The impact of fees:
A review of the evidence

A report by University Alliance

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The impact of fees: A review of the evidence

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Executive Summary

A strong case for both public and private investment in higher education

1. Any discussion of funding and student finance should take place within a shared understanding of the nature of universities as both public and private institutions. The question of appropriate balance between public and private funding should not be driven only by economic pressures on the government but based on a coherent argument about the desirable extent of public support for higher education.

2. The investment of public funding in higher education is just that – an investment. The UK government invests 1.1% of GDP in its higher education sector and, in return, universities contribute 2.5% of GDP, making them generators of economic growth and wealth creation. Universities generate over £59bn for the UK economy. Furthermore, the wider social and cultural benefits of universities and the UK research-base to our society are clear.

3. At any point in time it is crucial to maintain public investment in higher education in order to drive the UK knowledge economy – and even more so as the economy seeks to grow out of recession

4. Given the considerable private rate of return to the individual and the regressive nature of a system of 100% public funding for higher education, it is appropriate that individuals should make some contribution to the cost of their university education.

Genuine additional income but still not sustainable funding

5. Variable fees have provided genuine additional income for universities due to the Government's commitment to maintain the standard unit of resource for higher education. This commitment has been key to the additional investment which universities have been able to make in the student experience.

6. However, this additional income has not been sufficient to maintain a sustainable funding position for universities as even with the full additional fee income, the sector is still at 83% of the 1989 public funding level (and would be at 60% without fees). In a recent report to HEFCE, the Financial Sustainability Strategy Group concluded that without increased investment there was a real danger that the quality of the student experience and the UK's success in higher education could not be sustained.

7. The current funding position is likely to become increasingly under threat given the recent announcement that the unit of resource for teaching will be reduced by 4.6% from £4,140 to £3,950, due to £164 million 'efficiency savings' announced in the April 2009 Budget and a £51 million reduction due to additional costs of student support at a time of economic downturn.

Investment in Estates

At **Manchester Metropolitan University** major development work began in 2007 and is currently planned to extend to 2014. The total anticipated investment during this period will be in the region of £300 million. The work consists of a number of ambitious and standard setting projects including the redevelopment of several of the university's campuses, new facilities for art and design, a new business school and Manchester Metropolitan Union (MMU) Student Hub.

Public understanding of current system is poor

8. In effect[1], the 2006 variable fee system was similar to a graduate contribution scheme with no up-front cost and repayments made through the tax system, after graduation, once a graduate was earning over £15,000. Government grants were also re-introduced. For institutions, the additional income was received up-front – not from the students but from Treasury (via the Student Loan Company).

9. New IFS analysis has demonstrated that under the 2006 system, students and universities gained and graduates and the taxpayer paid more. This runs counter to public understanding of the system. As a result of grants, bursaries and an increase in loans available for maintenance costs, students were significantly better off in 2008/09 than in 2003-04. The 2006 reforms successfully transferred contributions from the student to the graduate.

10. Press coverage of the 2006 variable fee system demonstrates that there is a considerable amount of misinformation about the system that was introduced.

11. The most prevalent 'myths' around 2006 variable fees are:

    - there is an upfront fee of £3,000
    - fees have harmed access to higher education
    - higher education needs to be free to enable fair access for all
    - fear of debt and the accumulation of debt is a big problem
    - graduate debt is a major burden and financial risk

[1] For all students that chose to take out fee loans to cover the cost of fees and defer payment until after graduation.

12. The misunderstandings can harm access to higher education even if the system itself has mechanisms in place to support and encourage entry for students from poor backgrounds. Whilst it is essential that these myths are dispelled, it is not clear that this is an achievable aim within the current language of 'fees', 'loans' and 'debt' used to describe the 2006 system.

Participation and access not affected by 2006 variable fee system

13. In terms of the introduction of variable fees in 2006-07 and the associated student support, UCAS application data by region and by socio-economic classification provide clear evidence that these changes did not reduce participation. In each year from 2006-07 to 2009-10, England experienced a higher growth in applications than Scotland where there is no variable fee.

14. In terms of the impact on access to higher education, the data shows that there was an increase in participation amongst students from poor backgrounds following the introduction of variable fees in 2006. Again, in 2007-08 and 2008-09 there was a greater increase in applications from students from lower socio-economic classifications in England than in Scotland.

15. Furthermore, the most recent UCAS data, released in January 2010, confirms that there has been an increase in both the number and share of accepted applicants from the most disadvantaged areas – indeed the largest proportional increase has been from this group.

Attainment, not cost, determines entry to higher education

16. Attainment remains the single strongest determinant of participation in higher education – not cost. The high level of disparity of entry to higher education between students from the richest and poorest backgrounds is a result of the stubborn correlation between educational attainment and socio-economic classification – the roots of which are deep and complex. Nevertheless, those who are qualified and able to go to university continue to do so, on a like for like basis across all socio-economic classifications. These students have demonstrated that they are willing to make a deferred contribution after graduation in relation to the private economic benefit they are receiving.

17. In an attempt to tackle the root causes of barriers of access to higher education, Alliance universities continue to invest significantly in widening participation and activities aimed at raising aspiration from a young age. Furthermore, universities are committed to providing bursaries to those students most in need of extra financial support and have often provided far more generously than the statutory £300 a year for those students receiving full grants.

18. The following factors meant that it remained a rational choice for a qualified person from any background to choose to enter full-time higher education after 2006:

    - no increase to the net upfront cost (because of fee loans)
    - students from poor backgrounds given more financial support for living costs than before 2006 (re-introduction of Government grants, increase of loans available and introduction of institutional bursaries)
    - 2006 graduate repayment system ensures little or no risk is carried by the individual (contributions are made on an income-contingent basis with low-earners protected)
    - high average private rates of return and high average graduate salaries have continued despite growth of the system

The **University of Plymouth** has developed an innovative model of HE/schools liaison to enhance opportunities for disadvantaged pupils. It involves providing information and guidance direct to pupils, and the development of the whole school workforce through close links between the Faculty of Education and schools. The major aspect the University of Plymouth tested was an innovative scheme using students as 'buddies' for children aged 11 and 14 in Plymouth schools. The students were specially trained, committed to maximising opportunities and spent one month attached to individual classes and 'buddying' individual pupils one-to-one.	Investment in Outreach

Net upfront cost does matter

19. Whilst attainment remains the strongest determent of participation in HE, evidence suggests that the net upfront cost or affordability does have an impact on participation rates. This would suggest that upfront affordability, not future cost, is the main financial concern for students.

20. New IFS research shows that a £1,000 increase in upfront fee cost results in a 4.4 percentage point decrease in participation. They concluded that "increasing fees without increasing loans and/or grants by the same value or more will result in a negative impact on participation." In 2006, the negative effect on participation of the introduction of fees was countered by the introduction of fee loans, increased maintenance loans and re-introduction of grants and, therefore, the introduction of variable fees did not reduce participation. Indeed, IFS concluded that "the estimated overall impact of the reforms for low income students… is close to zero and statistically insignificant." This goes a long way to explaining why the 2006 system did not have affect participation.

Market failure and misinformation could harm access

21. Given the widely held misconceptions about a £3,000 upfront fee cost and the risk of graduate debt building up, it is possible that some individuals might be put off by the 2006 variable fee system. Both the name and the complexity of the variable fee system are barriers to public understanding. At present, it is likely that misunderstandings about the present system are causing more harm to access than the system itself.

22. It is essential to ensure that the costs, benefits and financial support available are properly understood by prospective entrants. Alliance universities are committed to providing accurate information, advice and guidance to ensure that no student is deterred from applying to university when they could benefit.

The **University of the West of England, Bristol** has put in place a comprehensive advice and guidance programme aimed at young people and adults from under-represented families, groups and communities to seriously consider higher education as an achievable and worthwhile option. The scale and extent of the outreach programme is substantial – in the academic year 2008/09 the University worked with over 37,000 young people and adults in schools, colleges and communities specifically with low HE participation rates.	**Investment in IAG**

Student experience and quality remain high

23. The National Student Survey has consistently recorded high scores for overall satisfaction, demonstrating that students are continuing to receive a high quality student experience. Alliance universities in England achieved an average of 81% overall satisfaction in 2009. Satisfaction levels have been consistently high since 2006-07 with only a very small decline – a fraction of one percent – in 2008-09 (the first year that 06-07 entrants were surveyed).

24. The UK operates a rigorous quality assurance system that plays a critical role in maintaining one of the best university systems in the world – built on the basis of its quality and standards. Universities are by their nature innovative organisations continually seeking to develop and enhance the experience they offer.

25. Nonetheless, the sector is not complacent and as such a process of review and improvement of the Quality Assurance System is currently underway with a view to improve its flexibility and responsiveness and to ensure that the language used in audit judgements is publicly accessible.

Substantial work has been undertaken at **De Montfort University** including the investment of £1.68m of funding from HEFCE 06/08 Capital Round in the redevelopment of the ground floor of its main Kimberlin Library to create the Learning Zone - a richer, learner-centred, and more flexible physical space. Opening in February 2007, the Zone has proved to be an extremely popular facility, with very positive feedback from both students and academic staff. Since its opening, footfall in the Kimberlin Library has increased by 15%, and uptake of study support has increase by approximately 50%. De Montfort has also recently invested £35 million in a new energy efficient Business and Law building.

Investment in Estates

Fee-income has been invested in ways that improve the student experience

26. Alliance universities are keenly focussed on delivering a quality experience to their students from application through to graduation and beyond. Additional investment in the higher education sector since 2006-07, incorporating additional fee income, has been used to great effect by these universities to improve the student experience in key areas including estates and facilities, staff development, improving student-staff ratios, enhancing employability and graduate attributes and student support .

27. A key area of investment has been the successful implementation of the 2003 Framework Agreement which "provided a framework to modernise pay arrangements with the specific aim of promoting equality, transparency and harmonisation to ensure equal pay is delivered for work of equal value". This was an essential area of investment for the higher education sector, as identified by both the Dearing Review and the independent Bett Review, for the recruitment, retention and sustainable management of a high quality higher education workforce.

Bournemouth University has appointed 150 academics, over the last three years, to drive the transition from teachers to academics and accelerate the development of existing and potential centres of excellence. The University has also significantly increased the proportion of academic staff with doctorates (from 20% to 34%) and has launched a doctoral track scheme to support academics who wish to obtain research degrees.

Investment in Staff

Access to postgraduate study needs careful monitoring

28. Part-time undergraduate and all postgraduate students were not given access to the student support arrangements available to full-time undergraduates in the 2006 system. Access to income-contingent loans remained much more limited for these students.

29. Postgraduate numbers have continued to increase since 2006-07 – particularly one-year taught masters – but HESA data on 2009-10 postgraduate numbers is not yet available.

30. Whilst overall postgraduate numbers are projected to continue to rise, there are real concerns about access to postgraduate education for students from poor families – largely because of lack of student support for the upfront cost. Availability of national data is a problem that needs serious consideration so that access to postgraduate education can be monitored more closely.

An unhelpful divide between full-time and part-time students

31. The 2006 system introduced a false divide between part-time and full-time study that does not exist in terms of the student experience. A high-intensity student studying at 80% full-time equivalent (FTE) is likely to have characteristics, study patterns and qualification outcomes that are more similar to those of a 'full-time' student than a low-intensity 'part-time' student studying at 20% FTE, for example. It is unclear on what basis the 2006 system can justify giving such different student support arrangements to the student working at 80% FTE to the student working at 100% FTE.

32. It is still very early to assess the impact of the current support – or lack of support – available for part-time students on participation. While decline in total part-time enrolments since 2006 has been reported, the latest HESA statistical release shows that between 2007/08 – 2008/09 enrolments have increased by 3%.

33. The part-time student body is increasingly diverse and any changes to the current support system would need to factor this in. This data will be important to revisit should the current support system change to incorporate undergraduate students in relation to their study load.

34. For further evidence regarding the impact of 2006 system on demand for part-time students, please refer to the joint submission to the Independent Review from the Open University and Birkbeck, University of London.

Little or no financial risk carried by graduates

35. The impact of fess on graduates has to be projected because it is too early to observe behavioural data. The first of the 2006-07 cohort graduated in 2009-10 and will not start making graduate contributions until April 2010 – and only then if they are earning over £15,000.

36. Nevertheless, the key features of the 2006 repayment system demonstrate that there is little or no financial risk carried by the individual:

    - simple single system of contribution through the tax system
    - graduate contributions are affordable and relate to earnings not to the loan value itself
    - cannot accumulate debt – no real interest rate
    - low earners and low life time earners protected through earnings threshold and debt write-off after 25 years
    - student loans not taken into account on mortgage applications

37. The 2006 repayment system introduced a progressive system that is highly subsidised by the Government (or tax payer). IFS projections have illustrated the progressive nature of the system – for the lowest earning 20% of women, 95% of them will not repay their loans within 25 years and will have this written off. They will receive a subsidy of over 60% from the taxpayer. This compares to just 4% of the highest earning 20% of women who will not repay their full loans.

Investment in Employability

The **University of Portsmouth** created the Department of Employability in April 2008 as a response to the University's strategic objective "to give an excellent student experience focused on knowledge and skills essential for roles in the global workforce". The department has developed the Graduate Employability Programme. This offers opportunities to all students to develop employability skills, both through the curriculum and through a range of electives and other specific programmes. In 2008/09 the Service helped over 14,000 students and graduates, this was a 25% increase on the previous year.

Demand for higher education projected to increase further

38. Demand is likely to continue to increase for full-time, undergraduate degrees as a result of demographic trends[2], increased staying-on rates and attainment

[2] There is no projected decline amongst those with the highest propensity to enter HE and shifting patterns towards the middle and upper socio-economic classifications will increase demand for HE.

levels, continued high average private rates of return and graduate earnings premium, reduction of opportunities for non-graduates in an era of mass-participation in higher education and the impact of recession and higher unemployment.

Unaffordable and unsustainable system for Government

39. The current student finance system is extremely costly to the Government because of the high level of subsidies in the 2006 repayment system. Around 97% of male graduates will pay off their loans in full but they will still receive a Government subsidy of around 27% of the value of their loan[3]. Indeed, OECD figures point toward a disproportionately high level of public expenditure on student support in the UK. In terms of total investment in higher education, we are well below our competitors, with the US spending 2.9% as a percentage of GDP and Australia 1.6% compared to the UK figure of 1.3%). If total public spend is considered, however, including student finance, the UK is at a very similar level to the US and Australia.

40. There have already been significant consequences for both universities and students as a result of the high cost of the 2006 system to Government. Student numbers have been restricted on the basis of student support cost for the first time and the Government has announced reductions in the level of funding per pupil. With demand for higher education projected to increase, the cost pressures of the current student support system will increase further.

41. The 2006 student finance system is unaffordable and unsustainable for Government and reform is necessary. Any new student finance system must maintain the key features of the existing system including no up-front cost, student support for living costs, income-contingent repayment and protection of low-earners but it needs to achieve them through more effective mechanisms that are both affordable and sustainable for Government.

42. If the repayment system were reformed to remove blanket subsidies and cover the full cost of loans, then the Government could, in effect, sell the student loan book upfront without making a loss. This could minimise the upfront and long-term cost to the public purse whilst maintaining student support.

[3] zero real interest rates mean that no graduate is paying the full cost of their loan even if they repay in full.

Section 1: Public and private investment in higher education and the current system

The nature and purpose of universities

43. In the present era, as we move towards mass participation, the requirements of the knowledge economy make for an inevitable focus on the economic impact of higher education (HE). However, the value of universities is broader than just their economic impact and the fundamental question about their purpose remains at the heart of the matter. Any discussion of funding and student finance should take place within a shared understanding of the nature of universities as both public and private institutions, the extent to which HE is a public good and what this implies for the appropriate balance of funding between public and private sources.

44. The four main purposes of HE described in the 1997 Dearing Report,[4] still serve as an excellent summary:

- to inspire and enable individuals to develop their capabilities to the highest potential levels throughout life, so that they grow intellectually, are well equipped for work, can contribute effectively to society and achieve personal fulfilment
- to increase knowledge and understanding for their own sake and to foster their application to the benefit of the economy and society
- to serve the needs of an adaptable, sustainable, knowledge-based economy at local, regional and national levels
- to play a major role in shaping a democratic, civilised, inclusive society

45. Universities in the UK are large, self-governing organisations with multi-million pound turnovers. They receive considerable public funding from a variety of different Departments and, as a result, remain accountable to Government in many areas and are often described as 'semi-autonomous' institutions. The UK has an important independent funding body for universities, outside the direct control of Government, to manage the balance between policy direction and stable funding for the long-term health of a dynamic and self-governing sector.

46. HE in the UK has historically been situated somewhere between the traditional European position, where HE is a public good and universities are public institutions, and that of the US, where people have a mixed economy view of

[4] National Committee of Inquiry into Higher Education, Summary report, 1997 https://bei.leeds.ac.uk/Partners/NCIHE/

HE. In the US, individuals invest in HE to achieve high economic returns and many leading universities such as Harvard and Yale are wealthy, private institutions. The UK continues to occupy a position somewhere in the middle.

47. Both within the UK the increase in participation in HE and the growing focus on moving towards a high-skill, high added-value economy has brought renewed attention to HE and its role in helping to deliver this vision. This has brought with it increased pressures on public funding and alternative methods of fund-raising – even more so during a period of recession and cuts in government spending - bringing into question the balance between public and private funding.

48. Universities already receive income from a wide range of sources and since the introduction of variable fees in 2006, universities have continued a pattern of reducing dependency on public funding, increasing the percentage of private income (not just domestic fees). Alliance universities obtain less than 50% of their income from core public funding[5].

