MillionPlus

The Association for Modern Universities

POLICY BRIEFING

Guaranteeing sustainable investment in higher education

Supplementary evidence to the Review of Post-18 Education and Funding

Guaranteeing sustainable investment in high education

KEY POINTS

- Fee cap reductions at the level speculated would reduce sector income in England by more than £3bn pa
- The impact on modern universities, their students and communities of fee reductions is greater, in relative terms, than on the sector as a whole – approximately 20% of income
- It is important to note that fee income is not related solely to the cost of the subject studied
- A reduction of fee income would harm the ability of providers to offer a range of vital services beyond the narrowest understanding of 'teaching' that contribute to successful student outcomes
- Improvements in support for mental health/well-being and increased widening access opportunities for prospective students from disadvantaged backgrounds would be put at risk
- The costs associated with a fee of £6,500 are equivalent to a 30% decline in the number of students and 37% reduction in staff costs across all modern universities
- The government must mitigate the impact of any fee reductions through the return of direct grant funding, improved maintenance support for students and allocations reflecting the higher cost of educating a more socially inclusive intake
- The Post-18 Education and Funding Review should not gamble with the unit of investment in university education for students by proposing an expectation-raising general reduction in the university fee cap without knowing what replacement investment streams, in part or whole, may be forthcoming from the Treasury in the Spending Review of summer 2019

THE IMPACT OF FEE REDUCTIONS ON HIGHER EDUCATION INVESTMENT

1. The media speculation in November 2018 regarding the outcomes of the Review of Post-18 Education and Funding focused on a reduction in the tuition fee that could be charged for certain subjects. The press reports on the leaks were not entirely clear, but the lowering of fee caps to £6,500 or £7,500 per year were a feature. MillionPlus understands that the government can reduce the generic fee cap to below £9,250 by resolution in Parliament but it cannot impose differential fee caps between subject areas without further primary legislation, unless somehow linked to the TEF.
2. A lower fee means less investment for universities. This will damage the quality of the experience that students receive. It may even affect the financial sustainability of some universities that play a crucial role in their localities and regions.
3. Table 1 below estimates the level of financial impact if the current fee cap of £9,250 was cut to a) £7,500 and b) £6,500 for the sector overall and the impact on modern universities.[1]
4. Modern universities educate 52% of all UK undergraduates, and 37% of all postgraduates, with over one million students studying at modern institutions across the UK.

[1] Those institutions that applied for university title after 1992.

Table 1: Estimation of the financial impact of a reduction in fee level				
FEE CUT	**SECTOR (ENGLAND)**		**MODERN UNIVERSITIES**	
	Total amount	As a % of overall income	Total amount	As a % of overall income
Tuition fee revenue lost from a cut to **£7,500 across all years**	£2,012m	7%	£1,145m	13%
Tuition fee revenue lost from a cut to **£6,500 across all years**	£3,136m	11%	£1,799m	20%

Source: HESA 2016/17 data[2]

5. The direct financial implications for institutions in England are stark. Any such cuts to university fees would reduce significantly the overall income of universities in England.

6. Modern universities would be disproportionately affected by any proposed reduction in the tuition fee cap, as a much greater proportion of overall income comes from university fees than at pre-1992 institutions.

7. A fee cap of £6,500 would lead to an 11% black hole in the total income across the whole of the English higher education sector. By contrast, modern universities would lose 20% of income if the same level of fee cap was introduced.

8. The relative impact on modern universities is almost double that of the sector overall. Any business or third-sector organisation facing an annual drop in income of 20% is likely to have to make tough choices and potentially severe changes to the organisation. Universities are no exception.

9. The 20% figure cited above refers to a potential loss in fee income of nearly £2bn across the modern university sector in England, if the reduction to £6,500 was applied to all years of students. To put that into perspective, this amount is equivalent to the income generated from 194,486 FTE students in a single academic year. That would roughly equate to a drop of 29% of all Home/EU students at modern universities in England.

