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Higher Education Policy Institute
Policy Briefing
Developments in higher education policy and practice • April 2013

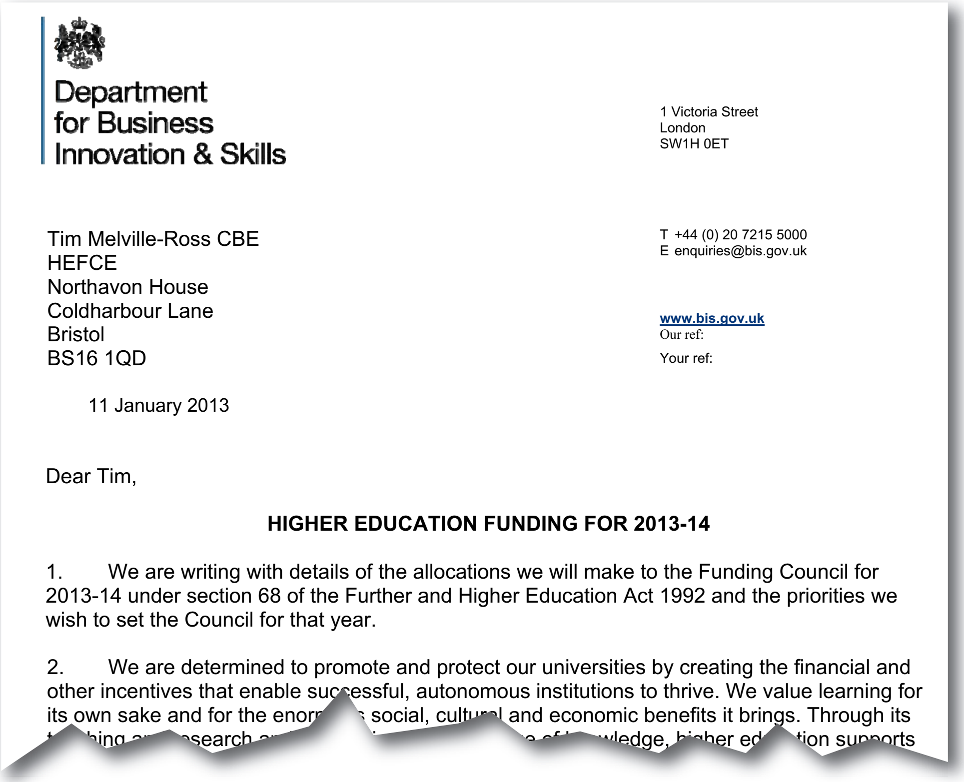
This briefing for HEPI University Partners provides a round-up of the latest policy developments in the sector including a review of HE funding for 2013/14, the ongoing impact of the Government's HE reforms and the work to develop a new regulatory framework for the English HE sector.

Higher education funding 2013/14

The Secretary of State's annual grant letter, which was published in January 2013, sets out the total HEFCE grant for the financial year 2013/14, the second year of the new fees regime, as £4.984 billion. Tuition fee loans – through the Department for Business, Innovation and Skills (BIS) – amount to an estimated £5.8 billion, bringing the combined total funding to higher education institutions to £10.8 billion in 2013/14. This represents a £700 million (6.9 per cent) cash increase in funding compared with 2012/13.

The Government's indicative figures suggest that there will be a further increase in total funding to institutions (including capital) of £500 million (4.6 per cent) in 2014/15, the final year of the current spending review period. The balance of funding between direct grant to institutions and funding through students in the form of an increased graduate contribution has shifted further in 2013/14. In 2011/12 the HEFCE teaching grant accounted for 64 per cent of teaching funding but this has reduced to 25 per cent in 2013/14 and will fall further to some 17 per cent in 2014/15. Capital funding for teaching and research has fallen marginally to £280 million but rises to £420 million in 2014/15, because of an allocation of £160 million for the UK Research Partnership Investment Fund. Teaching capital increases from £59 million to £134 million. Recurrent research funding is protected to 2014/15.

The Secretary of State's letter confirms that the department's priorities for teaching funding as set out in the White Paper still stand. It asks the funding council to continue its work to enhance the academic experience and provide information to potential students through the implementation of the Key Information Set and through a review of all student and public information. The letter reiterates a number of White Paper ambitions about the possible publication of student evaluations and teaching qualifications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11 January 2013

Dear Tim,

HIGHER EDUCATION FUNDING FOR 2013-14

1. We are writing with details of the allocations we will make to the Funding Council for 2013-14 under section 68 of the Further and Higher Education Act 1992 and the priorities we wish to set the Council for that year.

2. We are determined to promote and protect our universities by creating the financial and other incentives that enable successful, autonomous institutions to thrive. We value learning for its own sake and for the enormous social, cultural and economic benefits it brings. Through its

and the adoption of student charters.

The letter also asks HEFCE to allocate funds towards activities that support the economic growth objectives set out in the Government's industrial strategy; the Catalyst Fund and the Higher Education Innovation Fund are the two principal mechanisms for pursing this agenda. Widening access to higher education remains a strategic priority and the letter confirms the timetable for HEFCE's development of a national strategy for access and student success which is to be completed by autumn 2013.

Recurrent funding

In its announcement of the funding allocations for the academic year 2013/14, in March 2013, HEFCE said that it will provide £3.95 billion in recurrent funding to universities. Although the total recurrent HEFCE grant allocation is £959 million (18.1 per cent) less than last year, there is a cash increase in funding per student of 1 per cent. The HEFCE settlement is based on a distribution between the following key areas:

- £2.3 billion for teaching
- £1.6 billion for research
- £160 million for knowledge exchange
- £280 million for capital
- £149 million for special funding

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. The allocations include funding for an additional 19 further education colleges as a result of this year's allocations under the revised core and margin competition.