49. The question of appropriate balance between public and private funding should not be driven only by economic pressures on the government but based on a coherent argument about the desirable extent of public support for HE.

The case for public investment in higher education

50. The investment of public funding in HE is just that – an investment. The UK invests 1.1% of GDP in its HE sector and universities[6], in return, they contribute 2.3% of GDP, making them generators of economic growth and wealth creation. Universities generate over £59bn for the UK economy.[7] At any point in time it is crucial to maintain public investment in HE in order to drive the UK knowledge economy – and even more so as the economy seeks to grow out of recession

51. Furthermore, the wider social and cultural benefits of universities and the UK research-base to our society are clear. Although difficult to calculate, estimates put the social rate of return to a first degree in the UK at around 11 per cent – high in comparison to other areas of public investment[8]. The 1997 Dearing Report described one of the main purposes of a university as 'playing a key role in shaping a democratic, civilised and inclusive society.' Universities were

[5] HEFCE T Grant and QR funding
[6] OECD, Education at a glance 2009, Table B4.1 Direct public expenditure on educational institutions plus public subsidies http://www.oecd.org/document/24/0,3343,en_2649_39263238_43586328_1_1_1_1,00.html
[7] Universities UK, The impact of universities on the UK economy, Fourth report, 2009 http://www.universitiesuk.ac.uk/Publications/Documents/EconomicImpact4Full.pdf
[8] D Greenaway and M Haynes, Funding higher education in the UK: the role of fees and loans, 2003 http://www3.interscience.wiley.com/cgi-bin/fulltext/118866764/PDFSTART

founded as centres of knowledge, learning and enterprise and are powerful instruments of change and social justice. They have always emphasised civic responsibility and community partnership and this ethos has remained integral to Alliance institutions through well over 150 years of civic service.

52. It is in this context of the importance of public investment in HE that this paper discusses the current funding of HE and the impact of the introduction of variable fees in 2006.

Value for money of public investment

53. Not only is the UK HE sector one of the best in the world but it is also a highly efficient system with high value for money of investment in comparison to competitor countries.

54. Government investment in HE is partly in order to deliver the high-level skills needed for the economy. The HE system has much wider purposes and benefits to society but, nevertheless, the very high levels of graduate-level employment and very low unemployment amongst UK graduates demonstrate the high value for money of investment in this area. To take an example, 3 years after graduation, 93% of University of Northumbria graduates are in graduate-level employment and less than 1% are unemployed. This demonstrates considerable value for money in this area.

55. In terms of total expenditure per graduate, a HEFCE study found the 'cost' of an English graduate (based on expenditure) was around one third of the cost of their American competitors for classroom-based courses. Table 1 shows that for lab-based courses, English graduates cost around 40% of their Dutch counterparts and less than 65% of the cost of their American competitors.

Table 1: Costs of teaching by country (1997 values)

Country	Annual Cost of a FTE (class- based)	Annual Cost of a FTE (lab-based)	Total Cost of a Graduate (class-based)	Total Cost of a Graduate (lab-based)
Netherlands	£3,255	£9,477	£15,598	£45,415
Germany	£1,597	£5,528	£9,195	£29,869
United States	£6,344	£6,042	£29,249	£27,856
England	**£3,392**	**£5,636**	**£10,764**	**£17,958**
Australia	£2,557	£4,390	£8,248	£13,600

Source: HEFCE International Comparison of the Cost of Teaching in HE, 1997
http://www.hefce.ac.uk/pubs/hefce/1997/m12_97.htm

56. Although the UK has received welcome increased investment per student since 1997 in comparison to these countries[9], it is unlikely to have closed this significant gap in efficiency. It is likely that our graduates remain low-cost in relation to our competitor countries. Reasons behind the relatively low cost of teaching compared to the US are likely to include lower staff costs (in comparison to the US), shorter degree courses, and higher completion rates (one of the highest amongst OECD countries).

International comparisons of investment in higher education

57. According to OECD data, the UK's annual expenditure on HE is lower than most other OECD countries in terms of percentage of GDP per capita[10] and as a proportion of total public expenditure[11]. Total investment in HE as a percentage of GDP in the US is 126% higher than the UK (2.9% compared to 1.3%)[12] with 53% more invested per student[13]. This is despite comparatively high increased investment since 2000[14]. The UK has long been punching above its weight, but in a highly competitive global higher market for HE these low levels of funding have had real implications (see FSSG independent report to HEFCE, Section 7).

58. International comparisons of expenditure further demonstrate that a significant increase of income is needed for universities to continue to deliver the highly-skilled graduates needed for the economy and to continue to compete with the best in the world.

59. However, the high cost of the 2006 student support system for Government means that, when all public expenditure is factored in, the UK spends 1.1% of GDP, compared to the US at 1.4% and Australia at 1.1%.[15] This is partly a reflection of the fact that the UK is spending a disproportionate amount on student support costs. This raises the question of whether the current system of student support is effective at directing resources to those in need, whether it is affordable or sustainable and whether public funds are being directed in the most effective way in the current system (discussed in more detail in Section 8 of this report 'impact on government').

[9] OECD, Education at a glance 2009, Table B1.5. Change in expenditure on educational institutions for all services per student http://www.oecd.org/document/24/0,3343,en_2649_39263238_43586328_1_1_1_1,00.html
[10] Ibid, Table B2.2. Expenditure on educational institutions as a percentage of GDP
[11] Ibid, Table B4.1. Total public expenditure on education
[12] Ibid, Table B2.2. Expenditure on educational institutions as a percentage of GDP (including private investment)
[13] Ibid, Table B1.4. Annual expenditure on educational institutions per student for all services relative to GDP per capita (excluding R&D activities)
[14] Ibid, Table B1.5. Change in expenditure on educational institutions for all services per student
[15] Ibid, Table B4.1. Total public expenditure on education (including student support costs)

The case for the individual to contribute to the cost of higher education

60. Given the considerable private rate of return to the individual it is appropriate that individuals should make some contribution to the cost of their university education. This case was well made in the 1997 Dearing review and led to the introduction of the £1,000 flat fee in 1998. The 2006 system made a stronger connection between graduate earnings, or private returns, and contributions by introducing deferred fees repaid on an income-contingent basis after graduation.

61. Furthermore, there is a strong social justice argument for individuals to contribute to the cost of HE. It is an uncomfortable truth that there remains a stubborn correlation between participation in HE and social class. As long as this correlation continues then a fully publicly funded system for HE would actually be highly regressive. Tax payers as a whole would be paying for what is still a minority of young people – largely from higher income backgrounds – to go to university. This would be particularly regressive when the private economic benefit that those individuals attending university are likely to receive in terms of higher salaries is brought into consideration.

62. Some have argued that graduates already contribute to the cost of HE through paying higher taxes as a result of higher earnings. Additional tax revenue from graduates compared to non-graduates, however, does not go directly to fund HE – it is not like a National Insurance contribution. Given the proportion of public funding that is invested in universities, calculations have shown that graduates contribute around 9% of the cost of their degree in additional tax payments as a result of higher salaries.[16]

63. Furthermore, it is simply not possible to fund a mass HE system by public purse alone. Whilst there is still a considerable public opinion in the UK that HE is a purely public good and should be entirely publicly funded,[17] it is gradually becoming more widely accepted that graduates should make a contribution towards their degree along with government and business.

Current financial health of the sector

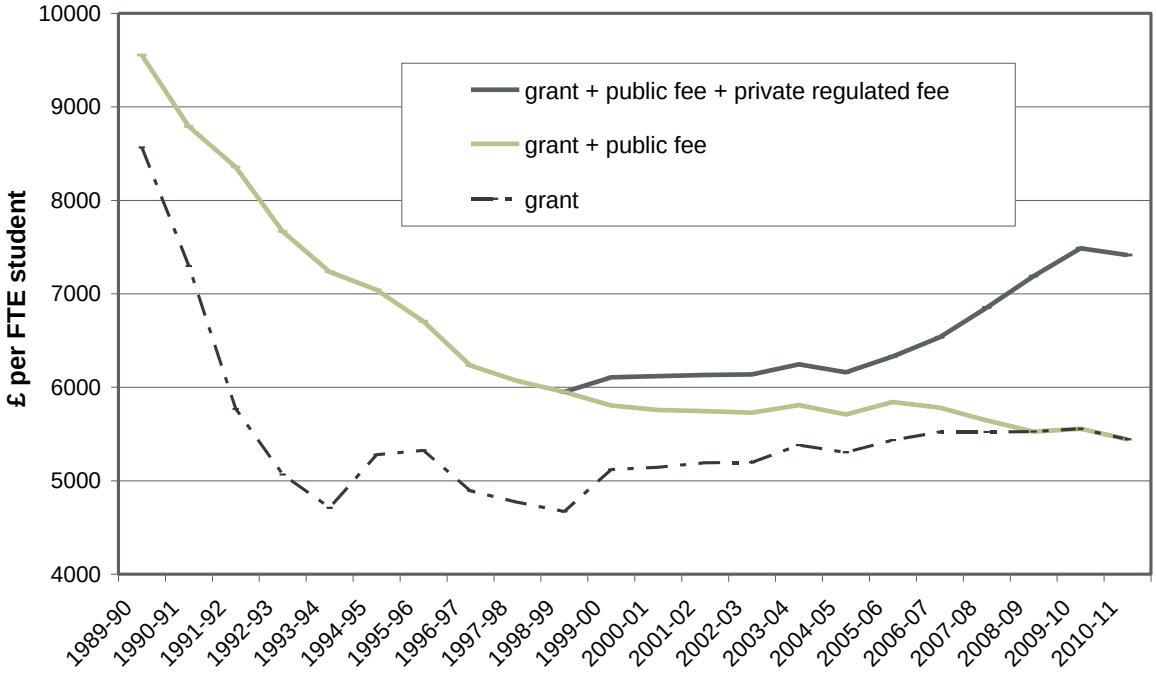
64. Because of the Government's commitment to maintain the standard unit of resource (funding per pupil) for HE, the income brought in through the introduction of £3,000 variable fees in 2006 was genuine additional income. It

[16] Calculations are based on average lifetime earnings (IFS), average tax contributions for these earning profiles, and HE expenditure as a % of total public expenditure. For detailed figures please contact University Alliance.
[17] The decision to scrap the graduate contribution in Scotland, Liberal Democrat commitment to scrap fees – even if over a longer period of time.

was not, however, sufficient to achieve a sustainable funding position for universities.

65. Figure 1 shows that even with full additional fee income we are still only at 78% of 1989 public funding levels (based on 2009-10 real term funding). Without fees, funding per pupil would be at 57% of 1989 levels.

Figure 1: Government publicly planned unit of funding



Source: HEFCE, based on official published figures
Notes: Real terms 2009-10 = 100, the effects of ELQ funding being removed and unfunded growth are not reflected in 2010-11 figures

66. Furthermore, the Independent research undertaken by the Financial Sustainability Strategy Group for HEFCE proved that the sector did not enter a new era of affluence with the introduction of fees but remained under-funded. The report concluded that without further investment the "quality of the student experience and the reputation and contribution of English higher education will suffer."[18]

67. Section 7, covering the impact on the financial sustainability of HE, considers this issue in more detail, including with reference to the recently announced reduction in the unit of resource by 4.6%.[19]

[18] JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf
[19] HEFCE grant announcement for higher education funding 2010-11 http://www.hefce.ac.uk/news/hefce/2009/grant/letter.htm

2006 variable fees and student support system

68. Tuition fees were first introduced for home and EU full-time undergraduates in 1998-99 at a flat rate of £1,000 per year. This was an up-front cost, payable at the start of each academic year by all students from families with an income over £34,000 per year. Students from poor backgrounds were exempt from paying. Maintenance costs were supported through means-tested income contingent loans.

69. In 2006-07 a new system of variable fees was introduced. Variable fees and fee loans were introduced for all home and EU full-time undergraduates and a new student support system was put in place for home full-time undergraduates (grants, maintenance loans and bursaries).

70. In effect, the new system was similar to a graduate contribution scheme with no up-front cost and repayments made through the tax system, after graduation, once a graduate was earning over £15,000.[20] Government grants were also re-introduced. For institutions, the additional income was received up-front – not from the students but from Treasury (via the Student Loan Company).

71. The main characteristics of the 2006 system are outlined in Table 2, on the next page. In 2008-09 Gordon Brown announced additional student support reforms, effective as of the 2008/09 academic year, including:

    - an extension of the full maintenance grant to students from families with income under £25,000 p.a.
    - an extension of the partial maintenance grant to students from families with income between £25,000 and £60,000 (previously it was between £17,500 and £37,500)
    - an extension of maintenance loan entitlements for students from families with annual income between £27,000 and £60,000
    - a loan "repayment holiday" provision, up to five years, for graduates encountering periods of "temporary financial strain" (buying their first house, starting a family, etc)

[20] For all students that chose to take out fee loans to cover the cost of fees and defer payment until after graduation.

Table 2: Main characteristics of the 2006 system

For students
• No up-front cost, HE is free at the point of use ▪ a variable fee capped at £3,225 a year (94% of English universities charge the full £3,225), income-contingent fee loans (ICLs) cover the full fee • A system of grants, bursaries and loans to help with living costs ▪ full maintenance grants of £2,906 to students from low-income households (income under £25,000 p.a.) to help towards living costs ▪ minimum bursaries of at least £319 a year for those students receiving full grants ▪ income contingent maintenance loans (ICLs) for living costs of up to £4,950 for a student living away from home, outside London (in 08/09)[21]
For graduates
• Single system of repayments ▪ fee loans and maintenance loans repaid through a single graduate contribution system ▪ loan repayments start the April after graduation through a payroll deduction on an income-contingent basis • No real interest rates on loans ▪ no real interest is charged to prevent the value of the loan accumulating ▪ loans are indexed to the RPI • Repayment linked to earnings not loan value ▪ graduates repay only if their incomes exceed £15,000 ▪ repayment is 9% of earnings above £15,000 ▪ those on the median graduate starting salary (£22,000) pay £12.12 a week ▪ after 25 years, remaining debt is written off • Mortgage applications not affected ▪ guidelines set out by the Council of Mortgage Lenders state that student loans should not taken into account on mortgage applications
For universities
• Additional fee income received up-front through the SLC • Bursary payments ▪ compulsory bursary payments for student in receipt of grant ▪ approximately 25% of additional fee income given out in bursary payments and additional aspiration raising and widening participation activity
For government
• Cost of government grants • Cost of fee-loans and maintenance loans ▪ up-front cost of both fee-loans and maintenance loans ▪ cost of loan subsidies – will receive approximately 50% of the cost back in repayments[22]

[21] 2009/10 figures, the maximum fee was £3000 back in 2006
[22] N Barr, Financing higher education: comparing the options, 2003 http://econ.lse.ac.uk/staff/nb/barr_HE_option030610.pdf

Students and universities gained, taxpayers and graduates paid more

72. New IFS analysis has demonstrated that under the 2006 system, students and universities gained and graduates and the taxpayer paid more. This runs counter to public understanding of the system (see next Section on public perception). Table 3 shows that, as a result of grants, bursaries and an increase in loans available for maintenance costs, students were significantly better off in 2008/09 than in 2003-04. In percentage terms, their gain was greater than universities who gained from receiving fee income via the Student Loans Company.

Table 3: Students and universities gained from 2006 reforms

	2003/04	2008/09	**Change**
Taxpayers	-5.6	-6.7	**-1.1**
Students	-0.5	+1.1	**+1.6**
Graduates	+0.6	-1.1	**-1.7**
Universities	+5.5	+6.7	**+1.3**

Source: IFS submission to Independent Review of HE Funding and Fees, January 2010

73. Table 3 also demonstrates that the 2006 system successfully transferred contribution to the graduate rather than the student. It is also worth noting the additional cost to the taxpayer (see Section 8).

Postgraduate, part-time and ELQ students

74. The 2006 variable fee system (including fee loans) applied to home and EU, full-time, undergraduates and the student support system (grants, maintenance loans and bursaries) was available for all home, full-time, undergraduates. Postgraduate and part-time fees remained unregulated in the UK. More importantly, however, part-time undergraduate and all postgraduate students were not given access to the student support arrangements available to full-time undergraduates in the 2006 system. Access to income-contingent loans (ICLs) remained much more limited for these students.

75. Students seeking to re-skill or pursue further study by undertaking equivalent or lower qualifications (ELQs) did not have access to any student support under the 2006 system, including ICLs. In 2008 institutional funding for ELQ students was terminated, saving £100M in the HE budget.

Section 2: Impact on public perception

Public perception about who should pay for higher education

76. In broad terms, the general public seems to have an understanding of the value of universities and the need for investment. A ComRes poll in December 2009, commissioned by the 1994 Group, showed that 86% of the UK public back further investment in HE to maintain the quality of teaching and research.[23] As the Chair of the 1994 Group commented:

> "This overwhelming support for further investment in our universities highlights that the public understand high quality universities are vital to individuals, our economy and society."

77. Interestingly, the 86% was split between whether this additional investment should come from public or private contributions. 45% agreed that the additional investment should come from greater contribution from graduates once they are benefiting financially from their university experience. 41% agreed that it should be funded by a rise in overall income tax rate for everyone.

78. As described in Section 1, there is still considerable public opinion in the UK that HE is a purely public good and should be entirely publicly funded. Fairness or social justice arguments are more strongly associated with the idea that HE should be 'free' for everyone so that anyone can enter. There seems to be very little understanding of the fact that a purely publicly-funded HE system would be deeply regressive because of the stubborn correlation between social class, attainment and participation in HE. It is not widely understood that 'free' means paid for by the taxpayer which, in turn, means everyone - including non-graduates - paying for a privileged minority of the population to benefit from HE.

