raise economic performance; and
- educational opportunities and meeting people's aspirations are likely to feature in the next general election.

But the policy was put together rapidly, with little attention to precedents at home or abroad that might have served as a useful guide. It remains fuzzy.

The Government predicts there will be 60,000 extra entrants each year, which would mean an increase of around 20 per

cent in the number of UK/EU full-time undergraduates. Given the reduction in the number of 18-year olds, this could prove overly optimistic. Yet other factors, such as the increase in the participation age for education and training, suggest the places will be filled in time. However, there is likely to be a variety of responses at individual higher education institutions.

To assuage concerns about the impact of expansion, the Government has promised to ensure quality does not fall. Options include a minimum academic entry bar, the monitoring of non-continuation rates and outcome measures, such as labour market and loan repayment performance. None of these would be easy to implement, so short-term *ad hoc* arrangements may prove necessary.

Another unknown is the fate of alternative providers. They have expanded in recent years and the Government is planning to include them in the removal of student number controls from 2015/16. Yet there are concerns about quality at some alternative providers specialising in sub-degree provision, and as a group alternative providers lack a coherent identity as well as an effective mission group. Recruitment at alternative providers is being tightly controlled in 2014/15 just as the rules are being relaxed elsewhere.

The biggest outstanding question is how the removal of number controls is to be paid for. While the new places are designed to be full-cost ones, questions have been asked about the Government's commitment to pay for them by

selling off old student loans, especially now that a quick loan sale has been ruled out. It is hard to square current forecasts on the future number of students with the expected cuts to public expenditure, whoever wins the election. Spending on each student is set to come under severe strain.

A small part of the funding pressure arises from the inclusion of EU residents in the removal of student number controls. This is dictated by EU legislation, but still reveals a lack of joined-up thinking. The decision to remove student number controls has not been covered in the official review of EU competences, nor does it appear to have featured in the internal Whitehall debates about net inward migration. If more students from the rest of the EU come to study in the UK as a direct result of a change in official policy, it would be another argument for excluding foreign students from future migration targets.

The decision to remove student number controls is a vote of confidence in the potential of higher education to transform lives, improve social mobility and raise economic performance. But the questions it raises remain a long way from being resolved.

Why the removal of student number controls was announced

1. On 5 December 2013, the Chancellor of the Exchequer, George Osborne, announced the cap on the number of UK and EU-domiciled undergraduates English higher education institutions may recruit would be relaxed in 2014/15 and abolished in 2015/16.[1] As a consequence, the limit on the total number of undergraduate students would disappear.

2. The Chancellor linked the policy to the fiftieth anniversary of the Robbins report. This had been marked in October 2013 by a new pamphlet forecasting expansion written by David Willetts, then the Minister for Universities and Science.[2] After the announcement, Willetts claimed: 'We will be the first government to actually live up to the Robbins principle.'[3]

3. From one perspective, the impending removal of student number controls looks like an attempt to produce a higher education market because earlier policies have failed to do so. According to HEPI's President, Bahram Bekhradnia:

> *At first, the coalition government introduced a pseudo-market, involving competition around "highly qualified students", but that has had a dysfunctional and erratic impact. The complete relaxation of student number controls appears to be a final and desperate attempt to create a market in higher education where there has been none so far.*[4]

4. An alternative way to view the policy is as another step in the liberalisation of English higher education. This pre-dates

the Coalition but has accelerated under it, most notably through the near tripling in the fee cap for undergraduate courses to £9,000 from 2012/13. In addition:

- undergraduates with A-Level grades of at least AAB (or equivalent) were removed from student number controls in 2012/13, and the threshold was lowered to ABB in 2013/14;
- part-time students were given access to tuition fee loans from 2012/13, and Vince Cable successfully blocked the imposition of a student number cap on part-time courses; and
- institutions not funded by the Higher Education Funding Council for England (HEFCE), known as 'alternative providers', have been offered a more conducive environment.