The allocation for research has been

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maintained in cash terms in 2013/14. There have been no changes in the method following the decision last year to exclude activity rated 2* in the 2008 research assessment exercise, with only internationally excellent research (4* and 3*) being funded. Funding for knowledge exchange has been increased by £10 million, reflecting its contribution to economic recovery and growth. Some £130 million has been provided in support of students undertaking postgraduate taught courses; the research degree programme supervision fund, which supports postgraduate research students, is being maintained at its highest level of £240 million.

HEFCE has also informed institutions of their student number limits for 2013/14 and these reflect changes to the Government's policy of managed competition for places which was introduced in 2012.

Unrestrained recruitment

The funding council has been asked to free up more places from student number controls by allowing the unrestrained recruitment of students of ABB+ or their equivalent, excluding them from student number controls (in 2012 only AAB+ applicants were excluded from the controls). Students moving from a full-time foundation degree or full-time HND to an honours degree have also been excluded from the student number controls in 2013/14. In the light of the pattern of recruitment in 2012/13, the funding council has been asked to apply the student number controls less rigidly in 2013/14. In this year's reduced 'core and margin' competition, which has allocated 5,000 places (rather than the 20,000 places distributed in 2012), the Government has decided that HEFCE does not need to make a corresponding reduction from the core as was the case last year.

The Government has asked HEFCE to continue to recoup unanticipated student support costs from institutions resulting from over-recruitment. (Eleven higher education institutions were fined for over-recruitment in 2012/13.) In order to help minimize the risk of unfilled places in 2013/14 institutions will be permitted to recruit up to 3 per cent above their total recruitment of HEFCE fundable students which will allow them to avoid fines for minor over-recruitment.

Commentary

The HEFCE grant will fall significantly again in 2013/14 as a second cohort of "old regime students", partly funded by HEFCE teaching grant, graduates and they are replaced by more "new regime students" funded by £9,000 fees. According to the BIS figures for teaching grant plus loans, the total funding for institutions continues to increase significantly in cash terms until 2014/15, although government expenditure plans in unprotected departments are now subject to review. BIS funding may be particularly vulnerable as increases in total university funding since 2012 have compared favourably with other publicly funded sectors of the economy. However, this is because of the large rise in student fees: public investment in higher education has already been subject to severe cuts. The data on which HEFCE funding is based is provisional and grants will be recalculated to reflect actual numbers that institutions admit. This will be strongly influenced by the choices made by ABB+ students and their A level results in August this year.

For a second year 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 2013/14. 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 40 per cent of their HEFCE funding compared with last year. Despite these wide variations, HEFCE continues to believe that higher fee income will generally be sufficient to allow the large majority of institutions to maintain or increase their total income.

In the White Paper the Government said it wanted the core and margin competition 'to grow steadily in future years', but, as discussed above, it has scaled it down considerably in 2013/14. Student quotas have not been reduced in order to create the margin pool and the eligibility criteria have been modified so that institutions charging up to £8,250 (rather than £7,500) in average net fees may compete. Last year's competition was not a success: it did not reduce fees levels to the extent the Government had hoped – if at all – and 7,000 of the 20,000 places allocated remained unfilled. The Government may also have recognised that the universities affected could not afford to lose such a high proportion of their numbers year after year if the competition had continued on a similar scale.

These changes may give some relief to the 'squeezed middle' of institutions which could have faced the loss of further numbers to the 'margin' pool but they still face additional competitive pressures from the reduction of the A level grade threshold at which universities can recruit unlimited numbers of students (now reduced to ABB). HEFCE has taken 30,000 places from the undergraduate number controls to provide these places in 2013/14. This increases to a total of 115,000 the number of places that have been removed from student number controls leading to more unpredictable outcomes for many institutions in the second year of the fee regime.

The HE budget is tightly constrained and, as revealed in earlier HEPI reports and now admitted by the Government, the costs of the new policies have been under-estimated. So it cannot afford to remove the control over total student numbers – it cannot afford the risk that if universities were not constrained the number of students recruited might lead to a budget overrun. However it is banking on the number of students with AAB (and from 2013-14 ABB) grades being limited, finite and predictable. So, it hopes, this measure will lead to greater competition between institutions for such students, but will not run the risk of a budget overrun. It will lead to uncertainty between institutions, and there will be as many losers as there will be winners, and the losers in the ABB competition will not be able to increase their number of non-ABB students (because those will be tightly controlled). And unlike in a real market there will be no opportunity to grow the market. That is one of the problems with the false market that the Government has been obliged to create because it has not been able to create a real market, which is what it has said it would like to do.

Part-time students

The HEFCE report *Higher education in England: Impact of the 2012 reforms* (March 2013), which is discussed on page 4, shows that part-time enrolments have fallen significantly in 2011/12 and in 2012/13. Part-time entrants fell by 26.6 per cent to 221,000 in 2012 compared with the previous year (and were 37 per cent down on 2010). Part-time undergraduates fell by 33 per cent in 2012 compared with 2011, and fell by 41 per cent between 2010 and 2012 (equivalent to 105,000 students in total). For postgraduate part-time entrants there was a decline of 6 per cent from 2011 to 2012 and of 27 per cent from 2010 to 2012 (in contrast to the increase in the number of full-time postgraduate students).

A large proportion of part-time undergraduate and postgraduate numbers is concentrated in a small number of institutions, which offer distinctive forms of part-time provision. Despite the overall reduction in entrants, the Open University, the biggest provider of part-time education in the UK, increased its numbers during this period and as a result other providers across the sector have had larger falls in part-time students that the totals suggest.