79. Given the considerable private rate of return to the individual and the regressive nature of a system of 100% public funding for HE, it is appropriate that individuals should make some contribution to the cost of their university education. Whilst this is gradually becoming more widely accepted,[24] there is still a widely held belief that HE could and should be entirely publicly funded.

Public understanding of the 2006 variable fee system

80. Press coverage of the 2006 variable fee system demonstrates that there is a considerable amount of misinformation about the system that was introduced.

[23] 1994 Group, Press release, '86% of UK public back investment in universities to maintain quality of teaching and research', July 2009 http://www.1994group.ac.uk/newsitem.php?item=307
[24] For example the NUS 'Funding our future blueprint' which proposes that students contribute to the costs of their degree once they have graduated http://www.nus.org.uk/PageFiles/5816/NUS_Blueprint_Summary_report_final.pdf

81. Survey data has further highlighted these misunderstandings. For example, a survey undertaken for the Office for Fair Access (OFFA) showed that three quarters of students and two-thirds of parents did not realise that universities and colleges must give a minimum bursary to students receiving the full state maintenance grant. Almost half of students could not work out whether receiving a bursary would affect their eligibility for government grants and loans. Almost half the students surveyed (47%) thought bursaries were one-off payments given to students in their first year. And the majority of students (56%) and 39% of their parents did not realise that bursaries were paid for by universities and colleges.[25]

82. The most prevalent 'myths' around 2006 variable fees are:

- there is an upfront fee of £3,000
- fees have harmed access to HE
- HE needs to be free to enable fair access for all
- fear of debt and the accumulation of debt is a big problem
- graduate debt is a major burden and financial risk

83. The misunderstandings can harm access to HE even if the system itself has mechanisms in place to support and encourage entry for students from poor backgrounds. As described in Section 3, misinformation causes market failure which, in turn, causes individuals to make choices that are not in their best interests. People will act in a way that is rational in relation to their perception of reality rather than the reality itself.

84. Whilst it is essential that these myths are dispelled, it is not clear that this is an achievable aim within the current language of 'fees', 'loans' and 'debt' used to describe the 2006 system. It is entirely reasonable that someone should assume that a 'variable fee' or 'top-up fee' system would include an upfront fee to be paid. It is also reasonable to associate large loans with debt and to associate graduate debt with commercial debt.

85. As discussed in Section 3, a significant failing of the 2006 system was to name it a variable fee system or 'top-up fee' system. A more accurately named system using the language of graduate contribution such as the Australian HE Contribution Scheme (HECS) would not have created the same myths around both upfront cost and commercial debt risk.

[25] C Callender and NIESR, Awareness, take-up and impact of institutional bursaries and scholarships in England, a report to OFFA, 2009 http://www.offa.org.uk/press-releases/bursaries-are-helping-overcome-financial-barriers-to-he-new-research-shows/

Section 3: Impact on participation and access

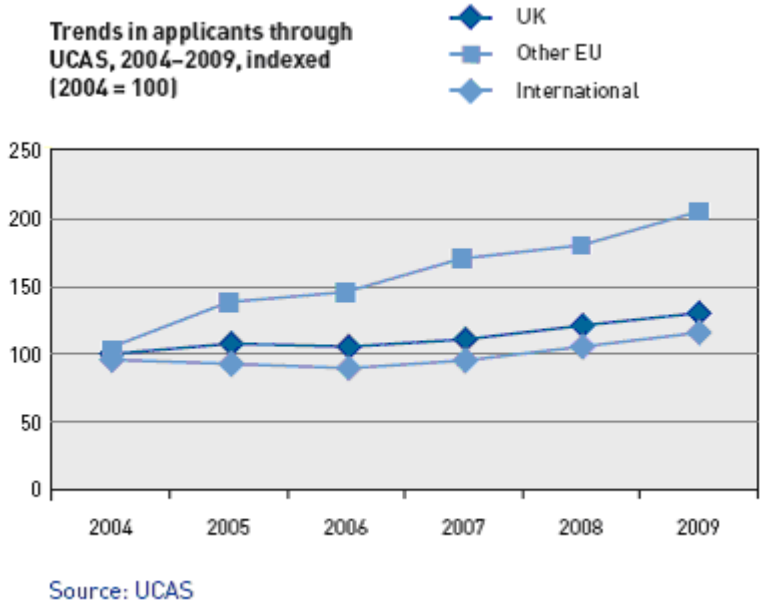
Impact on participation

86. It is still very early to assess the impact of 2006-07 reforms. The evidence presented here, therefore, draws on both international comparison and assessment of the impact of changes made in 1998-99 (first introduction of an up-front fee) on participation.

87. There is overwhelming evidence from the UK and abroad that fees have not reduced participation in HE. We know that across many OECD countries, high private contribution has co-existed with high participation rates.[26] In the UK, Australia and New Zealand there are clear examples of fees being introduced and participation rates continuing to rise – including amongst students from non-traditional or low-participation backgrounds.

88. In broad terms, Figure 2 shows the continued increase in applications through the period in which variable fees were introduced in 2006-07. It shows that the pattern of increase was broadly in line with a parallel increase in other EU and international students (the larger percentage increase of other EU students is due to growth in demand from the 10 Accession Countries that joined the EU in 2004[27]).

Figure 2: Applications continue to rise after 2006-07



[26] N Barr, Higher education funding, 2004 http://oxrep.oxfordjournals.org/cgi/reprint/20/2/264
[27] L Aston, HEPI, Projecting demand for UK HE from the Accession Countries, 2004 http://www.hepi.ac.uk/466-1084/Projecting-demand-for-UK-Higher-Education-from-the-Accession-Countries.html

89. Analysis of the impact of both the £1,000 up-front fee in 1998-99 and the variable-fee introduction in 2006-07 clearly demonstrates that participation was not affected by the introduction and increase of student fees.

90. In terms of the introduction of fees in 1998-99, analysis by HEPI has demonstrated that general participation rates in HE from 1994-1995 to 1999-2000 remained constant. Participation trends were constant across different participation groups.[28]

91. In terms of the introduction of variable fees in 2006-07 and the associated student support, UCAS application data by region and by socio-economic status provide clear evidence that these changes did not reduce participation in England.

92. Scotland abolished upfront tuition fees in 2001 and then in 2008 the Scottish Parliament also ended the graduate endowment fee (a one-off charge of £2,289 after graduation). The fact that there was no equivalent fee in Scotland in 2006 when England introduced the £3,000 variable fee provides a helpful control group for comparison in terms of the impact on participation. [29]

93. UCAS figures in Table 4 show that demand for HE has increased more in England than in Scotland where there is no variable fee. In each year from 2006-07 to 2009-10 England experienced a higher growth in applications than Scotland (see Annex 1).

94. Table 4 shows that from 2006-07 to 2009-10, England experienced a higher growth both in overall demand and as a proportion of the 17 year-old population than their Scottish counterparts. Again, this is further evidence that higher private contribution and high participation can co-exist.

Table 4: England has the highest growth of applications after 2006

	England	Scotland	Wales	Northern Ireland
Total applications				
Percentage change 2006 to 2009	*27.0%*	*10.2%*	*13.7%*	*0.1%*
Overall change in applicants per thousand of 17-year-old population				
Percentage change 2004-2009	30.2%	10.6%	22.0%	9.0%

Source: UCAS

[28] L Aston, HEPI, Higher education supply and demand to 2010, 2003 http://www.hepi.ac.uk/466-1099/Higher-education-supply-and-demand-to-2010.html

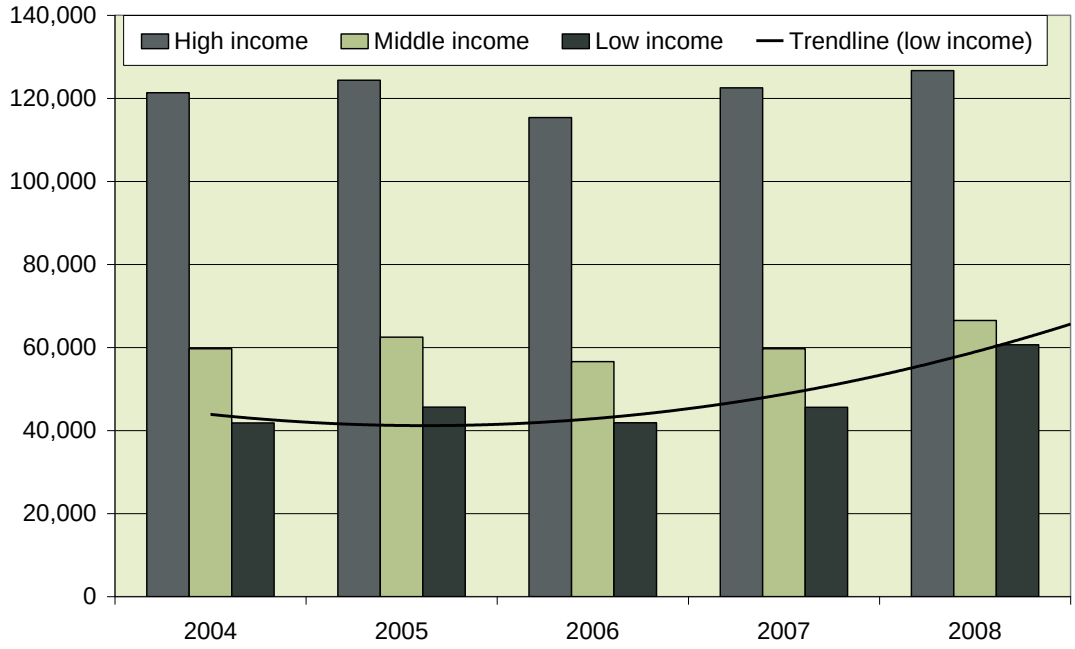
[29] This is by no means a perfect control group but in broad terms provides a helpful comparator.

95. The most recent UCAS data, released in January 2010, confirms that "the numbers and share of accepted applicants from the most disadvantaged areas have increased."[30] Furthermore, the data shows that the largest proportional increase was for those applicants domiciled in areas that have the lowest levels of young participation in higher education.

Impact on access to higher education

96. In terms of the impact on access to HE, the data show that there was an increase in participation amongst students from poor backgrounds following the introduction of variable fees in 2006. Figure 3 shows the disparity in applicants between income groups but it also demonstrates the increase in applications from students from low income backgrounds since 2006.

Figure 3: Applications from low-income backgrounds increased after 2006



Source: UCAS

Notes: 'High income' refers to higher managerial and professional occupations and lower managerial and professional occupations. 'Middle income' refers to intermediate occupations, small employer and own account workers and lower supervisory and technical occupations. 'Low income' refers to semi-routine occupations and routine occupations. Approximate ¼ of applicants are classified as 'unknown'.

97. Again, the Scotland comparison is useful and Table 5 shows that in 2007-08 and 2008-09 there was a greater increase in applications from students from

[30] OFFA, Press release, 'UCAS figures for 2009 show 8.4% rise in applications from students in disadvantaged areas', January 2010 http://www.offa.org.uk/press-releases/ucas-figures-for-2009-show-8-4-rise-in-applications-from-students-in-disadvantaged-areas/

lower socio-economic classifications (SECs) in England than in Scotland where there was no variable fee. In 2008-09 there was a 32% increase in applications from lower SECs (although it should be noted that nearly ¼ of all applications are either not classified or unknown).

Table 5: Lower SEC applications rise in England

Total applications from lower SECs

	2005/06	2006/07	2007/08	2008/09
England	58,188	53,428	58,896	77,492
Scotland	5,896	5,090	5,251	6,059
Wales	3,625	3,598	3,708	4,288
Northern Ireland	3,246	3,035	3,001	3,233

% change in applications from lower SECs

	2006/07	2007/08	2008/09
England	-8%	10%	32%
Scotland	-14%	3%	15%
Wales	-1%	3%	16%
Northern Ireland	-7%	-1%	8%

Source: UCAS

Notes: Lower SEC refers to 'semi-routine occupations' and 'routine occupations'

Impact on demand for postgraduate education

98. There is genuine concern that one of the impacts of the 2006 variable fee system for full-time undergraduates might be to reduce demand for postgraduate education – or at least restrict access to those who can afford the upfront cost.

99. Postgraduate numbers have continued to increase since 2002-03 – particularly one-year taught masters[31] – but it should be noted that 2009-10 is the first year in which graduates of the 2006 system would be entering postgraduate education. We do not have HESA data on 2009-10 postgraduate numbers yet and application data is not available on a national basis because postgraduate students tend not to use a national system such as UCAS.

100. The drivers of demand for postgraduate education are such that it seems likely that overall demand will continue to be strong and is likely to increase. Given the projected increased need for postgraduate level skills in the economy and the additional earning premium that continues for postgraduates,[32] overall demand is likely to continue to rise.

[31] HEPI and The British Library, Postgraduate education in the United Kingdom, 2010 http://www.hepi.ac.uk/files/45%20Postgraduate%20education%20full.pdf

[32] Ibid, Figure 19

101. Furthermore, studies in the US have shown that as the proportion of the population with a degree level qualification increases through mass-participation in HE, this has a knock-on effect for growth of postgraduate demand. This is not just because the pool of qualified applicants increases but because graduates are seeking a way to distinguish themselves from other graduates within the labour market.

102. Whilst overall PG number might continue to rise, there are real concerns about access to postgraduate education for students from poor families – largely because of lack of student support for the upfront cost.

103. We know that affordability, or net upfront cost, is the main financial concern for many students (see Section 4). Given that postgraduate students continue to have limited access to student loans, this will no doubt be a genuine barrier for some.

104. In theory, the very limited financial risk to the individual of taking on student loans (because of income-contingent repayments, protections and subsidies in the repayment system) should ensure that no graduate is deterred from further study because of debt but, as previously discussed, misinformation about the repayment system can mean that fear of debt is a genuine concern for some.

105. A project on widening participation to postgraduate study undertaken by the Higher Education Academy in 2008 found that there was no correlation between students' intentions to go on to postgraduate study and the amount of debt they had and that fear of debt did not relate to the amount of debt but was more related to personal / familial attitudes.[33] This would suggest that more should be done both to extend widening participation activity through to postgraduate study but also to make clear the support which is available to postgraduate students.

106. The bigger concern, therefore, is likely to be in terms of access to postgraduate education and the benefits rather than overall numbers. Availability of national data is a problem that needs serious consideration so that access to postgraduate education can be monitored more closely.

[33] Higher Education Academy, Widening participation to postgraduate study, 2008 http://www.heacademy.ac.uk/assets/York/documents/WPtoPG_Stuart.pdf

Impact on demand for part-time study – an unhelpful distinction

107. The 2006 system introduced a false divide between part-time and full-time study that does not exist in terms of the student experience (or in terms of institutional funding which is distributed on a basis of study load or 'full-time equivalent'). The false dichotomy between part-time and full-time study has already been dropped in many of our competitor countries in favour of a spectrum of intensity of study or 'study load'. This reflects the reality of the student's experience much more accurately.

108. A high-intensity student studying at 80% full-time equivalent (FTE) is likely to have characteristics, study patterns and qualification outcomes that are more similar to those of a 'full-time' student than a low-intensity 'part-time' student studying at 20% FTE, for example. It is unclear on what basis the 2006 system can justify giving such different student support arrangements to the student working at 80% FTE to the student working at 100% FTE.

109. Professor Christine King concluded that the division between part-time and full-time study is increasingly indefensible in her submission to the HE review She said that:

> "despite the growing importance of part-time higher education, it could be argued that part-time students are consistently disadvantaged by the current system and that the very phrase 'part-time' implies a norm of full-time and a hierarchy between the two.[34]

110. The support available for part-time students is comparably unfavourable in relation to that available for full-time students, as part time students are not eligible for maintenance or fee loans. Although the government has introduced some support for part-time students studying over 50% FTE – a maximum fee grant of £1,210 for students studying over 75% FTE and a maximum course grant of £260 on a means tested basis – there are still considerable up-front costs for part-time students when compared to their full-time colleagues. Higher education is not free at the point of use for part-time students.

111. As with full-time students it is still very early to assess the impact of the current support – or lack of support – available for part-time students on participation. While decline in total part-time enrolments since 2006 has been reported,[35] the latest HESA statistical release shows that between 2007/08 – 2008/09

[34] C King, Part-time study in higher education, 2008 http://www.bis.gov.uk/wp-content/uploads/2009/10/HE-part-time-studies.pdf
[35] Million +, Fair funding for all, 2010 http://www.millionplus.ac.uk/research/fair-funding-for-all

enrolments have increased by 3%. As Table 6 demonstrates, the data would seem to signal that the decrease in 2007/08 numbers was a temporary dip rather than the start of a trend but more information would be required to make an accurate assessment.

Table 6: Overall undergraduate enrolments for part-time study appear stable

UK figures	2004/05	2005/06	2006/07	2007/08	2008/09	**% change 2007/08 to 2008/09**
Undergraduate, part-time enrolments	563,000	563,500	563,500	544,000	559,000	**3%**

Source: HESA statistical first release, Table 1, 14 January 2010
http://www.hesa.ac.uk/index.php/content/view/1578/161/

112. The part-time student body is increasingly diverse and any changes to the current support system would need to factor this in. One important distinction, for example, can be made between students on high-intensity courses (more than 0.25 FTE) and those studying on low-intensity courses (less than 0.25 FTE). We know that "nearly all students on high intensity part-time undergraduate courses are studying for full HE qualifications, compared to a small percentage of those on low intensity courses."[36] This data will be important to revisit should the current support system change to incorporate all undergraduate students.

113. For further evidence regarding the impact of 2006 system on demand for part-time students, please refer to the joint submission to the Independent Review from the Open University and Birkbeck, University of London.