10. It is not alarmist to suggest that a 20% decline in income or a 30% drop in student numbers would put the financial viability of some institutions at risk, which would be devastating for local employment, investment in the regional economy, and for student opportunities.

11. Considered as the equivalent in staff costs, a £1,799m reduction in income would equate to 37% of staff costs across all modern universities in England. If revenue to universities was reduced through any changes in student finance, then it is unlikely that staff costs, one of the largest elements of university expenditure, would be fully protected from the repercussions. Reductions in staffing would require a significant narrowing of course offerings which in turn would mean fewer opportunities for people to benefit from higher education.

[2] All the estimations in table 1 are based on HESA 2016/17 student data and therefore assume student numbers for the next academic cycle to be the same as 2016/17. Fees for part-time students are assumed to be £4,625 (50% intensity). These estimations, therefore, will not account for the full cost impact to the modern university sector in England as some part-time students work at 75% intensity and are charged proportionally. However, there is no breakdown in the data as to the intensity of study so a figure of £4,625 has been chosen on the basis that this is likely to be the most common fee for part-time students.

12. In the media and political speculation on the impact of a fee cut, many commentators point to this being levelled only at non-STEM subjects and STEM subjects receiving greater levels of additional income from government above the headline fee rate of £9,250.

13. This would be a misguided approach which would be based on a misunderstanding of the numbers of student studying these subjects. A fee reduction targeted at non-STEM subjects would result in a reduction in fees for 53% of the student population across the sector in England. This would have different impacts within this sector, but in modern universities it would mean that tuition fee income would be reduced for 57% of their undergraduate students.

14. Table 2 below models for the loss of tuition fee income if fee cuts were applied to all non-science subjects.[3]

Table 2: Loss of tuition fee income if fee cuts were applied to all non-science subjects

FEE CUT	**SECTOR (ENGLAND)**			**MODERN UNIVERSITIES**		
	Total revenue lost	Percentage % of tuition fee income lost		Total revenue lost	Percentage of tuition fee income lost	
Fee cap lowered to £7,500	£1,102m	7%		£656m	10%	
Fee cap lowered to £6,500	£1731m	11%		£1,031m	15%	

Source: All data used to generate the table 2 is on the HESA website, and the figures for the academic cycle for 2016/17 have been used as a basis to predict revenue reduction.[4]

15. A lower fee for some subjects also has the potential to direct and influence choice, particularly in those who are debt averse. The consequences of this could be students from disadvantaged backgrounds opting out of STEM subjects and into non-STEM subjects because of a perception that those latter courses are cheaper. This would lead to social exclusion in many subjects and their related industries and mean less choice for people purely based on social background. It would be a policy that privileged people from wealthy and well-connected backgrounds, undoing much of the progress made in the last 10 to 15 years to widen participation and increase access to (full-time) higher education.

Higher education investment in local economies

16. Modern universities in particularly act as anchors in their wider locales, often being one of the main employers in the region and investing heavily in the local supply chain to support large industry and small businesses. They also play a significant role in supporting communities in non-educational ways.

[3] As defined by HESA on their website.

[4] The HESA data that is published does not offer a table that includes subject of study, domicile, mode of study, and country of provider, and provider. As a result, it was necessary to use the percentages of Home/EU students and apply this to figures from tables that give subject of study. For example, to calculate the revenue lost from fee reduction to £7,500 for full-time, first degree students in England, the HESA datasets are used to produce a total number of non-science students in England (644,370). This figure is then multiplied by the percentage of full-time undergraduate (UG) students who are Home/EU, and then multiplied by the fee income that is lost (9,250-7500=1750). The same calculation is then calculated for each different UG mode of study so that they can be totaled together. All part-time students are assumed to be at 50% intensity and fees directly proportionate to this level. The figures are based on students across all years.