5. Either way, the announcement was unexpected. Unusually for a major new higher education policy, as well as the centrepiece of an autumn statement, there was no speculation beforehand.[5] Indeed, it came just days after a leak to the *Guardian* newspaper revealed some large potential higher education cuts. These stemmed from a budget shortfall in the Department for Business, Innovation and Skills (BIS) that was attributed to 'a failure to police and apply student numbers controls, especially in the private college sector'.[6]

6. In one important respect, removing number controls is a sharp change in policy. The Coalition had previously been tightening up the rules. The fine for over-recruitment by HEFCE-funded providers in 2010/11 was £3,750 for each full-time undergraduate or PGCE student, representing 'the average cost to the Government of providing student

support'.[7] In 2012/13, the fine rose to a maximum of £8,000 on the grounds that 'grant adjustments should reflect both the average lifetime and the upfront outlay cost to Government of providing student support'.[8]

7. In 2012, the Coalition also began consulting on bringing alternative providers within the student number control system.[9] They were not previously subjected to number controls but, given the absence of HEFCE funding, the maximum tuition fee loan (£3,375 In 2011/12) was insufficient to meet the teaching costs of most courses.

8. When students at alternative providers became entitled to tuition fee loans of £6,000 from 2012/13, it stimulated supply and demand in relation to home and EU students – just as applications from non-EU international students were being dampened by new Home Office rules. There was subsequently concern about the quality of the sub-degree provision that was growing rapidly at some alternative providers.[10] The new controls on alternative providers take full effect in 2014/15, so the brake will be applied just as it is being eased for HEFCE-funded ones.[11]

9. Although the Chancellor's announcement on removing number controls reflected a short policymaking process, three factors lay behind it: one practical; one economic; and one political.

i) It makes a virtue of reality as demand for higher education is unlikely to tail off.[12]
ii) HM Treasury recognise that delivering more higher-level

skills is one of the most effective levers for delivering economic growth.[13]

iii) Given the benefits of higher education to individuals, it can be sold as an aspirational policy in the run-up to the 2015 general election.[14]

10. In one respect, the announcement was not a surprise. Major reforms of financial support for undergraduate students over the previous 25 years – such as the introduction of maintenance loans in 1990, the introduction of tuition fees in 1998 and the tripling of fees in 2006 – were followed by further expansion.[15] As each restructuring was aimed at reducing the costs of higher education for taxpayers, growth came to seem less expensive.

11. There are important questions about the savings that will accrue from the 2012 reforms.[16] But the *Autumn Statement* document drew an explicit link between the student finance reforms and the removal of number controls: 'This expansion is affordable within a reducing level of public sector net borrowing as a result of the reforms to higher education finance.'[17]

12. The lifting of the student number cap is not inevitable. Not only is it dependent on the resources being found to pay for it but the Labour Opposition have criticised the policy and wish to retain some control over the provision of new places.[18] In a pamphlet published in August 2014, Liam Byrne, the Shadow Minister for Universities, Science and Skills, confirmed 'the priority for any expansion of HE under the next Labour Government will be new earn while you learn "Technical Degrees"'.[19]

What removing student number controls means

13. Because the announcement had a relatively short gestation, it remains fuzzy. Beyond some uncertainty over how to pay for it, which is discussed later, there are three big questions: what the policy means for the English higher education sector; what it means for individual institutions; and what the consequences might be for the rest of the UK.

i) What it could mean for the English higher education sector

14. The small print reveals Ministers expect to fund 30,000 more full-time undergraduate places in 2014/15 and 60,000 a year thereafter. The source of the 60,000 is a little mysterious but, according to the Treasury, it represents the number of young people 'who have the grades to enter higher education but cannot currently secure a place'.[20] The lower figure is half as big on the assumption that applicants and institutions will take time to respond.[21]

15. As English degree courses are typically three years' long, 60,000 extra entrants would mean an increase of around 180,000 in the total number of UK and EU full-time undergraduate students: an increase of about 20 per cent. This is commensurate with the increase in enrolments in Australia when a similar policy was adopted there.[22]