[36] L Aston, HEPI, Higher education supply and demand to 2010, 2003 http://www.hepi.ac.uk/466-1099/Higher-education-supply-and-demand-to-2010.html

Section 4: Understanding trends in participation and access

114. It is important to review the evidence about participation and the impact of fees to understand why the introduction of variable fees in 2006 did not harm access to HE in England.

115. Demand for HE is determined by a number of factors. The system of student finance is one of these factors but by no means the most significant.[37] Participation trends in the UK and international comparisons have demonstrated the fact that the introduction of and increase in fees have had very little affect on participation in HE.

116. We know that for full-time undergraduate entrants (for whom variable fees were introduced) demand can largely be determined by attainment levels and population trends[38]. Indeed, there is a considerable body of evidence and international research that has shown that price elasticity of demand for HE is low. [39] Analysis of participation in HE around 1998-99 and since 2006-07 would support this.

Participation and access are determined by attainment, not fees

117. Attainment remains the single strongest determinant of participation in HE – not cost. Those who are qualified and able to go to university continue to do so, on a like for like basis, across all SECs and have demonstrated that they are willing to make a deferred contribution after graduation in relation to the private economic benefit they are receiving.

118. Figure 4 is a stark illustration of the ongoing disparity of participation in HE between people from the highest and lowest socio-economic backgrounds.

[37] BIS Research Paper no. 9, The role of finance in the decision making of higher education applicants and students, 2010 http://www.dius.gov.uk/~/media/publications/B/BIS-RP-009

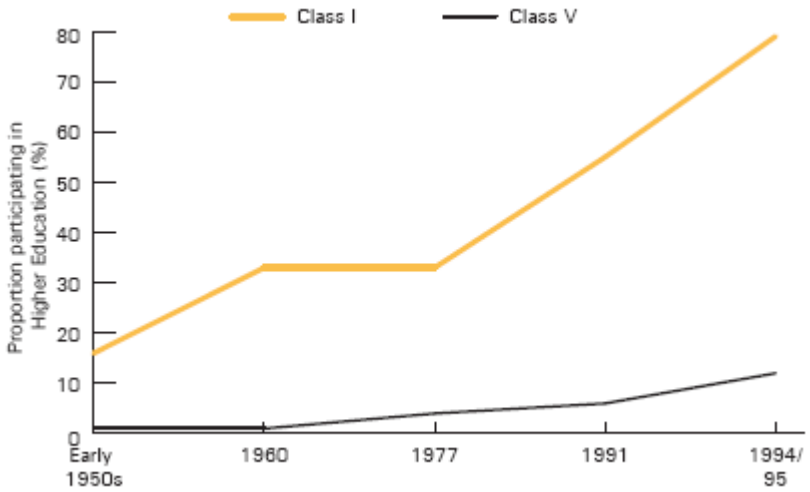
[38] L Aston, HEPI, Higher education supply and demand to 2010, 2003 http://www.hepi.ac.uk/466-1099/Higher-education-supply-and-demand-to-2010.html

[39] The evidence from the US and the Netherlands suggests that the elasticity of demand for HE is rather low except for those from disadvantaged backgrounds. Adequate financial assistance should, however, offset any deterrent for student from low-income backgrounds. An Australian and OECD study found that HECS would not have a significant effect on the private rates of return on education expenditure and should, therefore, not greatly deter participation. See G Biffl and J Issac, Should Higher Education Students Pay Tuition Fees?, 2002 http://www3.interscience.wiley.com/cgi-bin/fulltext/118949027/PDFSTART

An extensive meta-analysis of the literature about student response to price changes in the US was carried out Leslie and Brinkman (1987). Twenty five studies between the 1960s and 1980s were examined and generally found that student demand fell as the cost or price of higher education rose [as IFS found] but that this response was inelastic, that is a one per cent rise in price produced less than a one per cent fall in educational participation.

The studies examined by Leslie and Brinkman that had looked at the price responsiveness of students from different socio-economic backgrounds produced some mixed results but generally low income students were found to demonstrate the highest price responsiveness (note that these were US studies where the price change involved an increase in the net upfront cost for the student).

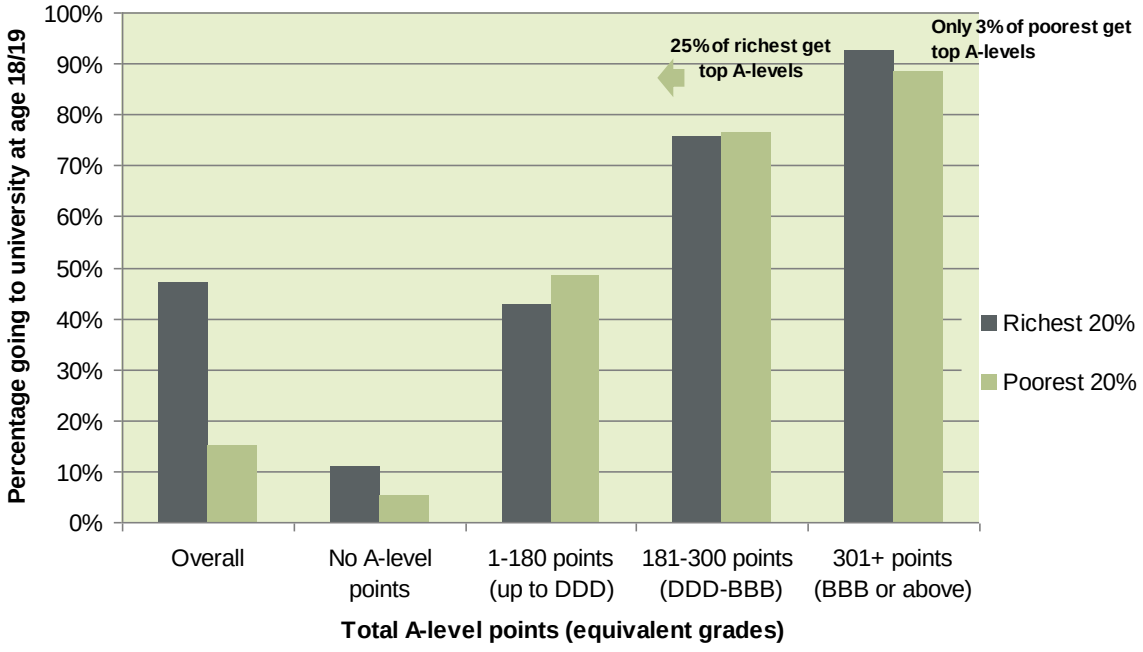
Figure 4: Participation in higher education by class of father, 1950 to 1995



Source: A Wolf, Does education matter? 2002

119. Figure 5, however, demonstrates that the underlying cause is the stubborn correlation between social class and attainment. Educational attainment remains the strongest determinant of entry to HE. Figure 5 shows that when you factor in attainment, students across different SECs participate in higher education on a like for like basis. Attainment, not social class, is the main determinant of entry into HE. The introduction of variable fees in 2006 did not change this fact.

Figure 5: Participation in higher education is determined by educational attainment, not social class



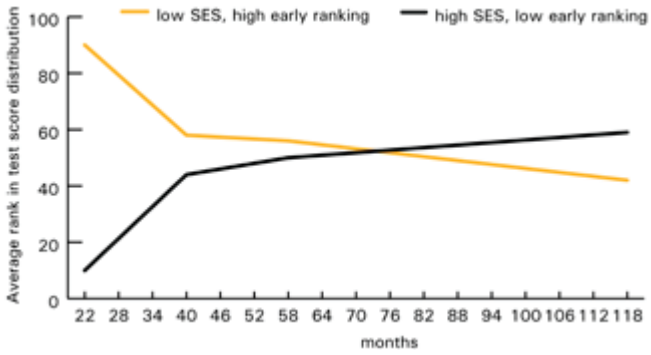
Source: IFS submission to Independent Review of HE Funding and Student Finance, January 2010

120. Figure 5 illustrates the disparity in overall participation in HE between students from the richest 20% and poorest 20% of families. It shows that by A-level point score participation of these two groups is almost identical. It shows, again, that the reason for the differential in access to HE overall is because of the correlation between social class and attainment; for example, 25% of the richest 20% get 'top' A-level results compared to just 3% of the poorest 20%.

Root causes of disparity of access by social class

121. The root causes of this stubborn correlation between educational attainment and class are both deep and complex. Research illustrated in Figure 6 suggests that the correlations between attainment and social class start to have an effect from as early as 22 months and are embedded as early as age 6. By the age of 6, those from low SECs with high attainment scores at 22 months have been overtaken by children from high SECs who had low attainment scores at 22 months. This sifting of attainment by social class is deeply concerning.

Figure 6: Low scoring, high SEC children overtake high scoring, low SEC children by age 6



Source: L Feinstein, Inequality in the early cognitive development of British children in the 1970 cohort, 2003

122. The attainment gap then widens through secondary education. Students from the highest SECs are nearly three time more likely to achieve five GCSEs A*-C compared to students from the lowest SECs. 25% of the richest 20% of students get 'top' A-level results compared to just 3% of the poorest 20% - more than 8 times as many. Improving prior attainment is therefore the main route to improving access to HE – and this needs to start at a very young age.

Tackling the root causes of barriers to access

123. In an attempt to tackle the root causes of barriers of access to higher education, Alliance universities continue to invest significantly in widening participation and activities aimed at raising aspiration from a young age.

    - The University of Plymouth has developed an innovative model of HE/schools liaison to enhance opportunities for disadvantaged pupils. It involves providing information and guidance direct to pupils, and the development of the whole school workforce through close links between the Faculty of Education and schools. The major aspect the University of Plymouth tested was an innovative scheme using students as 'buddies' for children aged 11 and 14 in Plymouth schools. The effects were dramatic with a substantial increase in the expectations of the pupils involved. In response to the question 'I think most pupils in my class expect their education will last until they finish University' there was a near 22 percentage point rise in those answering 'yes' (from 24.4 – 46.2%) for the younger pupils and a rise from 13.6 to 23.5% for the older pupils.

124. Furthermore, universities are committed to providing bursaries to those students most in need of extra financial support and have often provided far more generously than the statutory £300 a year for those students receiving full grants. Details of this investment along with the broader approach of individual universities to widening participation have been submitted to HEFCE recently as part of the Widening Participation Strategic Assessments.

125. Alliance universities report significant investment in both bursaries and outreach activities:

    - Over the 3 year period, bursaries awarded by De Montfort University to its student population totalled £9.6m. The University has introduced several new bursaries since the first year of variable fees including Regional Bursaries and Creative Industries Bursaries. This has enabled the university to target specific sectors of the student population and build upon its Widening Participation agenda. The introduction of Academic Scholarships to increase the quality of applicants and 'Looked After Child' Bursaries have also ensured a broad student population.

    - Oxford Brookes University has invested in a Community Scholarships programme in which students from schools and FE colleges around Oxfordshire and surrounding counties are entitled to £1,000 per year for up to four years. The scholarships are given to young people who display selflessness to others or overcome big obstacles in their lives to achieve

good grades at school. The scholarship programme operates in addition to the University's bursary schemes which distributed over £3.3m (over 25% of the additional fee income) in 2008/09.

- The University of the West of England, Bristol has one of the most generous bursary schemes in the country aimed at low income families with £1,000 being given to 1 in 3 of its students on annual basis. The University has also put in place a comprehensive advice and guidance programme aimed at young people and adults from under-represented families, groups and communities to seriously consider higher education as an achievable and worthwhile option. The scale and extent of the outreach programme is substantial – in the academic year 2008/09 the University worked with over 37,000 young people and adults in schools, colleges and communities specifically with low HE participation rates.

High private returns and subsidies make higher education a rational choice

126. Another reason why variable fees did not have a negative impact on participation is because, as international studies have shown, HE has a low price-elasticity of demand (see footnote 40). In other words, demand for HE is not particularly price sensitive.

127. Part of the reason for the low price elasticity of demand that has been observed in participation rates since 2006 is the high private economic return from HE. Average private rates of return from HE have remained high despite the expansion of the sector. Table 7 shows that the UK has the highest average private rate of return from university education across comparable OECD countries.

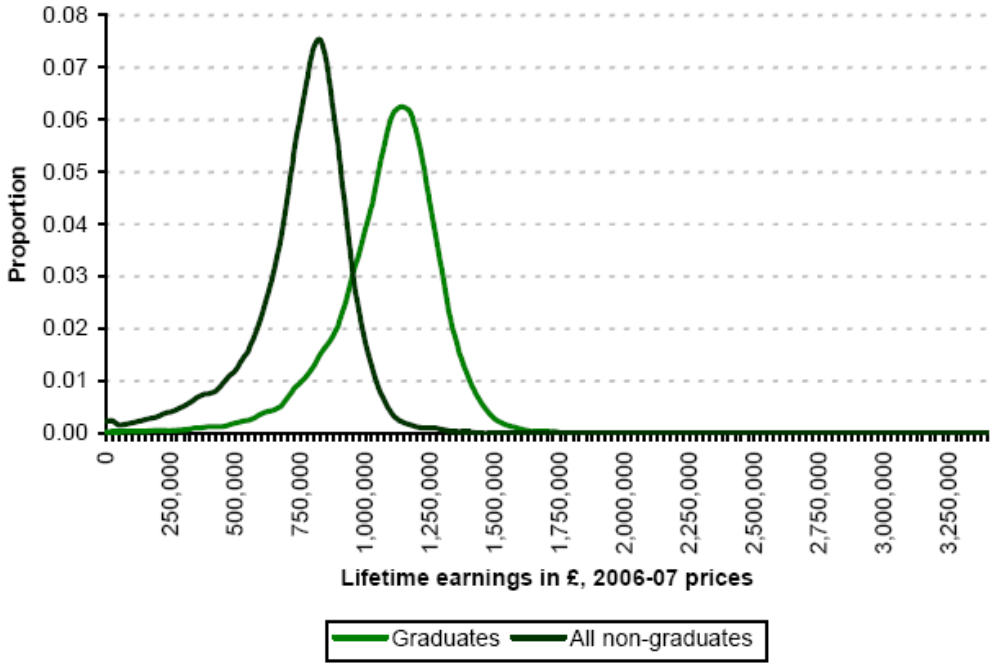
Table 7: Private Rates of Return to University Education in the OECD

	men	women
United Kingdom	**18.5**	**16.1**
United States	14.9	14.7
France	14.3	15.4
Netherlands	12.1	12.5
Denmark	11.5	11.1
Sweden	11.4	10.8
Germany	9.1	8.4
Canada	8.7	9.9
Japan	7.9	7.2
Italy	6.5	8.4
unweighted average	**11.7**	**11.8**

Source: S Blondal and N Giroard, OECD Economic Studies, Investment in human capital through upper secondary and tertiary education, 2002

128. IFS projections of earning profiles for graduates compared to non-graduates, shown in Figure 7, demonstrate the 'graduate premium' graduates receive in higher average salaries. The pattern of normal distribution of salaries is similar but there is a significant difference in average earnings between graduates and non-graduates.

Figure 7: Distribution of lifetime earnings for male graduates and non-graduates



Source: Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005 http://www.ifs.org.uk/comms/comm98.pdf
Notes: Incorporating earnings mobility and non-employment, 2006–07 prices

Net upfront cost does matter

129. Whilst attainment remains the strongest determent of participation in HE, evidence suggests that the net upfront cost or affordability does have an impact on participation rates. This would suggest that affordability is the main financial concern for students.

130. IFS research outlined in Table 8 shows that a £1,000 increase in upfront fee cost results in a 4.4 percentage point decrease in participation. IFS concluded that "increasing fees without increasing loans and/or grants by the same value or more will result in a negative impact on participation." In 2006, the negative effect of the introduction of fees was countered by the introduction of fee loans, increased maintenance loans and re-introduction of grants and, therefore, the introduction of variable fees did not reduce participation.

Table 8: IFS data shows that it is net upfront cost that affects participation

	Change (2006/07 v 2003/04 system) :					
	Net costs	Grant	Loan	Fee	Overall Impact	Partic. (06/07)
Estimated impact per £1k change		*+0.021*	*+0.032*	*-0.044*		
low income	-£1700	£2700	£2000	£3000	-0.009	14.0%
medium income	-£1400	£1400	£2400	£2400	-0.003	17.2%
high income	-£1400	0	£3200	£1800	0.021	31.0%

Source: IFS submission to Independent Review of HE Funding and Student Finance, January 2010
Notes: Chart shows probability of attending a university degree course given fee, loan and grant eligibility

131. Preliminary research suggests that loans are positively related to participation but IFS say more research is needed to fully understand their impact. Furthermore, the research found that maintenance grants have a positive impact on participation. £1,000 increase in grants results in a 2.1 percentage point increase in participation.