The steep reduction in undergraduate numbers occurred as part-time fees increased significantly from 2012, despite an extension of fee loans of up to £6,750 a year to undergraduates beginning a part-time high intensity (25 per cent or more) course. As a result up to 154,000 part-time students in total were eligible for these loans and could therefore avoid an upfront payment. However, in 2012/13 only 31,700 new entrants successfully applied for a loan, which represents a shortfall of about a third over the numbers expected. The HEFCE report points to emerging evidence that prospective students - and employers - may not fully understand the new system, and may be concerned about whether they will obtain sufficient value from a significantly higher investment. Students who might have found the money to pay the previous lower levels of fees may simply be unwilling to pay higher part-time fees, despite the fact that for some of them public loans are offered on similar terms to those available to full-time students. During a period of economic challenge when household incomes are falling in real terms, there may be less willingness to make the necessary investment in learning, particularly if the benefits cannot be immediately realised.

Students who are studying for a qualification that is equivalent or lower (ELQ) than one that they already hold, and are therefore not eligible to access public fee loans for part-time study, may have been particularly deterred by increases in fees in 2012/13. A decline in the proportion of undergraduates whose tuition fee is paid for by their employer, which has been evident for several years, may also have affected demand. The fact that employer contributions for part-time postgraduates have remained static is another negative factor.

HEFCE refers to the need to develop a deeper understanding of the risks of large and swift declines in part-time numbers as well as the opportunities for broadening learning in flexible and innovative provision. This recommendation has been taken up by the Minister for Universities who has asked Universities UK to review the evidence on part-time study, and to make urgent practical recommendations on how this provision can be developed. This review, which is being chaired by Professor Eric Thomas, President of Universities UK, aims to make recommendations by autumn 2013.

Commentary

A HEPI report on *Flexible learning: wrapping higher education around the needs of part-time students* (2013) by Professor David Maguire throws further light on these issues. It argues that part-time education – whether at undergraduate or postgraduate level – is an extremely important element in UK higher education: it helps to widen participation, offering opportunities to people who may not have achieved highly at school or who may have made wrong choices at an earlier stage, and it is an essential element in developing the nation's skill base.

The report argues that the diverging trends of full-time and part-time undergraduate numbers can be explained by factors that include the increase in opportunities to study full-time through the expansion of higher education, the removal of ELQ funding, and the general lack of encouragement for part-time study. The new student funding arrangements have increased the cost to part-time students, but only give a minority access to student loans. The report concludes 'that large numbers of part-time students have been put off study by the cost, but also that the measure that the Government put in place in the hope of offsetting the potentially off-putting impact of the cost increase has not been effective'.

The report argues that the traditional 'binary' divide between full-time and part-time modes of study is increasingly outdated, if not already redundant, and that the sector would be better served by a system focused on the concept of flexible study that views all learners equally irrespective of the intensity with which they study. The aim should be to apply all policies (access to loans and grants, provision of a central admission system and the availability of information) equally to all students irrespective of their intensity of study.

Extending loans to all part time students would cost an additional £700 million a year while providing maintenance loans would cost a further £600 million a year. The only realistic way of extending funding would be to remove the public loan subsidy although this would be difficult and politically contentious. However, 'it is something that will need to be considered if the encouragement of part-time education is to become something more than empty rhetoric'. It has also been suggested that the rules that prevent ELQ students from receiving fee loans should be reassessed but this seems unlikely in the current financial circumstances. The report recognises that recent evidence of the sharp decline in demand for part-time education even among those eligible for a loan on similar terms to those studying full-time may indicate that simply treating part-time students the same as full time (which would certainly represent a step in the right direction) may nevertheless not be sufficient. In the longer term, the report argues, there may be no alternative to developing more flexible and affordable provision to underpin demand for part-time higher education – in effect treating it more favourably than full-time. If we are not to see this essential feature of the higher education system wither away such an approach may be necessary.

www.hepi.ac.uk/466-2142/Flexible-Learning—Wrapping-Higher-Education-Around-the-Needs-Of-Part-Time-Students.html

Impact of higher education reform

The first official assessment of last year's introduction of higher fees and new funding arrangements, *Higher education in England: Impact of the 2012 reforms* (March 2013) has been published by HEFCE. It is a revised version of a report commissioned by the Department for Business, Innovation and Skills which was submitted in December 2012 but has not been released.

The report, which identifies a number of problems requiring 'immediate attention' analyses the impact of the reforms on demand for undergraduate higher education. Drawing on UCAS data, it notes that there was a significant drop in the numbers starting full-time undergraduate courses in 2012/13 – 47,000 fewer students compared with 2011/12. Compared to 2011, UK and EU acceptances in 2012 fell by 7,300 (7 per cent) in higher tariff institutions (based on the attainment of their accepted applicants); by 15,500 (11 per cent) in medium tariff institutions; and 30,500 (14 per cent) in lower tariff institutions. Enrolled UK and EU undergraduates paid an average fee of £8,389 (excluding fee waivers).

Application rates

The report also finds that application rates fell below trend in 2012. The proportion of English 18 year olds accepted for entry into higher education also fell in 2012, but levels are consistent with trends since 2006, once deferral rates and other factors in 2011 are taken into account. It also notes that entry rates for disadvantaged 18 year olds increased in 2012 across the UK.

Other findings highlighted in the report include the following:

- amongst UK domiciled 18 year olds, women were a third more likely to enter higher education than men. Women are more likely to enter higher education than men are to apply;
- mature students have been affected much more than younger people by the reforms;
- while acceptances of applicants aged 18 and younger from the UK fell by 1.7 per cent between 2011/12 and 2012/13, for those aged 20 and over there was a drop of 7.1 per cent.

