

## **Higher Education: students at the heart of the system**

### **University Alliance response, September 2011**

1. University Alliance is a group of 23 major, business-engaged universities committed to delivering world-class research and a high quality student experience. Our aim is to deliver evidence-based policy and research and foster close links with Government and business in order to improve higher education policy for the benefit of the economy and society.

### **Growing the future**

2. The White Paper is clear about its intention to place students at the heart of the system. As a result of this, the proposals centre on the vital educating role of universities in providing the high-level skills that will drive our future economy.
3. The fact is that universities deliver many shared priorities with government. As one of the UK's major export industries, universities have the capacity to leverage investment. Through playing an active leadership role in the regional economy they bring together key players in the partnerships that will help rebalance the economy. As part of a global knowledge network, universities generate, translate and diffuse research-led innovation. By exchanging knowledge with business and enterprise, universities also support its adoption and exploitation. Through widening participation and delivering access to the professions, they support social mobility. By engaging individuals in the pursuit of knowledge and understanding, they support civic engagement and a more tolerant and cohesive future society.<sup>1</sup>
4. Recognition of this wider economic and social role is critical to recognise if we are to plan and provide for the higher education system we need. In this way we can successfully position the UK within a competitive, challenging and knowledge-based global economy.

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<sup>1</sup> See University Alliance, Growing our future: Universities, leading, shaping and creating the regional economy, September 2011, University Alliance, 21st Century universities: engines of an innovation-driven economy, June 2010 and New Economic Foundation, Degrees of Value, June 2011

## Achieving total growth

5. The central issue that the White Paper has sought to address is the link between public funding and the number of student places that can be supported. Proposals such as the creation of a core and margin and uncapping student number controls for AAB+ and equivalent students seek to introduce dynamism, but because of the constraints of public finances this can only be implemented by removing numbers from the mainstream of the sector. Longer term it is essential that we continue to explore how total growth of the sector can be achieved and opportunities for students enhanced.
6. We will go on to consider the three aims set out in the White Paper - sustainability, a quality student experience and social mobility - in more detail. First and foremost, we feel it is important to make the point that these ambitions will never fully be realised unless we can achieve total growth of the system. Otherwise:
  - Sustainability will be affected by the need to remove numbers from established, quality providers in order to grow other parts of the system; this will also have a negative impact on the future economy.
  - Student demand will not be able to drive a quality HE system as student control mechanisms will restrict places available on mainstream popular courses.
  - Social mobility will always be negatively affected in a system where places are restricted given the high correlation between social background and attainment.

## Achieving Government aims

7. We have considered the proposals outlined in the White Paper in depth and are responding to all the resulting consultations from BIS and from HEFCE. In this response, we focus on supporting Government to achieve the aims they have set out in *Higher Education: students at the heart of the system*, namely:
  - to put higher education on a sustainable footing
  - to deliver a better student experience
  - to increase social mobility
8. We do not question the ambition to achieve these important goals for the future of our HE system, but following detailed analysis of the policy mechanisms proposed, we do raise some significant issues that may prevent the full realisation of these aims.
9. We set out a number of short-term, medium-term and long-term solutions to help mitigate against these potential negative impacts at the end of our response. We look forward to working with Government as the new system develops and establishes itself, to ensure that the ambitions we all share for the future success of our HE system can be realised.

## Putting higher education on a sustainable footing

10. As the supporting evidence for the White Paper highlights, “one of the central pillars through which Government aims to secure sustainable growth is by supporting individuals to fulfil their potential. Within a knowledge economy, individuals’ skills and talents are a valuable asset and for growth to be sustainable and balanced, everyone should have the opportunity to contribute.”<sup>2</sup>

11. It is for this reason, we presume, that the White Paper has, as one of its central themes, the issue of financial sustainability. The supporting evidence is right; there is a strong case for investment in higher education. Essentially, it is the quality and scale of our higher education (delivering highly skilled graduates), science and research will determine the future pattern of economic growth in any innovation-driven economy. Amongst other reasons, this is because:

- Innovation is a key driver of growth and productivity: innovation was responsible for two-thirds of productivity growth from 2000 to 2007 and was the common defining feature of the fastest growing 6% of businesses between 2002 -2008. These businesses generated half of all new jobs created during this time.
- Human capital (particularly graduate-level skills) is now the primary indicator of future economic growth: the proportion of our working population with graduate-level skills, along with our science and research base, will determine the pattern of our future economic growth and our ability to achieve the innovation-based economy that we are striving for.
- There is an increasing shortage of graduates, not saturation, and there is still a significant ‘graduate premium’ attached to obtaining a degree: the UK economy is not presenting any of the labour market signals that would suggest there are too many graduates in the economy. Graduate vacancies continue to grow, there are an increasing proportion of skilled jobs in the total workforce and there is still a significant graduate premium.
- If we stand still we will fall behind: our global competitors are continuing to invest heavily in universities despite their own budget deficits. In 2000, the UK was 3<sup>rd</sup> amongst top industrialised nations in terms of the proportion of young people graduating. In 2008 we had fallen to 15<sup>th</sup> position because our competitor countries are investing at a faster rate than us.<sup>3</sup>

12. It is within this context that we raise the following issues, so that universities can continue to maximise their impact, even in a tighter spending environment.

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<sup>2</sup> BIS, Supporting analysis for the Higher Education White Paper, June 2011

<sup>3</sup> University Alliance, 21<sup>st</sup> Century Universities: engines of an innovation driven economy, June 2010

**Graduates that employers need to drive our future competitiveness**

13. In the UK's global, knowledge-based economy, we know that "of the 13.5m jobs to be filled to 2017, over half (56%) will require people to hold graduate level qualifications, indicating a significant shift towards greater demand for higher level skills."<sup>4</sup> New and growth industries are taking a high-tech, high-skill and innovative approach and universities are playing a critical role in driving the UK's economic future. Therefore, one key way we should assess the impact of the White Paper is as to whether it will be able to deliver this workforce.
14. There are two areas where the proposals may mean this is not deliverable:
- there will be fewer student places than in previous years<sup>5</sup>
  - universities delivering valuable skills and professionally accredited courses caught between the two student number control mechanisms will be forced to reduce the number of graduates they prepare for employment (see below)

**Supporting universities to run as efficient and effective businesses**

15. As we have previously documented, universities operate within a complex system of regulation, funding and market incentives from a wide range of sources (public and private). These are large organisations with multi-million pound turnovers that are balancing responsibilities and regulatory requirements as both public and private institutions.<sup>6</sup> This is an important context to bear in mind when we consider the impact of the White Paper proposals and the high degree of uncertainty in which these institutions are currently operating.
16. As Government will be aware, beyond the policy outlined in the Higher Education White Paper, the activities of universities cut across a wide range of policy areas. This means that policy changes in pre-HE education, healthcare and immigration, to name but a few, will also have an impact. These changes are adding to this current relatively unstable environment, a context that is critical for BIS to understand in relation to its aims about the future sustainability of the system.
17. Our members report that this uncertainty is already having an impact on their ability to make investment and strategic decisions about their future. This is one of the reasons why we strongly recommend a year of stability in 2013-14 before any further change is implemented.
18. We welcome the proposal to investigate the opportunities in enabling operating efficiencies through VAT exemption. We would like to offer support to work in this area, and can help gather supporting evidence as well as to feed into policy as it develops.

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<sup>4</sup> CBI, Getting the UK Working: interim report and skills maps, June 2011

<sup>5</sup> The University Modernisation Fund has not been consolidated for 2012-13 meaning that there will be 10,000 fewer places

<sup>6</sup> University Alliance, Efficiency, leadership and partnership: an approach that delivers shared economic priorities, June 2010

## **Delivering a better student experience**

19. Creating a demand-led system is a clear driver for Government throughout the White Paper. University Alliance strongly supports the principle that we should have a dynamic and diverse system that can respond to student demand. However, our central concern about the White Paper proposals is that the mechanisms set out (AAB+ and ‘core and margin’) are in danger of restricting rather than expanding the diversity and choice across the sector.