132. IFS found that for both low and medium income students the increase in loan eligibility seems to have counteracted the negative impact of increased costs. They concluded that:

> "The estimated overall impact of the reforms for low income students… is close to zero and statistically insignificant."[40]

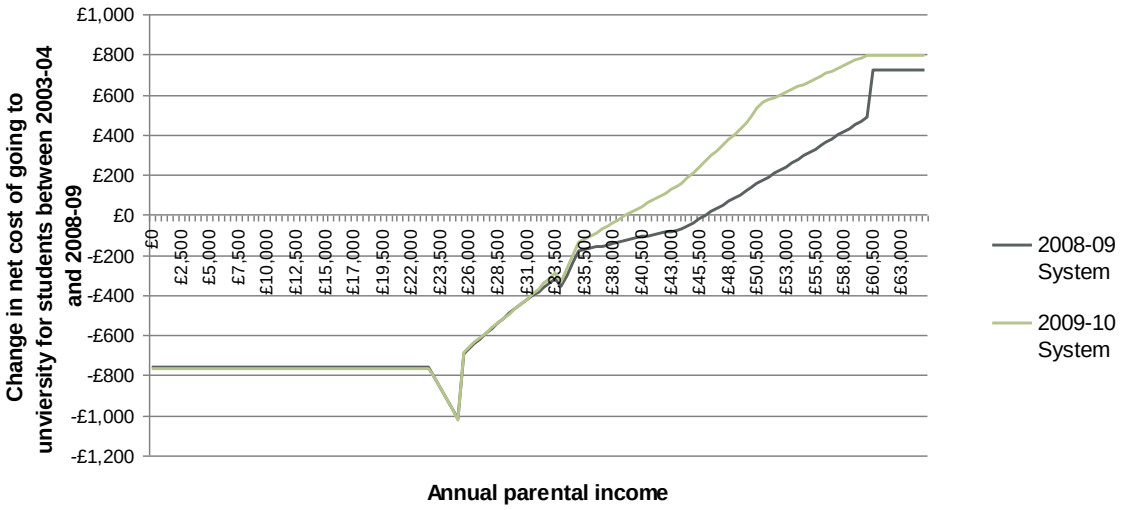
133. This goes a long way to explaining why the system introduced in 2006-07, with no increase in the net upfront cost and the re-introduction of Government grants, did not have a negative effect on participation.

Students from low-income backgrounds better off since 2006

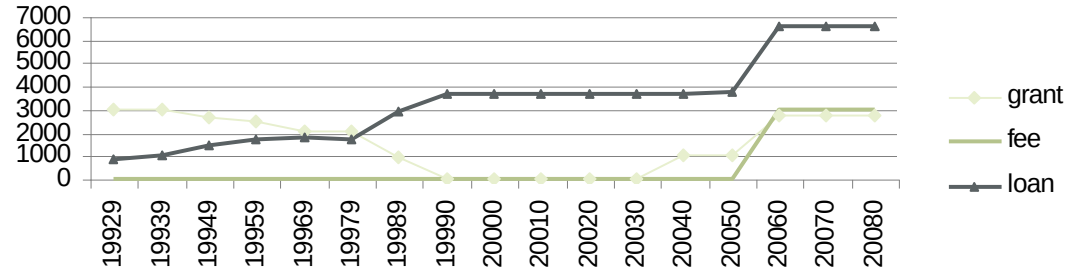
134. Given that there continues to be a significant average private return to the individual (Table 7), higher average graduate salaries (Figure 7), that there is no upfront cost, that since the re-introduction of grants students from lower SECs are actually better off than before 2006 (Figure 8),[41] and given that graduate contributions are made on an income-contingent basis with low-earners protected and that the Government carries the risk of the investment not the individual, it is entirely rational for a qualified person from any background to choose to enter full-time HE – and they do.

[40] IFS submission to the Review of HE Funding and Student Finance, January 2010
[41] IFS data (outlined in Figure 8) demonstrates that the net cost of university was reduced for young people from parental income backgrounds <£46,000 entering in academic year 2008/09. In addition, recent changes effective in 2009/10 mean net cost still lower for all those from parental income backgrounds <£39,000.

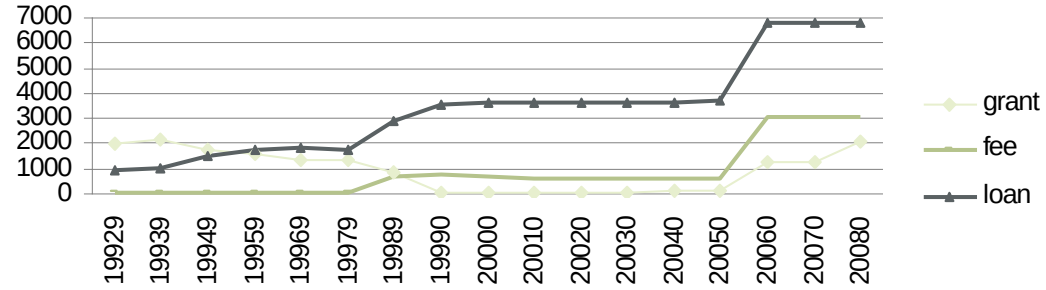
Figure 8: Students from low-income backgrounds are better off



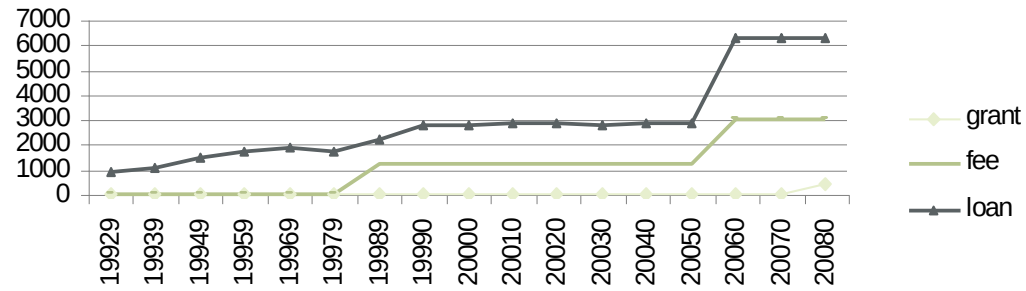
Low income



Medium income



High income



Source: IFS submission to the Review of HE Funding and Student Finance, January 2010

Market failure and misinformation regarding the 2006 variable fee system

135. One of the most important outcomes of a system that is based on graduate contributions, on an income-contingent basis, with no cost at the point of entry, is that it remains rational for all qualified students – including those from low-income backgrounds – to choose to enter HE. In these terms, the 2006 system can be judged to be successful. As soon as HE is either unaffordable at the point of entry or the risk taken on by the individual through the repayment mechanisms is deemed to be too high, it will become a rational decision for some students (those from a poorer background, for example) not to enter HE.

136. It remains the case, however, that market failure is possible where consumers are ill-informed or have misconceptions about either the cost or the expected return on their investment. Given the widely held misconceptions about a £3,000 upfront fee cost and the student support available,[42] it is possible that some individuals might be put off by the 2006 variable fee system. Even though behavioural data demonstrates that this does not apply to many individuals (given the pattern of increased applications from students from low-income backgrounds since 2006) survey data has suggested that concerns might exist with some individuals – especially first generation entrants. The fact that this is a small number of individuals does not allow for complacency - it is not acceptable for any qualified applicant to be denied access to HE on the basis of cost or misinformation about cost, financial risk and support available.

137. The majority of misconceptions around the 2006 variable fee system (an upfront cost of £3,000 and the risk of building graduate debt) are a result of a misunderstanding of the system resulting from the name itself – 'variable fee' or 'top-up fee' and 'loans'. It is entirely understandable that so many people have interpreted this to mean that the system involves upfront fee costs and loans involving financial risk – as with any commercial loan. In terms of basic public messaging the 2006 system of 'variable fees' failed.

138. There is also considerable misunderstanding of support available through bursaries. Research undertaken for OFFA in December 2009 found that three quarters of students and two-thirds of parents did not realise that universities and colleges must give a minimum bursary to students receiving the full state maintenance grant.[43] The report concluded that bursaries 'are helping to overcome financial barriers to HE for a 'significant minority' but that more needs

[42] BIS Research Paper no. 9, The role of finance in the decision making of higher education applicants and students, 2010 http://www.dius.gov.uk/~/media/publications/B/BIS-RP-009

[43] C Callender and NIESR, Awareness, take-up and impact of institutional bursaries and scholarships in England, a report to OFFA, 2009 http://www.offa.org.uk/press-releases/bursaries-are-helping-overcome-financial-barriers-to-he-new-research-shows/

to be done to improve awareness and understanding, particularly at key decision-making stages.'

139. The 2006 changes also failed to deliver a simple and comprehensive system. Instead, a complex system of fees, fee-loans, maintenance grants, maintenance loans and institutional bursaries was introduced that confused support available for fees and support available for living costs. The system should have maintained a clear separation between the two as illustrated in Table 9.

Table 9: Clarity of cost and support available for different purposes

Cost	Support available
£3,000 variable fee	fully covered by fee-loan (ICLs)*
£10,000 pa living costs***	Government grants** maintenance loans (ICLs)* institutional bursaries**

*ICLs refers to income-contingent loans paid back after graduation

** non-repayable

*** estimated by NUS as average annual living costs

140. The 2006 system confused the student support available for fees and student support for the cost of living by tying the 'grant + minimum bursary' amount (available for the purpose of supporting living costs) to the fee level of £3,000. Full fee loans were available to ensure that the cost of fees could be deferred until after graduation for every student making it in essence a graduate contribution scheme. Government grants and bursaries were given to support students' living costs. To suggest that grants and bursaries needed to be offered at the level of the £3,000 fee added to the misconception that fee-loans (and maintenance loans) carry some sort of financial risk that students from low-income backgrounds would wish to avoid. Government grants and bursaries should have stayed firmly on the side of student support for maintenance costs (along with maintenance loans) and minimum levels of both should have been tied to a proportion of living costs rather than to a fee level.

141. In terms of access to HE the student finance system must achieve both the functional side – free at point of use, affordable and with low or no financial risk in the repayment system – and also achieve the PR / messaging side. Even if the system is right, if it is misunderstood this will cause market failure resulting in some students making choices that are not in their best interests.

Information, advice and guidance is therefore hugely important but so is basic public messaging including accurately naming what is, in essence, a system of graduate contribution. Using more accurate language about graduate contribution immediately dispels any myths around either upfront cost or debt accumulation – neither of which are features of an income-contingent, graduate contribution scheme.[44]

Fear of debt

142. Since the introduction of variable fees in 2006-07 there have been a number of reports and significant press coverage about a fear of debt deterring students from entering HE. As the previous section described, myths about the current system are more likely to have caused some fear of debt than the system itself.

143. Behavioural data, how students have voted with their feet, demonstrated through increased participation, including amongst students from low-income backgrounds, would suggest that a fear of debt has not deterred a significant number of students. Given that the repayment system introduced for the repayment of both fee loans and maintenance loans is on an income-contingent basis and protects low-earners and low-lifetime earners, this is to be expected. It is likely that the reports based on survey data and the consequent media coverage have some what inflated the issue.

144. It is helpful to distinguish between a rational concern about taking on financial risk (risk-aversion) and being debt-averse. It is possible, and rational, to be risk-averse but not debt-averse when a loan carries little or no financial risk. This is the case with government-subsidised income-contingent loans if they are properly understood.

145. Surveys have demonstrated some concern about debt amongst applicants to HE, especially amongst students from low-income backgrounds, but it is by no means the most stated reason for not entering HE. Indeed, Table 10 shows that only 13% of respondents to the Ipsos MORI 2008 Student Survey cited fear of debt as one of their reasons for not going to university. Furthermore, the percentage of potential applicants citing 'fear of debt' as a concern was at its lowest level in 2008 since the survey began in 2003.

[44] Note that the current system operates like a graduate contribution system for those that choose to take out fee loans to cover the cost of fees and defer these payments until after graduation. For the small number of students that choose to pay their fees upfront, it does not.

Table 10: Most stated reasons by young people who are unlikely to go into higher education (percent who responded)

Response	2003	2004	2005	2006	2007	2008
Number of Respondents	*343*	*286*	*326*	*220*	*281*	*223*
I prefer to do something practical rather than studying from books	39	49	45	48	52	52
I want to earn money as soon as possible	40	40	48	43	49	50
I can get a well-paid job without a degree	31	25	35	30	34	30
I do not enjoy learning	29	31	29	32	30	25
I do not need a degree to do the job(s) I am considering	32	25	30	21	27	25
I am not clever enough	28	25	26	32	29	22
I don't like the idea of it	24	19	21	22	24	22
I won't get good enough exam results to get into a university	29	29	26	31	24	20
I don't know enough about it	16	15	15	16	16	16
I'm worried about acquiring student debt	14	18	17	15	20	13

Source: Ipsos MORI 2008 Student Survey

146. Moreover, there is considerable evidence that individuals from low income households are not debt-averse when it comes to consumer or private commercial debt. Empirical evidence demonstrates that individuals from lower SECs carry similar, if not greater, household debt than individuals from higher SECs.

- The Bank of England calculated in the five years up to 2000, mortgage holders in low income households increased their debt as a proportion of income more than any other group, while unsecured debt rose most in households in which the head was under the age of 25.
- IFS found that the proportion of those with degrees who had debt (58%) was less than those without degrees holding debt (60%).[45]
- Les Andrews found that SEC had no strong or consistent effect on Australians' level of debt aversion as measured by their willingness to apply for new mortgages or personal loans, and amounts involved.[46]

147. Studies that have used behaviour response data rather than survey data have deduced very different conclusions about debt aversion. International studies

[45] IFS, The distribution of financial wealth in the UK: evidence from 2000 BHPS data, 2002 http://eprints.ucl.ac.uk/2946/1/2946.pdf
[46] L Andrews, Does HECS Deter? Factors affecting university participation by low SES groups, 1999 http://www.dest.gov.au/archive/highered/occpaper/99F/does.pdf

further support the pattern of behaviour observed in the UK where there has been an increase in participation when fees were either introduced or increased. Eckel, Johnson and Rojas (2007) conducted a study (examining experimental, incentive-based decisions rather than survey information alone) of debt attitude on barriers to HE in Canada, and found no evidence that debt-aversion is an important barrier to investment in postsecondary education.

148. The single most important failing of many of the reported studies that purport to demonstrate that fear of debt is deterring potential applicants, however, is the failure to control for attainment. We know that the strongest determining factor in whether somebody enters HE is their level of previous attainment. Based on their prior qualifications, students from all SECs participate in HE on a like for like basis.

149. Recent survey data from a study about the impact of bursaries in December 2009[47] has reinforced the fact that finance is not the strongest determining factor in entry to HE. The survey found that less than one third (28%) of applicants believed bursaries were important when deciding where to go to university. Even amongst the small proportion of students who said that the costs of university influenced their decision about whether to go to university 'a lot', only 37% thought bursaries were important (compared to 22% of students who were unconcerned about the costs of going to university).

150. Nevertheless, it is undoubtedly true that there are a small number of individuals for whom fear of debt is a very real and deterring factor in their decision to enter HE. As IFS stated in their comprehensive 2005 publication:

> "One particular concern is that young people from lower income backgrounds may both discount the future especially highly (i.e. be unprepared to forgo current income for future gains) and be more averse to borrowing in order to generate funds for living costs while they study. This may be in part due to them not understanding the implications of the different funding options open to them. This means young people should be provided with clear and comprehensive information about the likely implications of the different choices."

151. It is essential to ensure that accurate information, advice and guidance reaches all students to ensure that no student is put-off from applying to HE. Nevertheless, in a system with no up-front cost and no financial risk taken on by

[47] C Callender and NIESR, Awareness, take-up and impact of institutional bursaries and scholarships in England, a report to OFFA, 2009 http://www.offa.org.uk/press-releases/bursaries-are-helping-overcome-financial-barriers-to-he-new-research-shows/

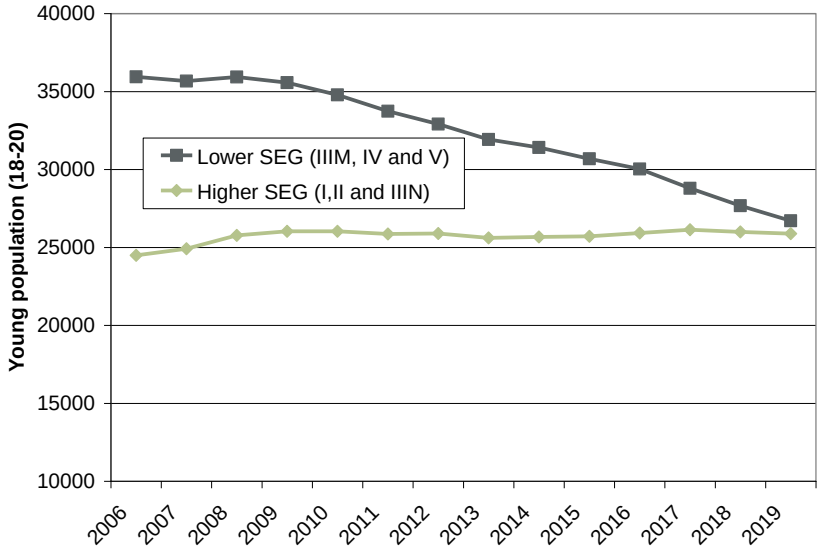
the individual through the repayment system, it is not cost or fear of debt that is the main cause of the disparity in participation by social class – it is the stubborn correlation between SEC and educational attainment.

Future trends in participation in higher education

152. In considering the impact of the introduction of variable fees in 2006-07, it is worth briefly considering projected demand for HE from young, full-time undergraduates in the next few years based on population projections and educational attainment.

153. The demographic downturn in the overall population of 18-20 year-olds after 2010 has been widely reported. Raw demographic data is not, however, an accurate prediction of the impact of population changes on overall demand for HE. History has taught us to be cautious in this area.[48] Around 35 - 40% of the young population enter HE, not 100%, so it is necessary to break down the population projections to look at those groups in the population with a higher propensity to enter HE. [49] As Figure 9 demonstrates, population projections remain steady for those with the highest propensity to enter HE.

Figure 9: Projections steady for those most likely to enter higher education



Source: ONS population estimates and GAD projections http://www.hepi.ac.uk/466-1366/Demand-for-Higher-Education-to-2029.html

Notes: Figures reflect 10% sample of total population, based on data from the technical annex of this report

[48] Kenneth Baker famously predicted a decline in HE numbers in the 1988 White Paper based on raw demographic data alone. Over the next five years (1989 to 1994) there was the fastest growth in HE ever experienced in the UK - the population of the highest social class groups did not decline and participation rates doubled from 15% to 30%.