17. This civic role comes with huge responsibility and possibility for significant change – for example modern university Vice-Chancellors lead[5] some local Opportunity Areas. The ability to engage, lead and support in this way is a direct consequence of long-term, stable, publicly-sourced investment into those institutions.

18. This will be certainly be damaged if that investment is reduced, and would mean local economies miss out on opportunities, jobs and economic development.

MAINTAINING INVESTMENT IN WIDER EDUCATIONAL SUPPORT FOR STUDENTS

19. The fee charged for a degree programme is not directly tied to an individual course of study, contrary to media reports. As such it may be better described as a 'university fee' rather than a 'tuition fee'. The income received from fees has been used to fund and support a wide range of university functions and activities. These have included:

- access agreements (a statutory requirement for all universities charging fees in excess of the lower fee cap);
- academic, professional, technical and support staff costs directly associated with teaching activity;
- improved employability programmes for students and better careers service support;
- recruitment and admissions activities; quality assurance; compliance with regulatory and data regimes required by professional and higher education sector bodies;
- new course development and validation;
- student welfare such as mental health services and sport/well-being facilities;
- meeting the wider costs of administrative and corporate functions; and
- support services including hardship funds and partnership work with employers, schools, colleges and other stakeholders.

20. This extensive support for students, and the services available in all institutions, which are vital for successful higher education experiences, will be placed at risk should there be a reduction in investment in some subjects.

21. On the face of it, the impact of even a small fee reduction is stark. It is some time since debates about the unit of resource were prominent in higher education. However, the risk is that a fee cut results in less investment per student, particularly as costs rise with inflation, the need for new technologies, the development of new teaching methods and the demand for higher levels of support for students, particularly around mental health and well-being.

22. If a subject-specific fee reduction is implemented, then the impact on the unit of resource will impact on some universities disproportionately, hitting smaller institutions with large numbers of courses in humanities, the social sciences or the creative arts. Students studying these subjects do not need less of the support outlined above than those students who might choose to study STEM subjects. Therefore, universities will still need to invest in those activities for all students. The costs incurred by universities for these infrastructural core services are not principally attributable to the subject offered.

23. The government would purposely be cutting higher education funding if it implemented a fee reduction that detrimentally impacted on the unit of resource for teaching.

24. If the government did not wish to do this then it would need to mitigate a cut in fees by replacing that income either through introducing controls on student numbers, or by re-introducing a system of direct

[5] Three MillionPlus university Vice-Chancellors are Chairs of local opportunity areas.

grants. These are the only options available to maintain the high-quality education and support services that are currently available to students.

Controls on student numbers

25. The advantage of the current fee system is that there is no cap on student numbers, which means there is no bar to any student who will benefit from higher education being able to access it. The current system also brings more investment with every additional student allowing universities to optimise marginal costs within cohorts which would not be true in a system that controlled the numbers of students.

26. Returning to a system that controlled student numbers would roll-back the significant gains made in recent years to encourage students from diverse backgrounds, or students without formal qualifications, or older learners. It would cap the aspiration of individuals, businesses and communities, and make it difficult for universities to continue to widen participation in the way that many have done up until now.

27. It will also require intervention from the regulator, the Office for Students (OfS), which was set up specifically to move away from the interventionist approach of its predecessor. The principles behind the reforms are to encourage greater market behaviours between established and new higher education providers, allowing new entrants to enter while the possibility of some providers exiting the market is established. Re-introducing student number controls and mandating that fee providers can charge for certain subjects would be in direct contradiction to the principles that underpin that government's broader reform agenda for higher education.

Direct grant

28. Re-introducing direct grant to institutions would replicate the pre-2012 funding system where investment into the cost of higher education was shared more evenly between students and society (e.g. through government investment funded by taxation). More importantly, it would ensure that any fee reductions do not in turn reduce the investment in support services for students, such as those in place to enable people from widening access backgrounds to be successful at university. Older students, and students studying part-time are also groups who should be priorities for the return of any direct grant to fund the education of students.