Recruitment to full-time postgraduate provision has held up in 2012/13 following a trend of rising demand for postgraduate study over the past decade. The first students to have paid higher undergraduate fees will not generally enter postgraduate study until 2015, so it will be some time before the impact of the 2012 reforms is known. However, the report comments that 'we cannot assume that this steady position will continue in future'. It also notes that there has been a 'dramatic decline' in part-time entrants at both undergraduate and postgraduate levels and this is discussed separately in this briefing.

There are also major uncertainties about the health of the international student market: 'increased competition from universities in other countries and changes to immigration policies may ultimately have a much greater impact on international recruitment than the student finance reforms'.

Gaps in participation

Although the evidence suggests that the reforms have not made young people from disadvantaged areas less likely to

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study full-time, the HEFCE report points to continuing gaps in participation between different groups of students.

According to UCAS data, 18-year-olds from the most advantaged areas are still three times more likely to apply to higher education than those from the most disadvantaged areas, and entry rates to institutions that require high grades are typically six to nine times greater for applicants from advantaged areas.

The report suggests that the impact of the reforms on widening participation may only emerge in the medium to long term, and this issue will need to be closely monitored. Decreases in the part-time student population, which includes larger numbers of non-traditional students, are likely to have implications for equality and diversity.

Shifts in demand

The report argues that shifts in demand for particular groups of subjects have mainly followed longer-term trends, and do not appear to have changed in response to the fee increases. Clinical subjects and science, technology, engineering and mathematics (STEM) have generally fared better than the arts, humanities and social sciences. Modern foreign languages saw the greatest proportional drop in entrants in 2012/13, of 14 per cent and this trend has continued in 2013.

HEFCE concludes that there is no immediate risk to the overall financial health of higher education institutions in England but notes that the funding reforms, coupled with recruitment shortfalls in 2012/13, have meant there is wide variation in the financial performance and health of different institutions.

The increased volatility of income and greater uncertainty over student demand in future may present medium-term challenges to universities and colleges, including their ability to invest adequately in buildings and equipment.

Commentary

The HEFCE report presents a mixed picture of the early impact of the Government's reforms but it will be some time before the longer term effects on widening participation and postgraduate provision as well as the structure of the sector and the financial health of individual institutions can be fully assessed. HEFCE is establishing an observatory to monitor these changes and consider the impact of wider factors such as economic conditions and evolving school policies.

Attention has focused on the connection between the decline in full-time undergraduate numbers in 2012 and increased fees but there are other factors at work. These include a significant reduction in the number of students who deferred their place in 2011 which gave an appearance of a stronger increase in 2011 and thus the drop in 2012 seemed sharper. Demographic change among the 18 year cohort has also played a part as well as a growing perception of increased graduate unemployment and under-employment. The acceleration in the decline of part-time demand, an issue identified by HEFCE as requiring 'immediate attention', may be more directly connected to increased fees which the majority of students are still required to pay upfront.

The HEFCE impact study refers to greater uncertainty in university income levels and this is underlined by the wide variations in demand at different institutions. UCAS acceptance data show that 11 institutions exceeded their student number limits while some post-1992 universities experienced substantial falls in recruitment with one institution falling by 43 per cent compared with the previous year. This reduced demand was reflected in the fact that 7,000 of the 20,000 places allocated under the core and margin system were unfilled. Universities were allocated 9,400 places and of these 4,200 were not filled. The decision to top slice a proportion of places from all institutions to create the margin was always vulnerable to the criticism that numbers were being reallocated from universities that might have been in demand to those that were not, in contradiction of the Government's wish to expand and respond to student choice.

The second element in the Government's plan to introduce more competition into higher education - the removal of number controls on AAB students - has also had mixed results. Of the 20 English members of the Russell Group, the intake at 10 has declined. Some used the Coalition's policy of lifting the cap on students with A-level grades of AAB or above (or the equivalent) to expand but others had unfilled places and one explanation was a reduction in the number of students achieving the necessary A-level grades. These institutions were unable to compensate for this shortfall by making more offers to students with lower grades as these were subject to HEFCE controls.

Although the recruitment shortfall in 2012 will have a positive impact on the student support budget, as the HEFCE reports points out, the Government has recently revised its estimate of the cost of the new loans system and this could lead to reductions in other parts of the higher education budget. The Government has revised upwards its estimate of the portion of the total loan outlay that will never be repaid by graduates because of subsidies and write-offs.

Known as the resource accounting and budgeting (RAB) charge, it has now increased from 32 per cent to 34 per cent, a change amounting to 'approximately £200 million per year'. The change came in response to the Office for Budget Responsibility's downward revision of its wage growth forecasts – which would mean more graduates remaining for longer below the £21,000 threshold at which student loan repayments begin. HEPI has previously warned that the Government has significantly understated the public cost of the new system. BIS estimates are still based on an assumed mean average of wage increases (an assumption that the pay of low earners will increase by the same percentage as those of high earners), rather than a median average that takes account of variations between high-earning and low-earning groups and the fact that the earnings of high earners have historically risen by much more than that of others, and further upward adjustments to its cost calculations may be expected in due course.

www.hefce.ac.uk/about/intro/abouthighereducationinengland/impact

Budget 2013

In his budget speech on 20 March 2013 the Chancellor of the Exchequer made a single reference to higher education when he pointed to the need for 'supply side reform – to throw the full weight of our efforts behind the entrepreneurial forces in our society . . . Our reform of schools, universities and apprenticeships is probably the single most important long-term economic policy we're pursuing'. The Chancellor also reiterated a theme of his earlier budget speeches when he referred to research and development as absolutely central to Britain's economic future: 'so today I'm increasing the rate of the above the line R&D credit to 10 per cent. Along with our new 10 per cent corporation tax rate on profits from patents coming in next month, this will help make us one of the most internationally attractive places to innovate'.