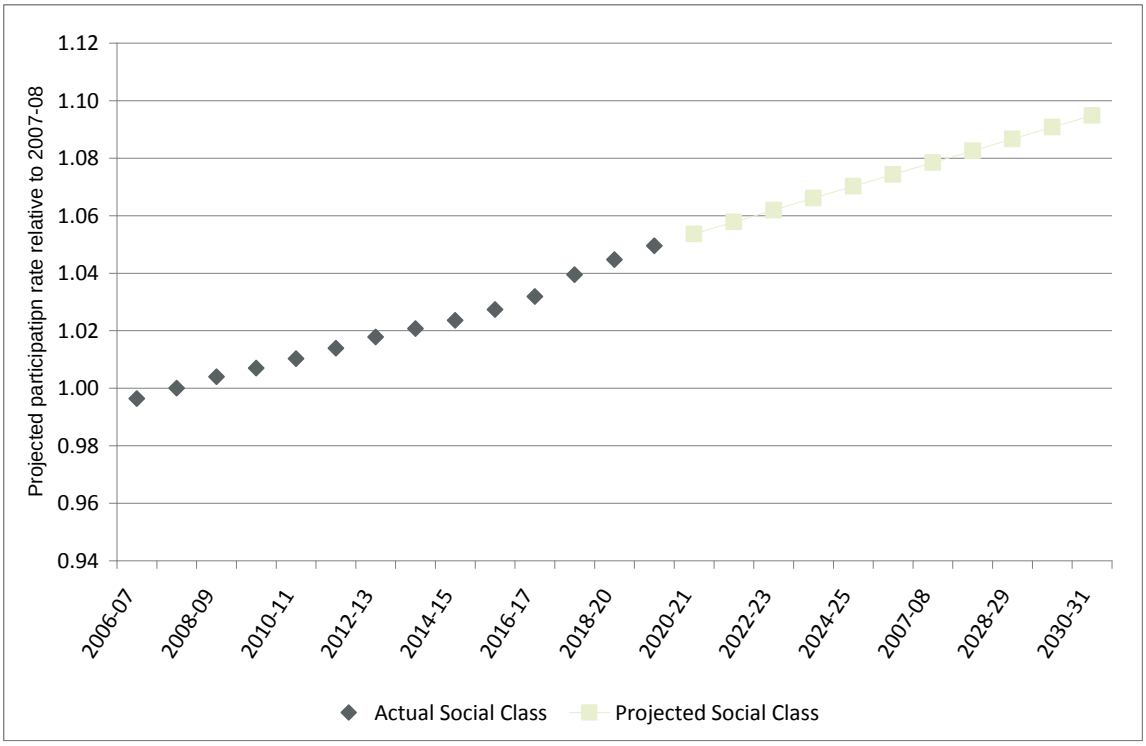
[49] Until the stubborn correlation between social class and educational attainment ceases to exist it will be necessary to disaggregate population projections by social class to establish the impact on the size of the population that is most likely to apply to HE.

154. The 2007 HEPI report that first reported the overall decline in the young population recognised this distinction. It said that "as in the previous period of population decline, the future decline in the 18 to 21-year-old population is likely to be in the groups least likely to participate in higher education." The HEPI report said that "those that participate the most will increase slightly."

155. Far from there being a demographic decline projected after 2010, amongst the population most likely to participate in HE, there is likely to be a small increase in numbers after 2010. There will be no reduction in applications to HE from 18 year-olds as a result of demographic changes. It is concerning that this important fact has not been sufficiently recognised by many policy-makers, Government and press coverage that all continue to raise the issue of demographic decline after 2010.

156. Furthermore, the most recent HEPI paper on demand for HE demonstrates that the changing structure of the social classes in the UK, with greater numbers in higher social classes, will further impact on growth in demand for HE as a result of demographic change.

Figure 10: Change in young participation rate arising from social class changes[50]



Source: HEPI, Demand for Higher Education to 2029, 2008 http://www.hepi.ac.uk/466-1366/Demand-for-Higher-Education-to-2029.html

[50] For sources, assumptions and details of calculations see relevant worksheets in Technical Annex.

157. Figure 10, taken from the HEPI report, shows that "if nothing else changes – i.e. even if there are no other changes in participation – differential births by different social groups will lead to a 5 per cent increase in the proportion of the under 21 age group participating in higher education by 2020-21, and a 9 per cent increase by 2029-30[51]."

158. There will, however, be important regional differences to demographic changes in the young population. Higher SECs groups are projected to increase at a higher rate in the South East of England, for example.

Other factors affecting continued growth in demand for HE

159. Along with demographic changes, the following factors all suggest strong, continued growth in demand for full-time HE:

- projected increase in educational attainment and staying-on rates resulting from introduction of compulsory leaving age extended to 19
- graduate salaries and private rates of return likely to remain high because economic demand for graduates is projected to continue to increase in a knowledge economy[52]
- in a mass HE market, opportunities for non-graduates continue to decline - access to job opportunities will continue to drive demand for HE
- during a recession when there is higher unemployment, many individuals will choose to take the opportunity to improve their high-level skills
- demand for UK HE from highly qualified EU students is projected to continue to increase – particularly from the 2004 Accession Countries[53]

[51] Information is not available on the same basis for 18-year olds after 2020-21 (the ONS changed their social class classifications after 2002), so it has been assumed here that the change in the social class effect continues on the same trend line for the years after 2020-21 as in the previous 10 years. This is borne out by analysis of the birth data from 2002-2006, where the trend on the basis of the new categories was similar to that in the years before 2002.

[52] UK graduates earn a better rate of return on their degree studies than counterparts in comparable countries, according to a study by OECD.
There has been a rapid expansion of HE around the world in recent years, yet graduates continue to command a significant wage premium in the labour market. Stephen Machin and Sandra McNally have shown that there are no problems of 'over-supply' of graduates into the labour market or 'over-qualification' – rather there are 'shortages' in some fields, which further expansion could alleviate. http://cep.lse.ac.uk/pubs/download/cp232.pdf

[53] L Aston, HEPI, Projecting demand for UK HE from the Accession Countries, 2004 http://www.hepi.ac.uk/466-1084/Projecting-demand-for-UK-Higher-Education-from-the-Accession-Countries.html

Section 5: Impact on student experience and quality

Consistently high student satisfaction

160. Satisfaction rates show that students are continuing to receive a high quality student experience. The National Student Survey (NSS) has consistently recorded high scores for overall satisfaction. For example, Alliance universities in England achieved an average of 81% overall satisfaction in 2009 (in line with the overall English average). Table 11 shows that satisfaction levels have been consistently high since 2006-07 with only a very small decline –a fraction of one percent – in 2008-09 (the first year that 06-07 entrants were surveyed).

Table 11: student satisfaction levels have remained high since 2006-07

	2006	2007	2008	2009
NSS overall satisfaction level	80%	81%	82%	81%
University Alliance average				81%

Source: National Student Survey (NSS) results 2008 and 2009

Notes: Percentages are for respondents who 'definitely' or 'mostly' agreed with question 22, 'Overall, I am satisfied with the quality of my course'. Comparisons between years should be made with caution because the profile of the respondents will differ and this has not been adjusted for.

161. Universities are committed to learning from the results of both the NSS and additional surveys conducted at an institutional level and have worked with their students' unions to implement change as a result of lessons learnt. For example at Sheffield Hallam University a "you said, we did" campaign has been very successful in engaging students with dialogue about the university's NSS results.[54]

Internationally respected quality assurance

162. The UK operates a rigorous quality assurance system that plays a critical role in maintaining one of the best university systems in the world – built on the basis of its quality and standards. Furthermore, this self-regulated system achieves the essential role of balancing public accountability and autonomy.

- Alongside the continued high results of the NSS, other surveys have consistently corroborated the quality of experience which students are receiving. For example most recently the NUS / HSBC student experience

[54] Abbi Flint, Preparing for success: one institution's aspirational and student focused response to the National Student Survey, 2009 http://www.informaworld.com/smpp/content~db=all~content=a916487270

survey has reported that 89% of students rated the quality of their teaching and learning experience as either good or excellent.[55]

- Universities are by their nature innovative organisations continually seeking to develop and enhance the experience they offer. For example, independent research undertaken by the Financial Sustainability Strategy Group for HEFCE commented that as well as expanding over the last 20 years, the sector had also "hugely improved the quality, range, relevance, flexibility, responsiveness and efficiency of delivery of the student learning experience"[56]

- We have an internationally respected quality assurance system to be proud of. For example, an independent report comparing the system of quality assurance in the UK compared to the approach in other countries found that "for all the UK qualifications considered, the assurance of national standards and comparability was important. In foreign higher education, however, a concern for national standards is less prevalent. There is a significant lack of externality in some foreign systems with no requirement even for external examiners."[57]

163. Nonetheless, the sector is not complacent and as such a process of review and improvement of the Quality Assurance System is currently underway with a view to improve the flexibility and responsiveness of the quality assurance system and ensure that the language used in audit judgements is publicly accessible. Other areas also being looked at include the availability and accessibility of public information about HE and the external examiners system.

Investing in the student experience

164. Alliance universities are keenly focussed on delivering a quality experience to their students from application through to graduation and beyond. It is clear that the additional investment in the HE sector since 2006-07, -incorporating additional fee income, has been used to great effect by these universities to improve the student experience in key areas.

[55] NUS/ HSBC Students Research Experience Report: Teaching and Learning, 2009 http://www.officeronline.co.uk/education/articles/276899.aspx
[56] JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf
[57] Critical Thinking, Considering the UK Honours Degree Classification Method, International Summary, a report for the QAA/SHEFC Quality Enhancement theme group on Assessment, 2004 http://www.enhancementthemes.ac.uk/documents/assessment/JaneDenholmfinalreporthonoursclassificationREVISED200904.pdf

165. The following case studies highlight examples of investment in Alliance universities since 2006-07 across key areas such as estates, staff and widening participation. Please note that in the information collated we were not looking to make a direct correlation between fee income and investment. Rather, the examples below highlight improvements which have been made during an era of increased public and private investment in the HE sector since 2006-07.

Estates investment

166. University estates have been a much needed area of investment due to the backlog in teaching and research infrastructure from the 1980s and 90s. Universities have used the period of relative financial freedom to invest in faculty/department related capital projects and to create new buildings to contribute to the broader student experience such as libraries and advice centres.

167. Substantial work has been undertaken at De Montfort University including the investment of £1.68m of funding from the HEFCE 06/08 Capital Round in the redevelopment of the ground floor of its main Kimberlin Library to create the Learning Zone - a richer, learner-centred, and more flexible physical space. Opening in February 2007, the Zone has proved to be an extremely popular facility, with very positive feedback from both students and academic staff. Since its opening, footfall in the Kimberlin Library has increased by 15%, and uptake of study support has increase by approximately 50%. De Montfort has also recently invested £35 million in a new energy efficient Business and Law building.

168. The University of Huddersfield's new £16 million state-of-the-art and environmentally sustainable Creative Arts Building was officially opened in October 2008 and is home to the University's music and design faculties. The building's centrepiece is a cube-shaped acoustic lab, the first of its kind in England, which is designed so that musicians can experiment with three-dimensional sound. The building is part of the University's ambitious £150 million new build programme which has seen £80 million invested over the past ten years and plans for a further £70 million over the next seven.

169. At Manchester Metropolitan University major development work began in 2007 and is currently planned to extend to 2014. The total anticipated investment during this period will be in the region of £300 million. The development consists of a number of ambitious and standard setting projects including the redevelopment of several of the university's campuses, new facilities for art and

design, a new business school and Manchester Metropolitan Union Student Hub.

170. Investment at Northumbria University has also been comprehensive with the opening of award-winning buildings at the new City Campus East, the refurbishment of other parts of the Northumbria estate in Newcastle upon Tyne city centre and at Coach Lane, full refurbishment of the Students Union Building, and the provision of a £30m sports facility in the centre of the city, offering state of the art amenities from June 2010, incorporating a high performance coaching environment, infrastructure for sport science research, and sports and swimming for use by all.

Staff

171. The issue of staff pay levels has received much attention over recent years and universities have undoubtedly been in a better position to fund recent large national pay settlements and increased pension contributions as a result of the extra income they have received since 2006/07. Investment in staff can be divided into two categories: expenditure related to pay and conditions and expenditure related to improving the student experience – for example on improving staff student ratios. Investment in pay and conditions also indirectly impacts on the student experience in terms of the ability of universities to attract and retain quality staff.

172. As with university estates, the pay and conditions of university employees has been an essential area in need of investment. As the Dearing Committee found in 1997, many HE staff were paid well below comparable public and private sector rates. Dearing's recommendation that a framework for employment that addressed the "quality, stability, diversity and flexibility in the recruitment and retention of staff"[58] was needed to deliver his vision for the future of higher education and the subsequent recommendations of the Independent Bett review of Pay have been a significant focus for institutions. The resulting Framework Agreement in 2003 "provided a framework to modernise pay arrangements with the specific aim of promoting equality, transparency and harmonisation to ensure equal pay is delivered for work of equal value".[59] The Framework Agreement, the largest human resources initiative ever undertaken in the sector, has now been successfully implemented across the sector.

[58] Recommendations from the Independent Review of Higher Education Pay and Conditions http://www.archive.official-documents.co.uk/document/irhec/irhec.htm
[59] Joint Negotiating Committee for Higher Education Staff, Framework agreement for the modernisation of pay structures, 2003 http://www.ucea.ac.uk/en/Pay_and_Reward/Framework_Agreement/

173. Investment has also been needed in staff student ratios, again following the decline in unit of funding during the 1980s and 1990s. For example, the average staff student ratio doubled between 1990 and 2003 from 9:1 to 18:1[60] Alliance universities have invested in improving this picture as well as in the development of existing staff to improve the overall student experience. For example, Bournemouth University has appointed 150 academics, over the last three years, to drive the transition from teachers to academics and accelerate the development of existing and potential centres of excellence. The University has also significantly increased the proportion of academic staff with doctorates (from 20% to 34%) and has launched a doctoral track scheme to support academics who wish to obtain research degrees. Similarly, at Sheffield Hallam University the number of faculty and research staff increased by around18%[61] from 2005/06 to 2008/09. This was due to a combination of increased student numbers and targeted investment in improving staff student ratios.

Employability

174. Alliance universities educate 26% of all UK students and achieve some of the highest graduate-level employment rates. These universities have been innovative in developing new approaches to graduate employability and have invested considerably in this area over recent years.

175. The University of the West of England has used a proportion of its additional fee income to establish and develop the Graduate Development Programme (GDP). The programme was developed in consultation with UWE students and the UWE Students' Union. The GDP is a key element of UWE's Student Experience Programme and has two overriding principles

- to make the personal development, learning and employability skills, and academic development of students explicit, in order to improve the quality of the student experience through retention, progression and achievement
- to use a common set of aims and outcomes shared across the University, so as to develop distinct 'UWE Graduates' in terms of their capabilities

176. In the 2008/09 academic year the GDP was successfully completed by around 3000 first year undergraduates from a diverse range of backgrounds.

[60] THE, 'Teaching-only staff suffer more stress, AUT poll finds', 28 March 2003
http://www.timeshighereducation.co.uk/story.asp?storyCode=175678&sectioncode=26
[61] Excluding additional staff transferred from the University of Sheffield due to Nursing & Midwifery contract

177. The University of Portsmouth created the Department of Employability in April 2008 as a response to the University's strategic objective "to give an excellent student experience focused on knowledge and skills essential for roles in the global workforce". The department has developed the Graduate Employability Programme. This offers opportunities to all students to develop employability skills, both through the curriculum and through a range of electives and other specific programmes. In 2008/09 the Service helped over 14,000 students and graduates, this was a 25% increase on the previous year. This year the department ran a Graduate Summer Programme for the first time, to support graduates in this challenging economic climate. There were over 2400 contacts and 500 graduates attended workshops and presentations.

Student support services

178. University student support services have evolved significantly over the last 10 to 15 years with many universities now offering an integrated service which bridges the academic/administrative divide. As Amosshe have highlighted "partnership approaches are informing educational interventions within the curriculum [and are] developing a holistic view of a "whole campus" learning environment, with wellbeing learning opportunities being made available to students in places as diverse as residence halls and student union bars."[62]

179. This holistic approach has been adopted at the University of Gloucestershire which has established a one stop shop service comprising 'helpzones' situated at each of the university's four campuses. To launch this new service cost £250,000 and has also involved an increase in staff levels by 4.5 FTE, which was an approximate increase in pay budget of £130k. In year 1 over 44,000 separate student enquiries were dealt with by the 4 helpzones.

180. The University of the West of England used a proportion of its additional fee income to establish the student well-being service in 2008. The service offers the opportunity for students to gain specialist support for any mental health difficulties. The Wellbeing Service recognises that university life can, at times, be challenging for students of all ages. UWE's Wellbeing Service provides support for those times when students feel overwhelmed, stressed, anxious, or depressed, and are finding it difficult to meet academic demands. The

[62] Amosshe, Supplement to the HEFCE Financial Sustainability Strategy Group (FSSG) report: 'The sustainability of learning and teaching in English higher education', 2009 http://www.amosshe.org.uk/amosshe/assets/_managed/editor/File/AMOSSHE%20supplementary%20paper%20to%20the%20HEFCE%20FSSG%20Report%20Feb%2009.pdf

Wellbeing Service served 223 students in 08/09, and has already served 177 in the 09/10 academic year (figure as of December 17th 2009).[63]

181. Other Alliance universities have also invested significantly in the extra-curricula support they provide to students. For example:

- the University of Portsmouth provides study support through its Maths Cafe and has expanded its financial advice service
- the University of Northumbria has opened the Library 24/7, operates a 24/7 IT helpline and has also increased funding for the Students Union to deliver enhanced services
- the University of Bradford has developed a one stop shop
- Oxford Brookes University has funded additional financial counsellors through the Students' Union and has allocated an additional £500k to enhance the role of the personal tutor

[63] These figures do not include those students who benefit from the advice the service provides over the phone, or in other non-recorded ways, such as awareness raising events.