29. A return to direct grant funding should be taken as an opportunity by government to boost participation and social mobility. Support for higher cost subjects is important but focusing solely on the cost of teaching risks ignoring the wider needs of many students and the ways in which universities meet those needs.

30. Despite the changes to fee levels in 2012 and the establishment of the Office for Students operating as a regulator rather than focusing on the funding responsibilities of HEFCE, the government continues to acknowledge the principle of additional investment in higher education to support costs above the possible fee income, or where that activity meets priority areas. Re-introducing direct grants to institutions to cover fully any reduction in fee levels would be an extension of this principle and mean that it could continue to meet its goals to increase access and participation in higher education from vulnerable or under-represented groups.

Supporting access and participation

31. Individuals from areas of the country that have traditionally had low participation in higher education are more likely to require extra investment to support their continuation in higher education and ensure successful outcomes. In the 2016/17 academic cycle, 69% of students from low participation backgrounds studied at modern universities. Another way to illustrate this is to point out that across pre-1992 institutions:

- the average proportion of young entrants from low-participation backgrounds is 8%, while at modern universities it is 15% of their population; while,

- almost double as many students proportionally from low participation backgrounds study at modern universities compared to pre-1992 institutions.

32. The OfS provides its own form of recurrent funding to support student outcomes. This funding aims to create allocations targeted at those students most at risk of withdrawing from their studies. The funding is divided into different categories, with providers being allocated different levels of funding determined by the number of students at their institution that fall into each characteristic. POLAR data (i.e. low/high participation) is used in determining one part of this strand of recurrent funding. However, this supplementary funding stream only amounts currently to £19.5m.

33. However, for the main bulk of the OfS's recurrent funding relating to student outcomes, risk is defined by a different set of student characteristics. These cover three main variables:

- Age (over/under 21, with mature students being deemed more at risk)
- Qualification aim (first degree/other qualification, with first degree students deemed more at risk)
- Entry qualifications (High/Medium/Low entry qualifications, with lower qualifications being deemed more at risk)

34. Modern universities account for 78% of mature students in England. There is a notable difference in the average entry qualifications of students entering modern universities and pre-1992 institutions. Many modern universities knowingly take on such "risk" as part of their institutional mission concerning social mobility, providing a unique local offer as an anchor institution in their region.

35. The main block of funding determined by the three variables listed above (age, aim, entry qualifications) totals £145.5m. While this funding is an important contribution, no university would claim that this amount accounts for the full level of expenditure that is used to manage such risk. Indeed, the amount spent by individual universities on supporting successful student outcomes far exceeds that which they receive from both streams of recurrent OfS funding (main and supplementary), even when worked out as a proportion spent on those deemed most "at risk" in the OfS framework.

36. A reduction in general fee income for modern universities will therefore reduce the amount of money that can be spent on supporting access and participation. This could have a detrimental effect on student outcomes and, by extension, social mobility and social justice. This would doubtless lead to a falloff in the number of students from socially disadvantaged background receiving the opportunity of a university education, stunting social mobility. Evaluating how a reduction in tuition fee income affects the spend of universities on access and participation should be a critical prerequisite when any new direct grant system is designed.

37. Some of the areas of investment in students that may be put at risk, and possibly be existentially affected in some cases, might include:

- Mental health and well-being support
- Financial and study support for disabled students
- Childcare support for students who are parents
- Employability and careers advice for students without the networks and social capital to understand graduate employment processes
- Outreach activity to increase aspiration and support attainment in primary and secondary schools

38. The OfS has set out bold ambitions for access and participation, with higher education providers required to provide far reaching plans that identify how they will support those ambitions and improve student outcomes. These include participation, attainment and employability gaps that affect students from disadvantaged backgrounds, disabled students, and black and minority ethnic students. A strong

focus on this agenda by both OfS and institutions requires long-term, sustainable investment. A reduction in fee income – either uniformly across all subjects or directed only at some subjects – will have a significant impact on achieving these ambitions.