16. However, many people consider these official forecasts to be at the optimistic end of the scale. Around 60,000 people aged 18 and 19 are typically unplaced at the end of each

UCAS application cycle, but around half successfully reapply the following year.[23] The Independent Review of Higher Education Funding and Student Finance, known as the Browne review, put the number of qualified but unplaced applicants at between 20,000 and 30,000 each year and it is likely that a substantial number of the 30,000 extra places on offer from the Government in 2014/15 will remain unfilled.[24]

17. The number of 18-year olds in the UK is set to fall until the early 2020s, due to a declining birthrate around the turn of the century.[25] This will affect the level of demand for higher education and contrasts with the position in Australia, which shifted to a demand-driven system while the number of school leavers was increasing, thereby enabling enrolment growth 'across all socio-economic groups, across country and city, across all university types and the vast majority of disciplines'.[26]

18. However, there are grounds for thinking that the places could be filled in time. A HEPI evaluation published a few months after the Browne review calculated unsatisfied demand in 2010 at 62,000 people.[27] Life expectancy is going up, the participation age for compulsory education and training is rising (which should mean more qualified school-leavers) and graduates continue to be in demand in the labour market. Many people think there is particular scope for improving the higher education participation rate of men, which lags increasingly far behind that for women.[28] The birthrate recovered during the 2000s, which has led to

pressure on primary school places that will come to be felt elsewhere in the education system in time.

19. Moreover, the Millennium Cohort Study, which tracks children born between 2000 and 2002, found that 97 per cent of mothers want their young children to attend university (including 96 per cent of mothers with the lowest qualifications), while David Willetts has calculated that, if all families were as well represented in higher education as higher-income ones, there would be over 200,000 extra entrants each year.[29]

20. Precedents at home and abroad suggest official forecasts are more likely to underestimate unmet demand than to overestimate it. That is true, for example, of Australia in recent years and the liberalisation of number controls that occurred in Britain in the early 1990s was only temporary because 'the cost for the Treasury both in fees and grants was horrendous'.[30]

21. There are concerns that uncontrolled expansion will affect quality. The Russell Group's immediate reaction to the announcement on removing student number controls was to warn: 'we are not yet convinced the Government can deliver on its promise that the quality of provision will not suffer with such a significant expansion of numbers'.[31]

22. Ministers say there will be backstops to limit problems, so an institution that fails a test – as yet unspecified – could lose the ability to recruit freely. A speech by David Willetts to a closed meeting of Vice Chancellors the day after the Chancellor's announcement floated a number of options, but

the text has never been published.[32] Speculation has centred on three possibilities, although *ad hoc* measures may prove necessary in the short-term as none of them is likely to offer a perfect or immediate solution.

23. **A minimum academic entry bar:** This was recommended in the Browne review and would mean that an applicant falling beneath a bar of, say, two Es at A-Level (or equivalent) would need to use an exceptional route to gain entry.[33] However, there have been significant bureaucratic hurdles in allowing free recruitment at A-Level grades ABB, such as devising an appropriate equivalency regime for other qualifications, and many people appear to enter higher education without any UCAS tariff points at all, which makes the application of a minimum qualification bar extremely difficult. So this seems an unlikely path. Despite lobbying from selective universities in the Group of Eight, a minimum entry standard has been rejected in Australia.

24. **Non-continuation rates (sometimes known as drop-out rates):** There are good reasons why these vary across the sector, such as different student intakes, but institutions could in theory be given different baselines against which the impact of student number liberalisation could be measured.[34] If non-continuation rates surged at certain institutions, then they could be treated differently. But it would be difficult to ensure a fair system as the extra students attracted to selective universities will have different characteristics to those accessing higher education for the first time.

