

uni_funding:

A vision for higher education funding

Much is changing in the world around us -

how we work; create, share and receive knowledge; deliver value; and connect to communities around the world. Our education system needs to adapt to the rapid pace of change as individuals and the economy place new and changing demands on how and what higher education delivers.

For the UK to remain prosperous and united in the future we need to be building a sustainable framework for our universities that allows them to adapt to:

- better respond to the changing global economy;
- build and strengthen their role as hubs of innovation, research and entrepreneurialism;
- respond to changing demands for provision of different forms of learning;
- work collaboratively around the opportunities presented by new technologies and the challenges we face globally; and
- enable individuals and communities to adapt to new opportunities and challenges through building their creativity, agility, resilience and flexibility.

Yet we have a 'one size fits all' funding system for undergraduate higher education and a flawed loan system that seriously constrain our ability to adapt to these changes and demands.

Current limitations

The limitations of the current system stem from operating a single, expensive funding system for undergraduate provision. Problems include:

- a potentially unsustainable and unaffordable system in the long-term;
- a cap on student numbers despite the need for more graduates in our economy;
- a lack of financial support for post-graduate and second chance students, which cannot be easily resolved under current loan conditions;
- the public being unable to see where the Government is investing in higher education, with subsidies largely invisible to students;
- the long repayment periods for graduates (26 year projected average repayment period and growing), making the system burdensome; and
- the lack of space for new and private providers in the system without taking numbers away from established providers.

The current system is unable to adapt to our future needs

Trying to adapt the current system will not deliver what we need for the future. Forcing post-graduates into the highly expensive system for undergraduates is unaffordable.

Trying to squeeze new providers into a system that is already constrained has zero sum gain with numbers having to be taken away from high-quality, established providers to create space for new providers within overall student number controls and funding limits. Making minor adjustments to the graduate repayment system or the regulatory system are also just sticking plasters that will not address the underlying problem: that we are trying to operate a 'one size fits all' approach.

The long-term future work undertaken by University Alliance provides persuasive evidence that the UK needs to break this principle and embrace change.

Why this matters

To put it starkly, we either need to grasp the need for more radical reform or we risk an expensive single system, designed primarily around young, undergraduates, constraining our ability to meet the diverse needs of individuals, society and the economy in future decades.

The labour market needs to be able to adapt to rapid changes in technology, globalisation and increased economic uncertainty. Creating a dual or multiple system approach is critical to ensuring the UK achieves a truly diverse HE system that is fit for purpose. We need a new, long term vision for higher education funding that will underpin such a system.

Developing a new approach

University Alliance is responding to this challenge by developing a proposal for an alternative funding system for the long-term future of higher education. We are doing this collaboratively with our Vice-Chancellors, economists and experts from across the sector, outside HE, as well as experts from overseas. We will also be exploring the potential for a return to a UK wide system for student finance and support.

Framework of new proposals

We have developed a framework that provides an outline of the areas we will be exploring and a structure for our conversations over the next few months:

For the student

1. Significantly reducing fees on publicly-subsidised courses
We will look at options that would re-direct the massive invisible subsidies on loans back into direct public funding for teaching in order to reduce fee levels and achieve a more visible balance of public and private investment in HE courses that are publicly-subsidised.

2. Reform of student support to target those most in need
We want to explore whether funding for student support can be more fairly distributed to those who need it most, including the removal of universal access to student maintenance loans.

For graduates and those already in employment

3. Increased access and support for students who learn while in employment

We will ensure that a part of the system is built intentionally around those who learn whilst in employment, including post-graduates, with a lifetime maximum loan allocation to remove existing barriers for returning students and affordable repayment conditions.

4. A progressive, income-contingent repayment system

We wish to explore options that will achieve a much shorter (5 to 10 year) average repayment period, removing the unpopular lifetime burden of contribution and enabling Government to invest directly into teaching rather than loan subsidies.

For universities, alternative providers and employers

5. The end of the one-size fits all approach

A dual system would allow us to operate a publicly-subsidised system on one side, with a much more flexible, demand-led and entirely market driven system running in parallel, designed to support employers and the professions and to create space for alternative providers.

6. The introduction of a single regulatory system

We will look at a regulatory framework that could oversee multiple systems and markets in HE, taking a differentiated approach across different markets.

For society, the economy and Government

7. A genuinely flexible, expandable, market-driven system which can meet the needs of our future economy

We will ensure there is a part of the sector that can expand at zero cost to Government, is built around those who learn whilst in employment, and embraces a full range of providers.

8. Re-establishment of a Government - student contract

The balance of funding between Government and individual contribution will be redressed nearer to 50:50 for publicly-subsidised courses. This will ensure that a fair and equal contribution is being made by students and society.

9. A cost-efficient system for Government

We will seek to ensure the cash cost and long-term borrowing cost of the new system will not significantly increase for Government, with minimal impact on Public Sector Net Borrowing and Public Sector Net Debt.

Economic principles

It is important to have a set of economic principles to guide these proposals. We believe the following principles are essential:

- Given the mix of public and private (individual) benefits from higher education, there is case for an overall balance of investment that can, and should, vary across the system as a whole.

Principles guiding private contribution

- Income contingent loans (ICLs) are the right mechanism to use to facilitate private contribution because they are based on the principle of consumption smoothing. ICLs ensure that students study for free and only contribute towards the cost of their education once they can afford to; and in relation to the economic benefit they are receiving (income contingent).
- The loan system must be well designed to underpin the funding system. The system should be based on the principle that nearly all borrowers will repay their loan value in full, over a reasonable period of time and without requiring much, if any, subsidy from Government.
- The repayment system should protect low earners and ensure that repayments are progressive so that they are never too burdensome at any level of income. Repayments should not be so low that they burden the graduate with a lifetime of repayment and the Government with a high cost of subsidy.
- Information should be available to applicants about the typical public investment for their chosen course alongside the course fee for the purposes of transparency and to enable informed choices.

Principles guiding public contribution

- The balance of public/private investment can, and arguably should, vary in relation to both the different levels of public/private return and Government policy. The evidence base for rates of return is not sufficiently robust to determine the balance of private/public investment in isolation but provides a useful basis from which the Government can make informed decisions about where it wishes to invest in particular types of HE provision.
- Government subsidy of fee loans should be minimal so that public investment in higher education can be directed in a transparent and visible way into teaching, research, business engagement, widening participation etc. This will reduce the fee, and therefore the loan value, on any publicly-subsidised courses as well as facilitating much wider access to fee loans on all courses, including those not receiving public subsidy.
- The Government is responsible for directing public investment and controlling public spending but these limitations of publicly-subsidised higher education should not constrain the total number of places available if public subsidy is removed from the loan system.

Maintaining existing principles

Any revised model must maintain the principles on which the current system is based. They sought to ensure that the system:

- is sustainable and affordable for students, Government and graduates
- achieves shared investment in HE from the Government and the individual
- is well regulated to protect the interests of students, public investment and the reputation of UK HE
- is free at the point of use for students
- drives quality, partly through market forces
- ensures fair access to all types of higher education
- achieves an expandable and flexible sector, able to grow in both diversity and size to meet the needs of our economy and society

What next?

Over the next few months, University Alliance will examine best practice from our international competitors to identify a funding system for the UK that is fit for the future.

If you would like to be involved in our project, please contact:

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