Section 6: Impact on graduates

Little or no financial risk carried by graduates

182. The impact of fees on graduates has to be projected because it is too early to observe behavioural data. The first of the 2006-07 cohort graduated in 2009-10 and will not start making graduate contributions until April 2010 – and only then if they are earning over £15,000.

183. The impacts on graduates can be projected on the basis of the repayment system that was put in place for the repayment of loans after graduation on an income-contingent basis. Table 12 shows the main features of the 2006 repayment system for graduates and the mechanisms through which these were achieved:

Table 12: Key features of 2006 repayment system for graduates

Feature of system	Mechanism for achieving this
Simple single system of contribution →	Repayments are collected through the tax system
Payments /graduate contributions are affordable and relate to earnings / economic benefit not to the loan value itself →	Income-contingent repayments at 9% of earnings above £15,000
Cannot accumulate debt →	No real interest rate
Government carries entire financial risk:	
Low-earners protected →	£15,000 earnings threshold and income-contingent repayments
Low life-time earners protected →	Debt write-off after 25 years
Student loans should not be taken into account on mortgage applications →	Guidelines set out by the Council of Mortgage Lenders

Income-contingent repayments

184. All graduates on the same salary have to make identical minimum repayments. As the IFS report puts it, "this is the very nature of an income-contingent loan"[64]. As a result, all graduates will make contributions in relation to their earnings –

[64] Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005 http://www.ifs.org.uk/comms/comm98.pdf

not in relation to their loan value. This is a key feature of the system because it ensures that contributions relate to the benefit of the degree. The loan value itself acts as a maximum contribution threshold in the current system.

185. The repayment level in the current system is 9% of earnings over £15,000. For the average graduate starting salary of around £20,000, [65] the repayments will be just over £10 a week.

186. In effect the graduate contributions or payments increase average tax rates at all gross salaries over the earnings threshold but the amount of increase is very modest – particularly at low income levels. Table 13 shows that the weekly repayments for those earning £15,000 would be under £2 a week and for those earning £25,000 (nearly £500 a week) repayments would be under £20 a week.

Table 13: graduate contributions are very modest

Gross income		GCS payments (% of gross income)	
Annual	Weekly	Annual	Weekly
£10,000	£192.31	£0 (0.0%)	£0
£15,000	£288.46	£97 (0.6%)	£1.87
£20,000	£384.62	£547 (2.7%)	£10.52
£25,000	£480.77	£997 (4.0%)	£19.17
£30,000	£576.92	£1,447 (4.8%)	£27.83
£35,000	£673.08	£1,897 (5.4%)	£36.48
£40,000	£769.23	£2,347 (5.9%)	£45.13
£50,000	£961.54	£3,247 (6.5%)	£62.44

Source: Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005 http://www.ifs.org.uk/comms/comm98.pdf
Notes: All figures are in 2006–07 prices. They apply to all graduates who complete their studies in 2009–10 or afterwards.

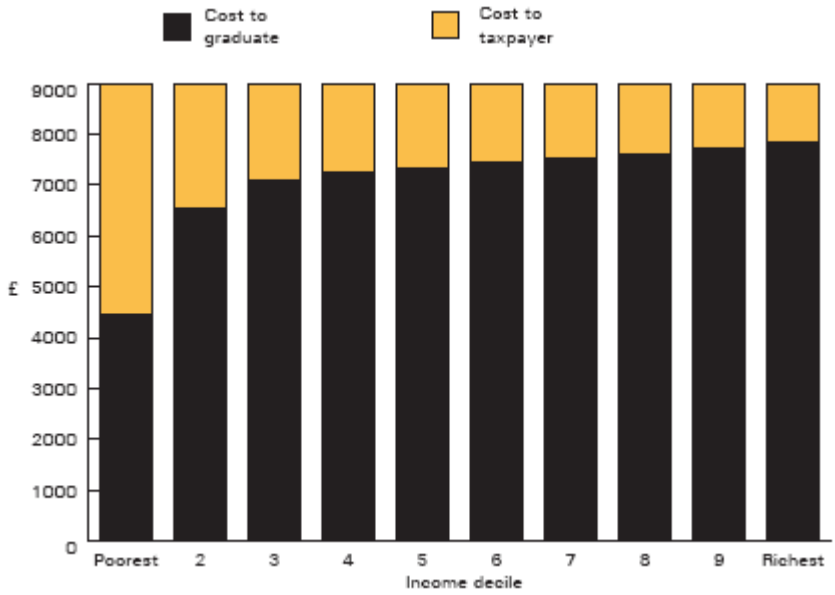
187. With income-contingent repayments at this modest level, with protection in place for low-earners and with no real interest rate, to ensure against debt accumulation, the 2006 system carries little or no financial risk to the individual graduate.

[65] HESA Destinations of Leavers from Higher Education (DLHE) survey, 2008. The average salary for full-time first degree graduates from 2008 whose destinations were known and who were in full-time employment in the UK six months after graduating was £19,677.

A progressive system that is heavily subsidised

188. Figure 11 demonstrates the progressive nature of the 2006 repayment system with low earners making lower graduate contributions than high earners over their lifetime.

Figure 11: Progressive repayment system introduced



Source: L Dearden et al, IFS, Higher education funding reforms in England: the distributional effects and the shifting balance of costs, 2007 http://www.ifs.org.uk/wps/wp1807.pdf
Notes: Illustration assumes that all graduates pay the maximum tuition fee of £3,000 and borrow £9,000 over three years to cover the cost.

189. IFS projections have illustrated the progressive nature of the system – for the lowest earning 20% of women, [66] 95% of them will not repay their loans within 25 years and will have this written off. They will receive a subsidy of over 60% from the taxpayer. This compares to just 4% of the highest earning 20% of women who won't repay their full loans.

190. Figure 11 above also illustrates, however, the blanket subsidy that exists across all earners and family income backgrounds because of the zero real interest rate. Female graduates that are in the top 20% of female earners and from the highest family earning background receive a subsidy of over 26% from the taxpayer even though over 97% will repay their loans in full.[67]

[66] 95% of women in bottom quintile of earnings and from a family earning less than £15,000 a year will not repay their loans. For women from families earning £25,000, £35,000 and >£44,000 the figure is 95%, 96% and 94% respectively.
[67] Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005, Table 7.6 and 7.8 http://www.ifs.org.uk/comms/comm98.pdf

191. Female graduates are less likely to repay their loans in full (and receive a higher subsidy) partly because they earn lower average salaries than men but also because they are more likely to take career breaks to have children.[68]

192. Impact on graduates in terms of further study and demand for postgraduate education is discussed in section 3 of this report.

Impact on EU graduates – concern over their ability to repay

193. Other EU students[69] have to be treated on a like for like basis as UK home students for the purpose of fees but they do not have access to student support for maintenance or living costs. After 2006 EU students had the same £3,000 variable fee and access to Government subsidised fee loans so they experienced no additional upfront cost. Figure 2 (Section 1) shows that demand from EU students has continued to grow after 2006. Growth has been higher for other EU students compared to UK or international students largely because of the growth in demand from the ten Accession Countries that joined the EU in 2004.[70]

194. There remains an anomaly in the repayment mechanisms available for EU students once they return to their home country. The minimum earnings threshold can be adjusted for different EU countries but it is still not clear through what mechanism a returning EU student would make repayments. At present the Student Loans Company (SLC) is reliant on the returning student informing them of their earning and making their own payment arrangements. In 2008, 70% of returning EU students did not make repayments according to SLC data. In 2008 other EU students had borrowed over £130 million and take up of fee loans is increasing. There is no agreement in place with other EU countries for them to collect repayments through their tax systems and without such an agreement it is unclear how the SLC can police or regulate such payments.

[68] Ibid, Table 7.5 and 7.6
[69] non UK EU students
[70] L Aston, HEPI, Projecting demand for UK HE from the Accession Countries, 2004 http://www.hepi.ac.uk/466-1084/Projecting-demand-for-UK-Higher-Education-from-the-Accession-Countries.html

Section 7: Impact on financial sustainability of higher education

Genuine additional income but still not sustainable funding

195. As demonstrated in Figure 1 (Section 1), variable fees have provided genuine additional income for universities due to the Government's commitment to maintain the standard unit of resource for HE. This commitment has been key to the additional investment which universities have been able to make in the student experience (as outlined in section 5). The principle that the income from fees should be truly additional and not a replacement for public funding has been an essential element of the 2006 system.

196. However, it has not been sufficient to maintain a sustainable funding position for universities as even with the full additional fee income, the sector is still at 83% of the 1989 public funding level (and would be at 60% without fees).[71] In a recent report to HEFCE, the Financial Sustainability Strategy Group concluded that without increased investment there was a real danger that the quality of the student experience and the UK's success in HE could not be sustained.

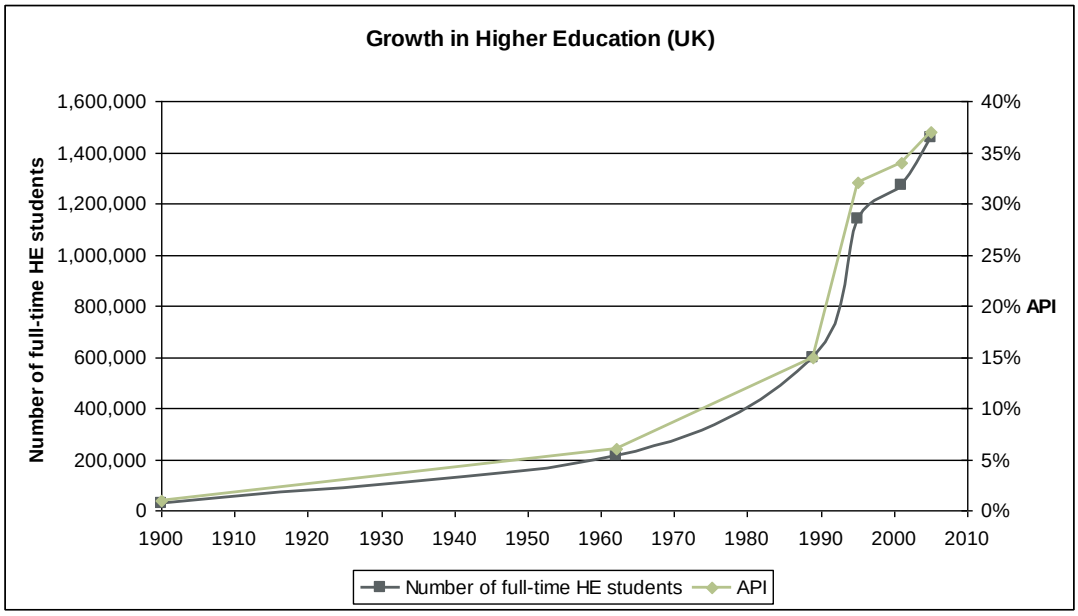
197. Furthermore, the current funding position is likely to become increasingly under threat given the recent announcement that the unit of resource for teaching will be reduced by 4.6% from £4,140 to £3,950, due to £164 million 'efficiency savings' announced in the April 2009 Budget and a £51 million reduction due to additional costs of student support at a time of economic downturn.[72]

Context: additional resource on the back of severe cuts

198. It was during the largest expansion of HE in the UK's history in the early 1990s that the unit of funding saw major decline (see Figures 1 and 12). Young participation doubled from 15% to 30% in just 5 years from 1989 to 1994 (see Figure 12). The expansion was as a result of demand-push from the introduction of GCSEs causing a rapid rise in staying-on rates at 16 and 17, supply-pull from the needs of a growing knowledge-based economy, and was facilitated by the end of the binary divide which enabled an expansion of the university sector.[73]

[71] JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf
[72] HEFCE grant announcement for higher education funding 2010-11 http://www.hefce.ac.uk/news/hefce/2009/grant/letter.htm
[73] HEFCE, Supply and demand in higher education, 2001 (01/62) http://www.hefce.ac.uk/pubs/HEFCE/2001/01_62.htm and L Aston, HEPI, HE Supply and Demand to 2010, 2003 http://www.hepi.ac.uk/466-1099/Higher-education-supply-and-demand-to-2010.html

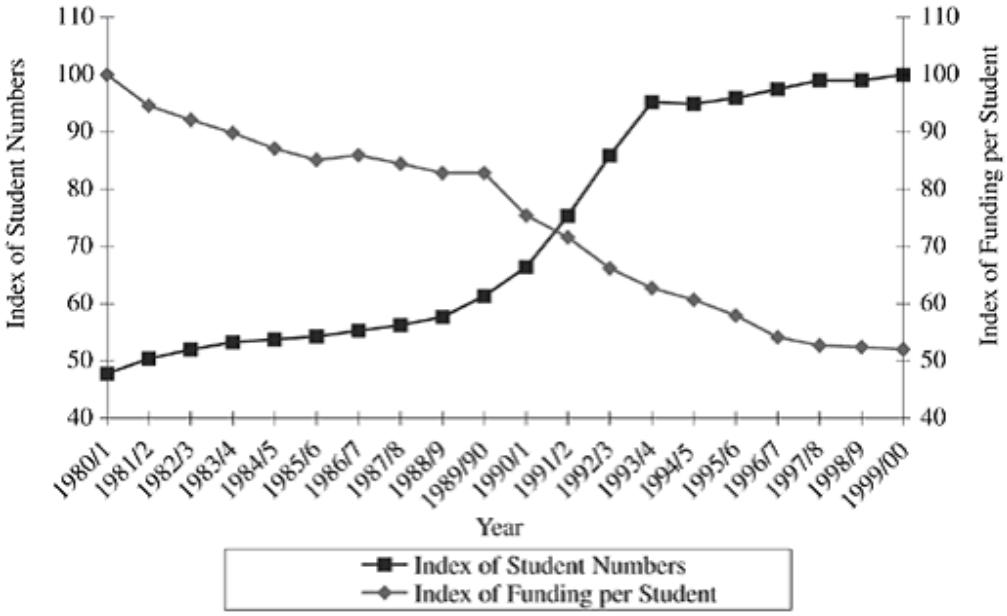
Figure 12: rapid expansion of higher education in the early 1990s



Source: Schwartz report, phase one consultation, annex A 2003, HEFCE Supply and Demand in HE 2001 (01/62), DfES annual publication for API, HESA data for recent HE numbers.
Notes: API for 2005 is estimated (based on HEIPR data) because no longer published)

199. The IFS calculated that funding per student declined from roughly £8,200 in 1988 to £5,300 in 1998 - a 35% decline in 10 years. Greenaway and Hayes showed (Figure 13) that real funding per student halved between 1980 and 2000 as student numbers doubled.

Figure 13: at the same time as student numbers have doubled, public funding per student has halved



Source: D Greenaway and M Haynes, Funding Higher Education in the UK: The Role of Fees and Loans, 2003 http://www3.interscience.wiley.com/cgi-bin/fulltext/118866764/HTMLSTART

200. As a result of this decline in funding, capital backlogs became prevalent among UK HEIs. According to the HE White Paper[74] estimated backlogs in teaching and research infrastructure were £8bn in 2003.

201. HEPI calculations showed that the £3,000 variable fee would bring UK universities an additional £1.5 billion in annual income by 2009[75]. This additional income was important but it has by no means resolved the funding deficit. In 2009-10 the additional fee income levelled off but this is at a time when the HEFCE unit of resource is going to decline again due to cuts in Government funding.[76]

Sector not yet reached a sustainable financial position

202. Even with the full additional fee income, three years after the introduction of variable fees in 2006, the sector is still 22% below 1989 funding levels in real terms. It could be argued, however, that 1989 is an arbitrary baseline so it is important to take an evidence-based look at the funding levels needed for a sustainable future in HE.

203. Independent research undertaken by the Financial Sustainability Strategy Group for HEFCE proved that the sector did not enter a new era of affluence with the introduction of fees but remained under-funded. The report concluded that without further investment the "quality of the student experience and the reputation and contribution of English higher education will suffer."[77]

204. The research found that:

- In the last 20 years the sector has grown rapidly with student numbers nearly tripled. It has also hugely improved the quality, range, relevance, flexibility, responsiveness, and efficiency of delivery of the student learning experience.
- The UK has invested less in HE that the OECD average, and much less than some key competitors (notably the US and Australia).
- During the 1990s public funding per student declined significantly.
- The unit of funding per student has improved from its low-point in the late 1990s but new costs and pressures are impacting on the sector.

[74] DfES, The future of higher education, 2003 http://www.dcsf.gov.uk/hegateway/uploads/White%20Pape.pdf
[75] B Bekhradnia , HEPI, HE Bill and Statement: Implications of the Government's Proposals, 2004 http://www.hepi.ac.uk/466-1132/HE-Bill-and-Statement---Implications-of-the-Government%E2%80%99s-Proposals.html
[76] announced in Government's Grant letter to HEFCE, 22 December 2009 http://www.hefce.ac.uk/news/hefce/2009/grant1011/letter.htm
[77] JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf

- There has been a significant deferral of necessary investment and the present situation is unsustainable.
- Threats to sustainability are being felt - threats which will impact on the quality and reputation of UK HE.
- Institutions have developed some coping strategies to manage financial pressures, and to protect the quality of the student experience, but the present situation is unsustainable.
- The challenge is even greater because, far from standing still or just surviving, universities need to invest to keep up with increasing competition from other countries.
- In effect, the cost of future sustainable teaching is significantly higher than the resources institutions are currently allocating to it.
- Universities require in the region of a **15-20% uplift** in the resource available for academic staff to devote to teaching.
- If investment in teaching is not increased, we risk lowering the world-class contribution that our HE teaching makes to the economy and society.