25. **The labour market and loan repayment outcomes for students on different courses:** In the United States, 'gainful employment' rules limit access to federal funding for institutions with high graduate loan default rates. Back in 2011, David Willetts wrote: 'I expect that, in the future, as the data accrue, the policy debate will be about the RAB charge for individual institutions.'[35] Now, Professors Anna Vignoles and Neil Shephard are matching tax record data with Student Loans Company data in order to build a more complex picture of the outcomes of different higher education options in the UK. But the earnings of former students are a limited guide to an institution's current strengths and weaknesses and, given different student intakes as well as the variation in graduate earnings according to discipline, need delicate handling.

ii) What it could mean for individual institutions

26. Individual institutions have fared differently in recent years. UCAS data for acceptances by full-time UK undergraduates show increases for a few institutions of around 40 per cent between 2011/12 and 2013/14, while one shrunk by a similar degree and a number of others lost over 20 per cent.[36] Entrant data for part-time and full-time undergraduates in the period since 2010/11 shows even bigger rises and falls among HEFCE-funded institutions.[37] Meanwhile, public spending on grants and loans at alternative providers has rapidly grown and is predicted to reach £850 million in 2015/16.[38]

27. The impact of removing number controls will be determined not only by the level of demand among

prospective students but also by the stance of individual institutions. UCAS data for 2014/15 shows comparable levels of growth among lower, medium and higher-tariff institutions.[39] But HEPI's discussions with the sector suggest institutions may have different appetites for further expansion. For instance:

- some institutional leaders may be motivated to focus on reputation rather than increasing the number of full-time undergraduate students;
- once the results of the Research Excellence Framework have set patterns of future HEFCE research funding, some research-intensive universities could have less incentive to expand their student numbers; and
- the sector could divide between those institutions that plan to expand (particularly smaller institutions, alternative providers and those that have lost out from the high-tariff policy) and those looking to maintain their current status (typically older and more traditional institutions).

Who is recruited, to what courses and with what success rates will be important questions as and when the controls are removed.

28. Traditional universities have a year's head start over alternative providers because they will benefit from the 30,000 extra places in 2014/15, just as alternative providers are being subjected to full number controls for the first time. However, the new controls on alternative providers are expected to last just one year, as the Government has said: 'From 2015-16, it will allow student numbers at alternative

providers to be freed in a similar manner as for HEFCE-funded provision.'[40] Alternative providers nonetheless suspect they will continue to be treated differently: '"Similar" is not the same.'[41] As they are heterogeneous, lack a coherent identity and have no effective mission group, this could indeed occur.

29. International experience, however, suggests those institutions with the potential to grow most rapidly could be in the non-traditional sector, particularly for-profit institutions: between 2000/01 and 2011/12, the number of bachelor degrees awarded by for-profit institutions in the United States grew by 476 per cent, compared to 39 per cent at public institutions.[42] So the next government will face the same challenge that the current one has flunked: how to implement a proportionate, clear and equitable regulatory regime encompassing different sorts of providers.[43]

30. One particularly notable new opportunity for higher education providers stemming from the removal of student number controls is the expansion of pathway courses that prepare those who are not yet quite ready for higher-level study. These are common for new international students arriving in the UK and, in Australia, pathway courses have proved a useful starting point for additional home students entering higher education in the demand-driven system.[44] Year 0 Foundation programmes already exist for some UK/EU students, and there are preferential funding rules for those taking an Access to Higher Education Diploma.[45] Such routes could become more commonplace in future.

iii) What it could mean for the rest of the UK

31. The third unknown is the likely knock-on consequences of removing student number controls, and the reaction to the change by policymakers, in other parts of the UK.[46] In particular, the shift in England has the potential to:

- improve the English higher education participation rate, which has typically lagged behind other parts of the UK;
- affect cross-border student flows, as it should become easier for both English students and students from the rest of the UK to enter English higher education institutions; and
- encourage non-English UK higher education institutions to focus on expanding uncapped areas of provision, such as international students.