As one of the Government's measures to stimulate economic growth, the Chancellor announced an additional £3 billion a year for infrastructure projects from 2015/16. He said that this was about 'investing in the economic arteries of this country'. This could provide support for universities to invest for the long term in teaching and research infrastructure, following a loss of the majority of this funding since 2010/11.

The Government has also announced long-term funding of £1.6 billion to support its industrial strategy. Higher education will be central to the strategy – both directly as a sector in its own right, responsible for considerable export earnings, and indirectly by underpinning the other sectors identified by government such as the creative, low-carbon construction, digital, and energy industries. The Chancellor has also announced £1 billion, matched by industry, to fund an Aerospace Technology Institute (ATI) over the next seven years. The ATI aims to support industry and academic researchers to develop technology for the next generation of quieter, more energy efficient aircraft.

Prior to the budget – and in response to Lord Heseltine's report *No stone unturned: in pursuit of growth* (2012) - the Government is creating a Single Local Growth Fund, allocated through a process of negotiation and 'using competitive tension' to strengthen incentives on Local Enterprise Partnerships (LEPs) and their partners to generate growth. The Government has asked Sir Andrew Witty, chief executive of GlaxoSmithKline, to lead a review to explore how universities can support LEPs and other local actors to drive growth in their area and to disseminate best practice.

The budget 'red book' indicates that a proposal to extend the VAT exemption for degree-level education to for-profit providers, a move that was aimed at exposing universities to greater competition, may be abandoned. Following a consultation on the proposal in which concerns were expressed, it has decided to look at 'alternative options…including possible changes to the exemption for further education and will consult on those later in the year'.

Commentary

In addition to the specific measures referred to above, the Chancellor's budget statement confirmed that the spending review for 2015/16, to be announced on 26 June 2013, will incorporate a larger than expected cut of £11.5 billion. This is higher than the £10 billion savings that he announced in the Autumn Statement in December 2012. For the Department for Business, Innovation and Skills (BIS), a non-protected area, this could lead to cuts of the order of £1 billion in 2015/16.

In addition to these spending review cuts, the Government will make further cuts to non-protected departmental budgets of 1 per cent a year in both 2013/14 and 2014/15. This could amount to reductions in the BIS budget of around £130–140 million in each of the two years. These cuts are in addition to the cuts announced in last year's Autumn Statement of 1 per cent in 2013/14 and 2 per cent in 2014/15. This reduced the BIS budget by £150 million and £280 million respectively. The science and research budget will remain ring-fenced for the remainder of the spending review period; the future of the ring-fence beyond 2014/15 will be announced as part of the spending review in June 2013.

The proposed cuts could have a damaging impact on university teaching and research, and the international standing of UK universities. The UK already spends less than its major competitors, investing just 1.3 per cent of GDP in tertiary education (public and private sources) compared to an OECD average of 1.6 per cent. The longer term outlook maybe even more difficult as further significant savings in public expenditure will be needed beyond the next general election in order to eliminate the UK's structural deficit and control the national debt. Although the welfare budget is a primary target for savings, further reductions in departmental expenditure limits are inevitable, raising questions about the future level of government investment in higher education as student-based funding becomes more firmly established.

The new regulatory framework

In August 2011 the Department for Business, Innovation and Skills (BIS) published its *Technical consultation: a new fit for purpose regulatory framework for the higher education sector* setting out how the regulatory environment in higher education would need to evolve to implement policy proposals contained in the White Paper. The technical consultation included details on key proposals, particularly the changing role of HEFCE as a 'lead regulator', and the delivery of the Government's objectives of protecting the student interest, promoting diversity and choice, and supporting high quality provision. It also announced that there would be a consultation on applying student number controls to alternative providers.

Legislative change

Although a number of the proposals did not require direct legislative change, some areas, such as changes to the role and powers of HEFCE, would ideally have required amendments to the law. Despite this, in June 2012 the Government confirmed in its response to the White Paper and technical consultation that it would not be taking forward legislation.

In the absence of legislation, the Government confirmed that a Regulatory Partnership Group, jointly chaired by the chief executives of HEFCE and the Student Loans Company, would oversee the development of a single risk-based regulatory framework which would monitor conditions of provider designation, identify and seek to address risk in the sector, and take appropriate remedial action as proposed in the White Paper.

The group's work is focused on the following four principal areas:

- Design of a regulatory operating framework for higher education in England. The framework will describe the regulatory requirements for a provider to enter and operate in the higher education sector and conditions they would need to meet. The recent decision to approve the University of Law's application for university title by correspondence rather than at a HEFCE board meeting underlines the need for greater rigour in the processes for considering future requests from for profit providers.
- Development of a replacement for the Financial Memorandum in order to create a fit-for-purpose agreement between regulator and institutions, reflecting the changed funding environment. The objectives of the operating framework will be codified in the new memorandum. This work will include resolving the question of whether HEFCE will be able to attach conditions to funding routed through the Student Loans Company in the absence of legislation granting the funding council new powers.
- Redesign of the data and information landscape in higher education in order to streamline and improve the collection, sharing, and dissemination of data and information.
- Review of the risks arising from changing corporate forms and structures focusing on the regulatory implications for the student and public interest, and the reputation of the higher education system as a whole.

It is expected that the framework will be published in July 2013, although a decision on when it will be implemented has not yet been announced.