THE IMPACT OF STUDENT LOANS ON THE PUBLIC ACCOUNTS

39. The decision by the Office for National Statistics (ONS) concerning the classification of student loans and maintenance grants are clearly of considerable significance to the review panel. This approach would bring forward the date of student loan write-offs, meaning that they would form part of the day-to-day expenditure and as such have an impact on the deficit. Currently, Public Sector Net Borrowing (PSNB), which informs the deficit, is undervalued in the current system because all of the loan book is treated as an asset. In the new approach, treating the loan book as part-asset, part expenditure, the level of PSNB would significantly increase, roughly proportionate to the RAB charge (assuming this remains constant) on the loans. In its October 2018 Economic and Fiscal outlook, the Office for Budget Responsibility estimated that public sector net borrowing in the financial year ending 2019 would rise by approximately £12bn as a result of changing from the current approach.

40. It is not clear at this point what the precise impact on departmental spending limits may be and any response by the government to the new accounting method should be done in a way that does not diminish access to the benefits of higher education for people of all ages and social backgrounds.

41. Any government response to these accounting changes that seeks to ration places at university for prospective students would thwart any serious attempt to improve social mobility in England.

42. Recommendations by the review panel and subsequent responses by the government to the new accounting method must be done in a way that minimises the negative impacts on the quality of provision in the UK's world-leading university sector. A reduction in the unit of resource invested in educating students will limit opportunities for them and set back the government's own oft-stated goals of improving both social mobility and economic productivity.

43. Additional analysis by London Economics has estimated that this change would add around £8bn to the deficit in the first three years if applied to the 2017/18 cohort.[6] After that, it would create lower levels of surplus over the following 30 years but result in no loan write-off. The current system means that for the 2017/18 cohort, the government will write-off almost £50bn in 30 years' time, based on current projections. The irony is that the hybrid model being taken forward by the ONS will reduce the costs to government over the long-term, and so may be considered economically sound at one level, but may well have an immediate effect on the deficit in the short run, which will have political consequences because of its impact on meeting the core fiscal rules the government reaffirmed in 2017.

CONCLUSION

44. The partial reclassification of student loans on the public accounts should not lead the Review of Post-18 Education and Funding to recommend drastic action to reduce investment in the university education of future students. The Augar panel should consider taking the ONS reclassification decision to be a 'black swan event' that goes beyond what could be reasonably expected of it in ensuring its recommendations are broadly fiscally neutral, in line with its initial terms of reference set before the ONS Review.

45. The panel should not pre-empt the outcome of the Spending Review in summer 2019 by recommending a general reduction in the level of the university fee cap without knowing what quantum of direct grant resource or equivalent might be available to replace such a reduction in income, for all or some subject areas. Recommending a generic fee cut might well create a strong political expectation that this reduction will be delivered in a way not matched by a later government commitment to replace this loss

[6] https://londoneconomics.co.uk/blog/publication/fees-funding-fairness-estimating-costs-associated-student-support-offer-november-2018/

of fee income with other investment. This may prove to be a hostage to fortune for the Review Panel in making recommendations several months in advance of the Spending Review announcement.

46. The uncertainty of the fiscal implications of a possible No Deal Brexit, with the likely additional calls on the public purse this would bring, adds to this imperative of not creating the expectation of a generic fee cut without knowing what other funds may support undergraduate education in the years ahead.

47. In summary, if the Post-18 Review of Education and Funding recommends a further general reduction in investment in higher education undergraduate education by lowering fee income without matching this loss from other sources, the higher education sector will be facing a deeply destructive loss of income that will render it unable to operate even near to the level it does currently. This will mean fewer opportunities for students and potentially a lower quality of educational experience for students, which will in turn damage significantly the government’s attempts to increase social mobility and boost our economic productivity.