32. A recent analysis of UCAS data for 2014/15 admissions by an expert on the different higher education regimes in place across the UK, Lucy Hunter, confirms the number of Scottish people entering universities in Scotland is growing more slowly than any other group:

> *beyond the headlines for Scotland in the most recent UCAS data is a reminder that (a) a fully-funded, relatively tightly capped, non-portable system may carry a social and long-term economic cost, in terms of its more limited capacity to accommodate growing domestic demand and (b) there is no clear correlation between any particular approach to fees and widening access to higher education.*[47]

How to pay for it

33. The demand-driven system in Australia proved more costly than expected, as the supply of places took off more quickly than was anticipated.[48] The Executive Director of the Australian Technology Network, Vicki Thomson, claimed, 'you don't need university-level maths to recognise that having embraced it, the demand-driven system was a recipe for financial disaster.'[49] Ireland has faced similar cost pressures as a result of opening the doors to higher education more widely.[50]

34. When the removal of student number controls in England was first announced, the Government said that by 2018/19 it would have an upfront cost of £720 million in extra student grants and teaching costs and an additional £700 million in loan write-off costs – around £8,000 per extra student.[51] These figures show the places were designed to be full-cost ones. Indeed, because the additional students are expected to have lower lifetime earnings, the places were assumed to have a higher loan write-off charge.

35. Generally, government officials do not like hypothecating future income to specific ends. But the Chancellor made clear that, from 2015/16 onwards, much of the cost was to be met by a linked asset sale: 'The new loans will be financed by selling the old student loan book, allowing thousands more to achieve their potential.'[52] This decision was rapidly attacked, with the Institute for Fiscal Studies labelling it 'economically nonsense as selling an asset for what it is worth does not strengthen the public finances'.[53]

36. Subsequently, there was confusion after a senior civil servant appeared to contradict the Chancellor: 'there is no logical flow through from a decision on the loan book to a decision on the expansion of HE budgets'.[54] The BIS Select Committee responded by seeking further information:

> *Given that the Chancellor of the Exchequer has linked the removal of the student numbers cap to the sale of the income-contingent loan-book, we seek clarification from the Department whether the removal of the cap is dependent on the sale of the loan book.*
>
> *If the policy is not dependent on the sale, the Government must set out in its response where it will raise the £5.55 billion between now and 2018–19 required to remove the cap without putting an additional burden on the taxpayer.*[55]

37. In July 2014, the same month as the Select Committee's report appeared, the picture became even murkier when Vince Cable ruled out student loan sales on public-benefit grounds.[56] However, this only holds for the current Parliament: even if it were repeated in the 2015 Liberal Democrat manifesto, it is unlikely to be a 'red line' in any post-election coalition negotiations.

38. There is to be a general election and a comprehensive spending review before the start of the 2015/16 academic year and, while there is a lack of clarity over the funding of the extra places, it is easy to exaggerate this relative to other public spending. Emran Mian, formerly a senior civil servant

working on higher education policy, has noted, 'costs of expansion are already accounted for in the Autumn Statement through to 2015-16. After that, it's true we don't know what happens, but then nor does any other area of public spending.'[57]

39. The focus on paying for the extra places has moved the spotlight from the broader question of how to pay for higher education after the next election. There were three pre-existing challenges.

i) **Continued austerity:** At the end of the 2013/14 financial year, the UK was only around 40 per cent through the planned cuts in public spending.[58]
ii) **Budget protections:** No mainstream political party is committed to protecting the BIS budget and, assuming certain areas of government spending – such as parts of the health, school and overseas aid budgets continue to be treated favourably – unprotected departments will continue to be hit disproportionately, with a forecast cut of 35.6 per cent between 2010/11 and 2018/19.[59]
iii) **The balance with science and research:** As 80 per cent of the BIS budget goes on higher education, skills and science, any commitment to maintain the science and research budget at or near current levels while not giving it the same formal protection as other protected budgets would mean deeper cuts to the non-science parts of the department.