### **Understanding the different markets that operate in Higher Education**

20. We will need to learn more about student demand and the different markets that operate in higher education under the new system. It is unlikely to be the case that the removal of numbers from one part of the sector and replacing them in another will cater for the same set of students. Experience in Alliance universities demonstrates that there are many complex and varied reasons why a student chooses the course and university that is best for them and their future career aspirations<sup>7</sup>.

21. We feel that this aspect was inadequately reflected in the White Paper’s analysis and that it should be a significant priority for HEFCE’s monitoring of the new system. There should be a major focus on evidence of student demand, value for money and quality for Year 2 so that the parameters of both proposals can be evaluated and possibly changed on the basis of this evidence.

### **Unintended consequences for high-demand, high-quality courses**

22. By not adequately recognising the different markets that operate within Higher Education, the Government seems to be introducing a system with limited flexibility to respond to student demand for provision charged over £7,500 but not in the AAB+ market, with any provision in between potentially becoming rapidly unsustainable over time (depending on the future extent of the margin and the AAB threshold).

23. We are concerned that, if continued, this approach could be highly divisive with a significant difference in the level of resource available to institutions developing over time. As a result, student choice would be reduced in the vast majority of the HE system, with these universities unable to respond to demand because of the number controls being implemented. There would be fewer places on high-demand, high-quality courses with good employment outcomes in the mainstream of the sector than in the current system. Clearly this runs counter to the intentions of the White Paper and is not the intended outcome of these policies. We look forward to working closely with Government and HEFCE to ensure this does not happen.

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<sup>7</sup> For example, see University Alliance, *More than just a degree: stories of empowered students*, May 2011

24. We support the intention to enable quality new providers to enter the system but we are yet to see any evidence that there is a sufficient level of demand or capacity to deliver 20,000 places within year one. Where there is a limited supply of places, taking places out of the sector where there is un-met demand (with proven high demand for places) and moving it to an area of un-tested demand is unlikely to improve student choice. Further evidence should have been provided to support this assertion, and certainly to support any extension of the margin.

#### **Achieving choice and diversity at subject level**

25. Related to this, there are specific concerns about the impact on choice at subject level, particularly in relation to STEM subjects. The two proposed methods for student number controls may have an impact in the following ways:
- Core and margin: because of the higher cost of delivering STEM subjects, universities that deliver a greater proportion of these subjects may be less likely to have an average fee of below £7,500, thereby affecting their ability to bid for the 20,000 margin places. This could impact negatively on high-cost strategically important subjects if bids for the 20,000 are made predominantly by those with less provision in these areas. It will be important to monitor this closely.
  - AAB+: concerns have been raised by a number of organisations about the potential impact on STEM provision as a result of the lower proportion of AAB students in some subjects. For example, biology (24 per cent of the 4,664 students with known grades), civil engineering (28 per cent of 2,150 students) and mechanical engineering (29 per cent of 2,952 students). This compares to economics (49 per cent from 5,580 students) and history (41 per cent from 8,890 students).<sup>8</sup> Again this issue will be important to monitor closely.

#### **Quality and value for money in a diverse market**

26. We would strongly argue that the UK HE system is already highly competitive on the basis of quality and reputation, closely related to the outcomes for graduates. Evidence demonstrates that we remain the second most popular destination for study behind the US on the basis of quality. Our research holds the same position, also on the basis of quality. The 'UK HE' brand as a whole is based on quality and, therefore, drivers for high quality provision and self-regulation on standards are very strong.
27. It is no surprise then that providing a quality student experience has been central to the in-depth and considered deliberations that universities have undertaken to set individual graduate contribution levels. The funding changes introduced by the Government have already brought sharply into focus the need to quantify and demonstrate exactly what this 'quality offer' entails and to ensure that institutions are delivering value for money.