The development of the new regulatory framework has run in parallel with, and is dependent upon, the outcome of a BIS consultation on applying student number controls to alternative providers with designated courses for the first time.

'Course designation'

This is one of the changes being made to the system known as 'course designation' for alternative providers that wish their students to be able to access loans and grants from the Student Loans Company. There was a clear preference from alternative providers and from other respondents to the consultation for a level playing field of regulation for all providers of higher education in England, combined with a sufficient degree of flexibility to accommodate a diverse range of providers.

In the light of responses, BIS has decided to adopt a method for controlling numbers that provides for similar treatment between HEFCE-funded institutions and alternative providers.

The new arrangements will apply from 2014/15 (which is a year later than originally planned) using 2012 student numbers as the baseline. Under the new arrangements private providers will be required to subscribe to HESA as a condition of having courses designated (except for the smallest providers which will also be exempt from the number controls).

Commentary

The new student control arrangements will provide a mechanism for capping the number of students at private providers claiming subsidised public loans. A total of £100.3 million was loaned by the Student Loans Company to students enrolled at private providers in 2011/12.

These providers currently account for 1.5 per cent of loan funding but there are unanswered questions about the future direction of government policy. The commitment of the Minister for Universities to developing a level playing and encouraging greater competition between public and private providers is clear but no policy on future private provider growth has yet been announced. Leading private providers have been pressing for a significant increase in their share of public loans so that it rises in stages to about 5 per cent of the total.

The final outcome will be strongly influenced by the Treasury's view of an acceptable rate of growth in private provider access to student loans and future decisions on public expenditure levels.

Whatever the outcome the new control mechanism will enable BIS to regulate growth by applying an increase or decrease to the 2012/13 recruitment data baseline numbers that will be used to determine the 2014/15 student number control.

International students

The first impact of the Coalition Government's immigration policies may be seen in figures published by the Higher Education Statistics Agency (HESA) early in 2013 which show that the number of first year international students has decreased by 0.4 per cent in 2011/12. This is largely the result of a decrease in postgraduates. International entrants to postgraduate degree courses fell by 2 per cent in 2011. These figures relate to new entrants by the autumn 2013.

The overall number of international students enrolled on courses in universities has increased by 1.5 per cent in 2011 - driven by increases in the number of new entrants in previous years, many of whom are enrolled on courses lasting more than a year. The total number of international students enrolled on postgraduate courses dropped for the first time in ten years, before which records are not directly comparable. Within this it is clear that overall demand is being sustained by rapid growth in the number of Chinese students. UCAS data show that international student applications in the 2013 cycle have increased by 6.3 per cent (compared with 12.1 per cent in the previous year).

Visa applications

Further evidence of a recruitment downturn is provided by Home Office data that show that Tier 4 visa applications (the main route for international students) are substantially down, although the majority of the decrease is accounted for by a reduction in the number of visa applications for study at further education institutions and private colleges.

Visa applications for study at universities are flat. The Tier 4 visa route was reviewed early 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 job from staying in the country and claiming benefits after they had finished their course.

Problems experienced by students with police registration in London and the UK Boarder Agency's (UKBA) action in revoking a university's highly trusted status - and its impact on the students studying there - have added to concerns that the UK is no longer open to international students. The closure of the UKBA, announced in March 2013, is unlikely to have any immediate impact on the higher education sector.

Changes to visa policy to date have produced a reduction in net migration to the UK, which fell by a third in the year ending June 2012, compared with the previous twelve months. The Office for National Statistics reported that 163,000 more people came to live in the UK for twelve months or more than had left in 2011/12, compared with 247,000 the year before.

However, further progress towards the target of reducing net migration to the 'tens of thousands' will mean that the Government needs to continue to bear down on immigration. International students, who are the largest category of migrant (with university students accounting for about 75 per cent of the total), continue to be counted as immigrants. It has been estimated that international student numbers would need to be reduced by nearly 88,000 over three years (2012/15) in order to meet the Government's net migration target.

Changing immigration policies may make the UK less attractive as a destination of study. There has been a fall in the percentage of overseas education agents saying the UK is a 'very attractive' study destination, in stark contrast to Canada which has seen a 15 per cent rise in a four year period.

At the same time, the international market is becoming more challenging as the UK's competitor countries, such as Canada and Australia, make concerted efforts to increase their share of the international market. The UK's 13 per cent share (in 2010) of this market, the second largest after the United States, may be eroded as a result.

Commentary

There is a real risk that the Government's efforts to control net migration, which reflect wider public concern about immigration, will result in a permanent reduction in the number of international students coming to the UK, who will look increasingly to competitor countries as more attractive locations to study. Lobbying by the higher education sector has focused on the removal of university-sponsored international students from net migration targets, recognising that in the large majority of cases they are temporary rather than permanent migrants and have Home Office confirmation of their strong visa compliance.

The Government has recently announced its intention to publish disaggregated figures for net migration, reporting on international students as a separate category within the total, but this does not address the need to exclude students from the net migration target itself. Five Lords and Commons Select Committees have recommended a change to the Government's approach to including international students within the net migration target but this seems unlikely to be achieved in the short term.

There is a continuing and unresolved tension between the Government's immigration policies and its recognition of the benefits of the international student market to the UK economy. According to calculations by the Department for Business, Innovation and Skills, higher education exports contributed £8 billion to the UK economy in 2009.

The large majority of these earnings are derived from tuition fee contributions from international students, and off-campus expenditure. The same report estimated that higher education exports could be worth £16.9 billion to the UK by 2025. Their growth has been identified as a key sector in the Government's industrial strategy. Yet such growth is incompatible with the continued inclusion of university-sponsored students in the Home Office's drive to reduce net migration.