40. Part of the funding pressure come from EU students entering English higher education on the same terms – for

tuition though not for maintenance – as home students. Article 18 of the Treaty on the Functioning of the EU states 'any discrimination on grounds of nationality shall be prohibited'.[60] To date, there have been weak incentives on English institutions to recruit students actively from the rest of the EU because, unlike other international students, they have fallen within the student number caps.

41. Despite the strengths of British universities, such as their league table performance and instruction in English, many EU citizens may be put off from travelling to another country to study at undergraduate level when it is so much more expensive than studying at home.

42. However, when number controls are removed, there will be clearer incentives for institutions to recruit EU students: as a way of maintaining entry standards; increasing income; and mitigating the effect of demographic change.

43. It therefore seems likely that enrolments from EU citizens will grow: UCAS data show a 12 per cent increase in placed applicants from the EU at the most selective English institutions in 2014/15 and an 8 per cent increase at lower-tariff institutions – much higher than for home students in both cases, though from a lower base.[61] In a recent Universities UK survey:

> *A number of vice-chancellors noted undergraduate recruitment from the EU as a potential opportunity for growth, particularly in the context of increased competition among higher education institutions, and*

decreasing supply of UK-domiciled undergraduates due to the demographic dip in young students.[62]

44. If this were to occur, the challenges in collecting loan repayments from people outside the UK will become even more significant. There are currently around 60,000 undergraduates at English universities from other EU countries, and EU students have £690 million of outstanding debts with the Student Loans Company.[63] The loans are subsidised by British taxpayers but have proved notoriously difficult to collect since the first full cohort of eligible EU students became liable for repayment in 2010.[64]

45. Given the cost to British taxpayers, it is surprising that the Government has not included higher education finance in the Balance of Competences reviews that it has been conducting on the EU's powers over the UK.[65] They could, for example, have evaluated the scope for introducing a system of lower fees for home students within the EU, as with in-state fees in the United States, on the grounds that UK families are already contributing to their local education systems through tax. This silence is particularly notable given that the debate on Scottish independence included discussion of how the fee rules operate within the EU.[66]

46. Ministers also appear not to have joined up their commitment to remove student number controls with their tough rhetoric on immigration. If more students do arrive in the UK from the EU as a result of the removal of student number controls, it will be even harder to hit the receding

target of reducing net inward migration to below 100,000. If official policy is to encourage EU students to come and study in the UK, it is yet another argument against the inclusion of students in any future migration targets.

Conclusion

47. The decision to remove student number controls is a vote of confidence in the potential of higher education to transform lives, improve social mobility and raise economic performance. It will introduce new competitive pressures on institutions, even if these will continue to be inhibited by other factors that determine the prestige of institutions, such as age and research performance.

48. But the policy was announced without much thought being given to a number of tricky questions, particularly on funding. This helps explain the range of responses to it. Individual institutions are still deciding how to respond, but the Russell Group fear the extra costs could come at the expense of research while million+ have concentrated on how Ministers will no longer be able 'to promote initiatives in the national interest'.[67]

49. While the Coalition has said the extra places will be fully funded, precedent suggests future politicians may not regard this as a binding commitment and it currently seems unlikely that the higher education budget will enjoy the same level of protection awarded to some other areas of public spending.

The end result could be a substantial decline in the unit-of-resource (the amount available for each student's education), changes to student loans to recoup more of the costs or even the reimposition of number controls in some form.

50. The impending general election and the subsequent spending review will provide new opportunities to remind the Treasury of the higher tax take that will flow from having more graduates, as well as the wider benefits that come from having a more educated, more healthy and more tolerant population.

Notes and references

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[8] Vince Cable and David Willetts to Tim Melville-Ross, *Higher Education Funding For 2013-14*, 11

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[23] Information provided by UCAS.

[24] Independent Review of Higher Education Funding and Student Finance, *Securing a Sustainable Future for Higher Education*, October 2010, p.22.

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