Fee-income has been invested in ways that improve the student experience

205. Section 5 outlines the ways in which additional income since 2006 (not just from fees) has been invested in areas that have a positive impact on the student experience including estates and facilities, staff development, improving student-staff ratios, student support services as well as outreach and bursaries.

206. A key area of investment was the successful implementation of the 2003 Framework Agreement that "provided a framework to modernise pay arrangements with the specific aim of promoting equality, transparency and harmonisation to ensure equal pay is delivered for work of equal value"[78]. This was an essential area of investment for the HE sector, as identified by both the Dearing Review and the independent Bett Review, for the recruitment and retention of a high quality HE workforce. The successful implementation of the Framework Agreement was the largest human resources initiative ever undertaken in the sector and has established a more sustainable position from which to manage the HE workforce (as demonstrated by 2009-10 pay negotiations, for example).

[78] Joint Negotiating Committee for Higher Education Staff, Framework agreement for the modernisation of pay structures, 2003 http://www.ucea.ac.uk/en/Pay_and_Reward/Framework_Agreement/

Fee-income has been used to lever additional private resource

207. The following charts and tables provide a breakdown of income sources for universities both before and after the introduction of variable fees. It can be seen that variable fees represent a relatively small percentage of overall income ranging from a lower quartile of 10% to an upper quartile of 22%.

Figure 14: Full-time undergraduate fees represent a small percentage of total income for English higher education institutions, 2007/08

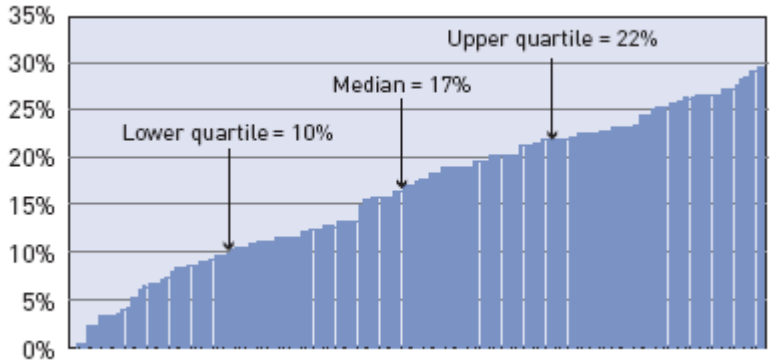


Table 14: Income and real terms percentage change in major income sources of English higher education institutions, 2006/07–2007/08

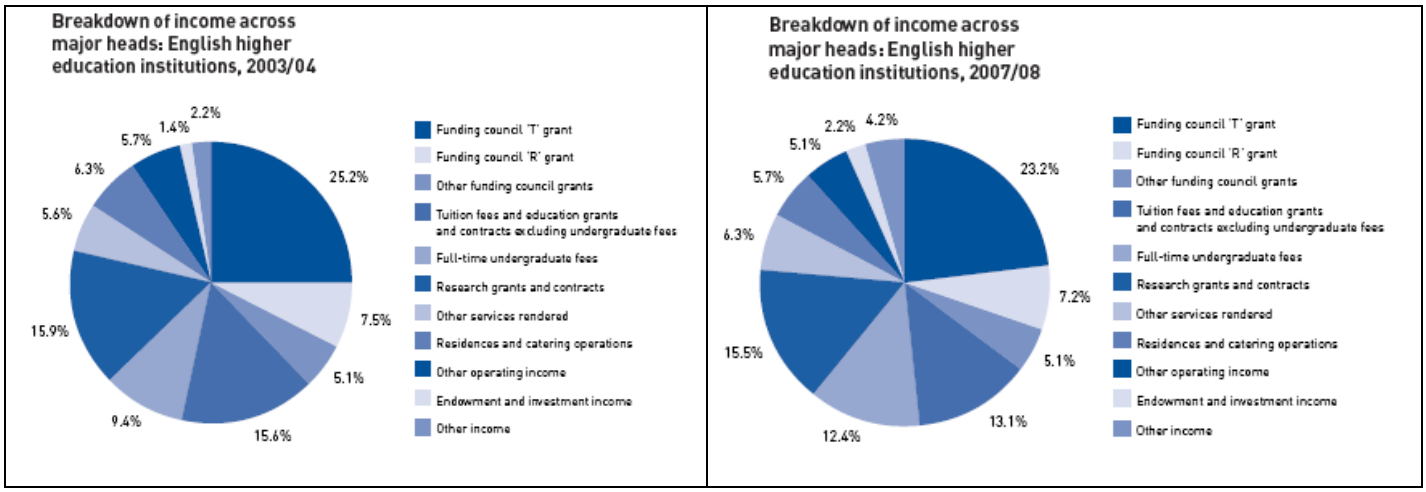
	2006/07 £K (adjusted to 2004/05 prices)	2007/08 £K (adjusted to 2004/05 prices)	*Percentage change 2006/07 to 2007/08*
Funding council teaching grant	4,115,004	4,197,205	*2.0%*
Funding council research grant	1,280,304	1,308,581	*2.2%*
Other funding council grants	754,258	861,074	*14.2%*
Total funding council grants	6,149,565	6,366,859	*3.5%*
Tuition fees and education grants and contracts	4,429,497	4,606,179	*4.0%*
of which, full-time undergraduate fees	1,854,903	2,241,288	*20.8%*
Research grants and contracts	2,615,252	2,794,348	*6.8%*
Other services rendered	1,056,163	1,143,148	*8.2%*
Residences and catering operations	985,309	1,023,633	*3.9%*
Other operating income	855,867	922,031	*7.7%*
Endowment and investment income	311,074	390,957	*25.7%*
Other income	358,040	755,642	*111.0%*
Total income	16,760,766	18,002,795	*7.4%*

Source Figure 14 and Table 14: Universities UK, Variable tuition fees in England: assessing their impact on students and higher education institutions, fourth report, 2009
http://www.universitiesuk.ac.uk/Publications/Documents/VariableTuitionFees_FourthReport.pdf

208. Table 14 demonstrates the diverse financial portfolio of English universities. For example, between 2006 and 2007 endowment and investment income rose by 25.7% and other income by 111% compared to a rise of 20.8% for undergraduate tuition fees. Alliance universities will have contributed significantly to this figure as they obtain less that 50% of their income from public funding.

209. The additional income from tuition fees has clearly provided some extra financial headroom for institutions but it is not the full picture. As Figure 15 shows, the break down of sources of income for English HE institutions did not change significantly between 2003/04 and 2007/08.

Figure 15: Comparison of income sources 2003/04 – 2007/08



Source: Universities UK, Variable tuition fees in England: assessing their impact on students and higher education institutions, fourth report, 2009
http://www.universitiesuk.ac.uk/Publications/Documents/VariableTuitionFees_FourthReport.pdf

Section 8: Impact on Government

Unaffordable and unsustainable system for Government

210. The major impact on Government has been the cost of the student support system. As well as the significant upfront payment in terms of grants (non-repayable), maintenance loans and fee loans (given in upfront fees to universities), there is also the cost of subsidising the repayment system for the loans. Projections show the Government is likely to receive approximately 50% of the cost of loans in repayments.[79]

211. There have been significant consequences for both universities and students as a result of the impact of the 2006 system to Government. OECD figures point toward a disproportionately high level of public expenditure on student support in the UK. In terms of total investment, we are well below our competitors, with the US spending 126% as a percentage of GDP and Australia 26% more than the UK (2.9% and 1.6% compared to a UK figure of 1.3%)[80] If total public spend is considered, however, including student finance, the UK is at a very similar level to the US and Australia.[81]

212. There have been two significant consequences to the high cost of the 2006 system. Firstly, the number of publicly funded undergraduate places has been restricted on the basis of student support cost for the first time. Secondly, financial support for students has been restricted to full-time undergraduates. Both of these consequences have significantly restricted access to HE in the UK.

213. Table 15 sets out the projected level of graduate loans, contributions and subsidies by income group for male and female graduates. The projections demonstrate the high cost to Government because of the high level of subsidies in the 2006 repayment system. On average, nearly 60% of female graduates will not repay their loans in full and receive a Government subsidy on their loan of more than 40%. Around 97% of male graduates will pay off their loans in full but they are still receiving a Government subsidy of around 27% of the value of their loan.

[79] N Barr, Financing higher education: comparing the options, 2003
http://econ.lse.ac.uk/staff/nb/barr_HE_option030610.pdf
[80] OECD, Education at a glance 2009, Table B2.2. Expenditure on educational institutions as a percentage of GDP (including private investment)
http://www.oecd.org/document/24/0,3343,en_2649_39263238_43586328_1_1_1_1,00.html
[81] Ibid, Table B4.1. Total public expenditure on education (including student support costs)

Table 15: Male and female graduate loans, contributions and subsidies by income group

Male graduates

Lifetime gross earnings	£1,084,900 (£206,300)	**Working lifetime income tax and NI**		£291,260 (£60,970)	
Student from family earning:		*<£15,970*	*£25,000*	*£35,000*	*>£44,000*
Labour policy					
i. Debt on graduation		**£19,340**	**£19,340**	**£21,440**	**£18,670**
ii. Taxpayer subsidy on debt repayments		£5,380 (£1,280)	£5,380 (£1,280)	£6,230 (£1,500)	£5,110 (£1,220)
iii. Taxpayer subsidy as % of total debt (ii÷i)		27.8% (6.6%)	27.8% (6.6%)	29.1% (7.0%)	27.4% (6.5%)
iv. Years to pay debt		17.3 (2.9)	17.3 (2.9)	18.5 (2.9)	17.0 (2.9)
v. Percentage of graduates not paying off debt after 25 years		3.3%	3.3%	4.7%	3.1%
vi. Outstanding debt after 25 years as % of total debt		1.1% (7.9%)	1.1% (7.9%)	1.4% (8.6%)	1.1% (7.7%)

Female graduates

Lifetime gross earnings	£766,600 (£281,700)	**Working lifetime income tax and NI**		£199,460 (£101,480)	
Student from family earning:		*<£15,970*	*£25,000*	*£35,000*	*>£44,000*
Labour policy					
i. Debt on graduation		**£19,340**	**£19,340**	**£21,440**	**£18,670**
ii. Taxpayer subsidy on debt repayments		£8,180 (£3,370)	£8,180 (£3,370)	£9,800 (£3,830)	£7,690 (£3,220)
iii. Taxpayer subsidy as % of total debt (ii÷i)		42.3% (17.4%)	42.3% (17.4%)	45.7% (17.9%)	41.2% (17.2%)
iv. Years to pay debt		22.2 (4.8)	22.2 (4.8)	22.7 (4.5)	22.0 (4.9)
v. Percentage of graduates not paying off debt after 25 years		58.1%	58.1%	66.7%	54.6%
vi. Outstanding debt after 25 years as % of total debt		18.7% (23.5%)	18.7% (23.5%)	23.0% (24.4%)	17.3% (23.1%)

Source: Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005 http://www.ifs.org.uk/comms/comm98.pdf

214. Furthermore, this subsidy is a blanket subsidy across all earners – even the highest earners – because of the zero real interest rate. 100% of the top 20% of male earners will pay off their loans in full but even this group will receive a 25% subsidy.[82]

[82] Dearden et al, IFS, Higher education funding policy: who wins, who loses? A comprehensive guide to the current debate, 2005, Table 7.7 http://www.ifs.org.uk/comms/comm98.pdf

215. It is important that low-earners and low life-time earners are protected through targeted subsidies but a blanket subsidy on all earners – including the very highest earners – is a costly and inefficient feature of the 2006 repayment system.

216. In terms of up-front cost the Government has not yet sold any of the loan books for income-contingent loans (ICLs). Given the repayment rates and high subsidies, it is likely the Government would achieve a low value for them. If the repayment system were reformed to remove blanket subsidies and reduce the cost to Government, it is feasible that the Government could, in effect, sell the student loan book upfront without making a loss. This would considerably reduce the cost to Government and allow student support to be distributed more widely. Proposals will be outlined further in the next stage of submission to the Independent Review.

217. It is worth noting that the second phase of changes announced in 2008 cost approximately £100 M per year. The evidence presented in Section 4 would suggest that such adjustments are likely to have little if any impact on participation. The 2008 proposals could be reversed at any point without further legislation achieving a significant cost saving for Government. Given that the original 2006 system involved no additional net upfront cost and that low-earners were already protected through the repayment system, this would seem like a sensible option given the need for immediate cash savings in the HE budget.

218. The 2006 repayment system is unaffordable and unsustainable for Government and reform is necessary. Any new repayment system must maintain the key features of the existing system including income-contingent repayment and protection of low-earners (see Table 12, Section 6) but it needs to achieve them through more effective mechanisms.

Annex 1 – UCAS entry stats

Year	England	Wales	Scotland	Northern Ireland	**UK sub-total**	Other EU	Inter-national	**Total**
2009	345,106	18,328	29,549	15,939	**408,922**	26,728	28,517	**464,167**
2008	320,469	16,946	28,108	15,302	**380,825**	23,493	26,171	**430,489**
2007	291,075	16,110	27,032	15,446	**349,663**	22,074	23,570	**395,307**
2006	271,663	16,123	26,804	15,930	**330,520**	19,058	22,105	**371,683**
2005	284,359	15,798	27,404	16,075	**343,636**	17,892	23,096	**384,624**
2004	259,198	14,666	26,522	15,173	**315,559**	13,224	24,388	**353,171**
Percentage change 2008 to 2009	*7.7%*	*8.2%*	*5.1%*	*4.2%*	***7.4%***	*13.8%*	*9.0%*	***7.8%***
Percentage change 2007 to 2009	*18.6%*	*13.8%*	*9.3%*	*3.2%*	***16.9%***	*21.1%*	*21.0%*	***17.4%***
Percentage change 2006 to 2009	*27.0%*	*13.7%*	*10.2%*	*0.1%*	***23.7%***	*40.2%*	*29.0%*	***24.9%***
Percentage change 2005 to 2009	*21.4%*	*16.0%*	*7.8%*	*-0.8%*	***19.0%***	*49.4%*	*23.5%*	***20.7%***
Percentage change 2004 to 2009	*33.1%*	*25.0%*	*11.4%*	*5.0%*	***29.6%***	*102.1%*	*16.9%*	***31.4%***

	2004		2005		2006		2007		2008	
Socio-economic group	**Number**	*Percentage of total (1)*	**Number**	*Percentage of total (1)*	**Number**	*Percentage of total (1)*	**Number**	*Percentage of total (1)*	**Number**	*Percentage of total (1)*
Higher managerial and professional occupations	50,866	*22.8%*	51,094	*22.0%*	48,529	*22.7%*	51,792	*22.7%*	51,963	*20.5%*
Lower managerial and professional occupations	70,497	*31.6%*	73,268	*31.5%*	66,823	*31.2%*	70,726	*31.0%*	74,718	*29.4%*
Intermediate occupations	33,517	*15.0%*	35,001	*15.1%*	30,649	*14.3%*	32,184	*14.1%*	37,030	*14.6%*
Small employer and own account workers	15,683	*7.0%*	16,550	*7.1%*	15,926	*7.4%*	17,065	*7.5%*	18,484	*7.3%*
Lower supervisory and technical occupations	10,507	*4.7%*	10,958	*4.7%*	10,030	*4.7%*	10,444	*4.6%*	10,978	*4.3%*
Semi-routine occupations	29,528	*13.2%*	32,556	*14.0%*	29,309	*13.7%*	32,154	*14.1%*	44,284	*17.4%*
Routine occupations	12,305	*5.5%*	13,088	*5.6%*	12,577	*5.9%*	13,431	*5.9%*	16,386	*6.5%*
Total (2)	**222,903**		**232,515**		**213,843**		**227,796**		**253,843**	
Unknown (3)	54,176	*19.6%*	69,283	*23.0%*	75,386	*26.1%*	79,163	*25.8%*	89,765	*26.1%*
Total (4)	**277,079**		**301,798**		**289,229**		**306,959**		**343,608**	

(1) Percentage of total excluding unknowns
(2) Excluding unknowns
(3) Percentage of total including unknowns
(4) Including unknowns

Socio-economic classification of candidates accepted to higher education degree courses

% of accepted applicants from socio-economic group:

	1	2	3	4	5	6	7
	Higher managerial and professional	Lower managerial and professional	Intermediate	Small employers and own account workers	Lower supervisory and technical	Semi-routine	Routine
2002	23.3%	31.2%	15.6%	7.3%	4.6%	12.5%	5.6%
2003	22.7%	31.3%	15.2%	7.4%	5.0%	12.9%	5.5%
2004	22.5%	31.6%	15.2%	7.3%	4.8%	13.0%	5.5%
2005	21.7%	31.4%	15.2%	7.4%	4.8%	13.9%	5.6%
2006	22.4%	31.2%	14.5%	7.7%	4.8%	13.5%	5.9%
2007	22.9%	31.1%	14.3%	7.6%	4.7%	13.6%	5.8%
2008	20.4%	29.6%	14.7%	7.4%	4.4%	17.0%	6.5%

Note: Proportion based on home accepted applicants with a known classification

Source: *UCAS annual datasets*