The new A-levels

The Coalition Government announced its intention to reform A-levels soon after taking office in 2010 as a key part of its plans to raise educational standards and respond to concerns about standards and the suitability of the qualification for progression to higher education. The Office of Qualifications and Examinations Regulation (Ofqal) was asked to take the lead in managing the reform of A-levels. Stakeholders were consulted in 2012 on proposals for reform but not on the government policy behind it. Despite a lukewarm response from the higher education sector and others who concluded that A-levels in their current form were broadly fit for purpose, the Government has decided to press ahead with significant changes.

Early in 2013, in a letter to Ofqal, Michael Gove, the Secretary of State for Education, issued his 'policy steers' with the aim of 'restoring the reputation' of A levels. Arguing that the primary purpose of A-levels was to prepare students for degree-level study, he suggested that they did not 'always provide the solid foundations that students need for degree-level study and vocational education'. The modular nature of the qualification and repeated assessments had contributed to many students not developing a deep understanding or the necessary skills to make connections between topics. Mr Gove pointed to the 'clear dissatisfaction among leading university academics about the preparation of A-level pupils for advanced studies'. He said, for example, that mathematicians were concerned that current A-level questions are overly structured and encourage a formulaic approach, instead of using more open-ended questions that require advanced problem solving. All students should have access to qualifications that are highly respected and valued by leading universities.

The Secretary of State had already announced, as an interim measure, the ending of the opportunity to sit A-levels in January which had encouraged resits and led to 'bitesize' learning but he now proceeded with more radical changes. The AS-level would be retained but relaunched as a stand-alone qualification covering half of the content of a full A-level and delivered over either one or two years. This would represent a change from the present system where universities can use the AS-level to inform admission offers; with the link to the A-level removed this would no longer be possible.

The second major element of the Gove plan is to restore the linear A-level with students being assessed at a single point at the end of two years. Students' knowledge and understanding across the whole course would be tested at that point and the reform was intended to address the issues of modularity and resits leading to grade inflation. The Secretary of State claimed that 'this will allow students to develop a better understanding of their subject through the greater maturity that will be developed over two years of study - something teachers believe can be particularly important for students from disadvantaged backgrounds'.

The need for the new A-levels to be endorsed by selective universities is a key part of the Government's plan. The Russell Group has announced that it is establishing a working party, led by Professor Nigel Thrift, Vice-Chancellor of the University of Warwick, to consider proposals for an advisory body to provide advice to Ofqal on the content of A-levels. The group will focus on A-levels in nine subjects, which are among those commonly required for university entry. The new advisory group will consult with other universities outside the Russell Group as well as relevant learned societies.

The Government has recognised that its original timetable for the development of the new qualification was too ambitious and it has decided to delay the date for the first teaching of the new subject by a year, until September 2015. Ofqal will publish detailed plans for the transition to the new examinations later in 2013 and will be taking steps to minimise any confusion with the new and old style A-levels in different subjects running in parallel for at least a year.

Commentary

The planned reforms have received a mixed reception from the higher education sector and other groups, with criticisms of the reform of AS-levels, of the emphasis on the role of leading universities and of the revised timetable, which is still seen as too ambitious. There were concerns that further uncertainty for students will be created at a time when reforms to university funding were affecting student choice. Although universities generally believe that A-levels are broadly fit for purpose, there was support for moderate change, including a reduction in the number of resits and the reform of the modular structure of the A-level.

There was general support for universities' continued involvement in the development of A-levels but criticism of the composition of the new A-level advisory group, which will only include members from Russell Group universities. Without representation from all types of universities it will not reflect the increasing diversity of the sector or reflect the needs of the wide range of students who apply to university. A two-tier system could emerge as a result.

The strongest criticisms were reserved for the planned changes to the AS-level and in particular the fact that AS levels would no longer contribute to the A-level was seen as a step too far by many. For some universities this would be a significant change as they use the results of AS levels taken in Year 12 as part of the evidence in their decision making, particularly in considering applications for the most competitive courses. They are viewed as a very reliable guide to academic performance. This could mean that they will now need to place more emphasis on other evidence, such as school references - as happened in the past.

Everything for sale?

The Coalition Government's reforms are the subject of *Everything for Sale? The Marketisation of UK Higher Education* (2013) by Roger Brown with Helen Carasso, which has been published by Routledge and the Society for Research into Higher Education. The book argues that these reforms are the continuation of a series of market-based policies that began in 1979 with the decision to end the subsidy for overseas students' fees, and continued with the introduction of research selectivity in 1986, the replacement of maintenance grants with loans in 1990, the expansion in the number of universities in 1992 and 2004, and top-up and variable fees in 1998 and 2006. Whilst these changes may not yet have delivered a true market, they have delivered plenty of market-like behaviour not only by institutions but also, increasingly, by students and employers.

The authors argue that although research selectivity can produce impressive gains in efficiency and, probably, quality, these have not only become more marginal with each selectivity exercise, but have also produced negative consequences – especially for student education - that largely cancel out the original benefits. Even more important, research selectivity, and the way in which judgements are translated into allocations, underpins the reputational hierarchy of British universities which marketisation has exacerbated.

Similarly, some cost-sharing between the taxpayer and the graduate, combined with state support for fees and living costs, is both efficient and equitable, bearing in mind the returns that graduates have historically enjoyed. But various detriments arise if the private contribution goes much over fifty per cent. Allowing new providers into the system is healthy provided they meet basic criteria of quality and accountability. Above all, making resources go further is no substitute for an adequate level of public investment in the first place.

The book's authors go on to argue that the current reforms will make the higher education system even more hierarchical, and even less diverse, than is already the case, and without any compensating gains in quality, efficiency or equity. More selective institutions already recruit very largely from independent schools and upper middle class households whilst the less selective ones recruit more heavily from state schools, further education and sixth form colleges, minority ethnic communities and other households. The AAB/ABB policy creates a new binary line whilst full cost fees put less popular subjects at risk.

The authors conclude that further changes are needed to mitigate the worst effects of marketisation. The balance between fees and funding council grant for teaching should be restored so that the broader public interest in having a full range of subjects and institutions is protected. Research selectivity should be limited to those areas where it is economically justified because of the entry costs. Both 'not for profit' and 'for profit' providers should be held to much stricter tests of accountability and value for money. Higher education should be restored as a public service rather than being viewed primarily as a private economic good.

In the balance: the STEM human capital crunch

In the balance (2013), a report published by the Social Market Foundation, quantifies future employment requirements of the science, technology, engineering and mathematics (STEM) industries, which are at the heart of the Government's aim of rebalancing the economy. This sector is already suffering skills shortages, severely limiting its ability to grow, and these problems are likely to increase as the political pressures to reduce migration intensify. The UK has had a long-run domestic STEM skills deficit, and has tended to rely on migration to make up the shortfall in supply but this may be more difficult in the future.

Current estimates suggest that on average there will be a demand for 104,000 STEM graduates and 56,000 STEM technicians a year up to 2020, with engineers constituting 80 per cent of the total. There were 82,000 UK-domiciled STEM graduates in 2011/12, of which an estimated 18,000 will go into non-STEM occupations, resulting in an annual shortfall of some 40,000 STEM graduates a year. To close this shortfall with domestic employees would mean increasing the number of STEM graduates by about 50 per cent but these figures do not take account of any increased demand as the economy rebalances.

If these employment requirements are to be met, the UK will need substantially to increase the numbers taking STEM subjects at school. There is some scope to increase A-level STEM take-up amongst those who do well at GCSE, and by reducing disparities in achievement between different groups of students. Performance improvements could produce an additional 18,000 STEM graduates a year but this still leaves a significant shortfall. The real solution lies in starting much earlier to boost GCSE STEM attainment across the board. At the moment, too few students achieve good GCSE grades and, in 2011/12, 24 per cent of pupils did not even attempt a science GCSE and only 49 per cent achieved the science component of the eBacc.

As teaching has a major impact on achievement, expanding the supply of science and mathematics teachers is vital. It notes that measures to push up GCSE achievement will take time and require interventions at an earlier age while encouraging more science and mathematics graduates to go into teaching will reduce the supply of labour for STEM industries in the short term. Rebalancing of the economy cannot take place without substantial levels of migration in the short term, while any further delays to improving the domestic supply of STEM skills will make these industries even more reliant on this source in the future, undermining the Government's aim of reducing migration whilst facilitating economic growth.

http://www.smf.co.uk/research/category-two/balance/

Are the changes to higher education funding in England cost-effective?

Are the changes to higher education funding in England cost-effective? (2013), a report produced by London Economics for Million+, argues that the short-term economic benefits resulting from changes to higher education funding in England will be outweighed by their long-term costs. Referring to the potential for unintended consequences associated with any policy change, the report considers the wider macroeconomic implications of the shift from direct to indirect taxpayer funding for higher education and presents new modelling of the new regime adopted from 2012.

Reinforcing and extending the conclusions of an earlier HEPI report on *The cost of the Government's reforms of the financing of higher education* (2012), the new study calculates that the overall costs incurred as a result of the new system will be far greater than the short term Treasury savings. Following a shift from HEFCE funding of teaching to higher student loans, the overall reduction in Treasury expenditure for the 2012/13 cohort is estimated to be approximately £1.166 billion compared to the 2010/11 cohort. The report suggests that there are significant direct costs associated with the higher fees regime resulting from the much larger student loan book and the higher write-off of loans (estimated to rise to almost 40 per cent).

The report also calculates that the reduced higher education participation rate in 2012/13 and changes to the funding system will cost the Treasury approximately £6.268 billion over a 40 year period. These long term costs include £3.001 billion and £0.444 billion in reduced earnings and employment outcomes (at undergraduate and post-graduate level respectively) and £2.360 billion and £0.463 billion in lost taxation revenues (at undergraduate and post-graduate level respectively).

On top of these effects, there will also be a significant inflationary impact. Higher tuition fees form part of the basket of goods that is used to measure inflation. The analysis shows that the fees increase will result in a 0.24 per cent rise in the Consumer Price Index (CPI) in the first year. Although the Treasury will gain from increased revenue in alcohol and tax duties (an estimated £20 million in 2012/13), additional expenditure of £42 million on public sector pensions and £163 million on state pensions will be incurred. Consumers will also experience price hikes on second-class postage stamps, higher regulated rail fares and higher water bills which are linked to either CPI or RPI.

The inflationary effect includes impacts on the Government's own borrowing costs, which will rise as a direct result of the impact of higher fees. The Retail Price Index (RPI) will increase by about 0.22 percentage points in each of the first three years of the new fee regime. RPI impacts on the Government's interest payments on the £294 billion in index-linked gilts that it has issued. This alone will cost £655 million in additional interest payments in the first year of higher fees.

Given that the higher fees will be implemented over three cohorts of students, there will be further inflationary effects in 2013/14 and 2014/15 that are of similar magnitude unless the Government takes action to counter these inflationary shocks. Overall, the report concludes that the longer term costs identified by the report far outweigh the short run Treasury savings (by approximately 6.5 times).

http://www.millionplus.ac.uk/documents/cost-benefit_analysis_pamphlet_2_FINAL.pdf