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<sup>8</sup> HEFCE, Teaching funding and student number controls, Annex D, June 2011

28. We are confident about the value provided in Alliance universities. These universities offer a broad and deep learning experience in an environment that draws together research-led innovation, partnerships with national and multi-national business, and a strong focus on graduate employability.<sup>9</sup> This is the offer that Alliance universities provide, supporting strong graduate outcomes, student satisfaction and social mobility. It is one that is popular with students, with some of the highest number of applications per place. We are therefore very concerned that these and the majority of other mainstream universities will see a reduction in the number of places they can offer as a result of the core and margin and AAB+ proposals.
29. We strongly suggest that the White Paper proposals would be improved if the mechanisms being introduced more accurately reflected the existing diversity of higher education institutions – across the full spectrum of graduate contribution levels. Enforcing a system that funnels institutions either below £7,500 or close to £9,000 does not accurately reflect this or the demand for different types of provision for students. We propose a cost-neutral solution for this issue (see below).

#### **Further Education partnerships**

30. A number of Alliance universities have built up significant and successful partnerships with FECs over recent years. They are concerned about the impact of these proposals on those partnerships and as such we would raise the following points.
- It is important to recognise that institutions who are currently delivering HE on an indirectly funded basis will experience a step change in delivery costs if they move to a directly funded model – on the basis that the partner (fund holding) University currently provides access to a significant range of facilities and services for the FE partners (library services, e-resources, student support/counselling facilities, social facilities, staff development, quality assurance / enhancement services, HESES/HESA expertise etc.) which would no longer be available to them
  - Some Alliance universities report that past experience has shown that the ability of FECs to recruit large numbers of FT students does not always match their aspirations. In this case, the university partner has played an important role in moderating/mitigating the impact of their under recruitment by moving numbers around within the wider partnership to ensure that overall numbers are achieved.

#### **Clear and accessible information for students**

31. We support the introduction of the Key Information Set and moves within the White Paper to make information more accessible. The inclusion of employability data is a significant development as this information is clearly of importance towards driving student decisions.

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<sup>9</sup> See Our vision: more than just a degree, a statement that outlines the offer for students in Alliance universities <http://www.university-alliance.ac.uk/campaigns/studentstories/our-vision-more-than-just-a-degree/>

32. However, given that this will place increased emphasis on the Destinations of Leavers from Higher Education (DLHE) survey data held by HESA, we would urge that the issue of whether this data is able to adequately represent the range of modern graduate careers continues to be looked into. For example, graduates from Alliance universities establish many of the UK's most successful graduate start-up companies<sup>10</sup>, and yet often this is not able to be captured as a 'graduate career'. There are similar issues around how we categorise jobs in SMEs.

### **Increasing social mobility**

33. Social mobility is a central focus within the White Paper but it is often narrowly defined in terms of the access to highly selective universities by the lowest socio-economic groups. Our concerns about the potentially negative impact on social mobility from these proposals stem from the stubborn correlation between social class and attainment.

34. Numerous studies have shown that, at the group level, young people's opportunities in education are strongly correlated with household income, socioeconomic category, the places they live and the quality of the school they attend. These potential applicants for university places have often not been able to demonstrate their full potential before entering higher education, and will therefore have lower A-level results (or equivalent). As an example, a quarter of the richest 20% of students get top A-level grades (BBB and above) in comparison to just 3% of the poorest 20% of students. For these potential students, the opportunity to attend university is life-changing, and will result in inter-generational social mobility.

35. This strong correlation means that the proposed student number controls have the potential to negatively impact on social mobility in two ways:

- through the redistribution of public investment towards high achieving, high social class students because their courses will be publicly resourced at £9,000 per student whilst other universities face having 8% of numbers taken away year on year unless they reduce their average fee to £7,500
- by reducing choice and access to well-resourced courses for the majority of students from lower socio-economic groups

### **Fee waivers and bursaries**

36. We fully understand the financial imperatives behind the pressure on universities to offer fee waivers as opposed to bursaries.<sup>11</sup> However, we feel it is important to outline here why many universities have implemented strategies with a stronger focus on providing bursaries. In line with the spirit of the White Paper, it is because this more accurately reflects student demand as well as need.

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<sup>10</sup> University Alliance graduate start-ups account for 26% of graduate start-ups (active after 3yrs) and 41% of total turnover across the sector. HEFCE, Higher Education – Business and Community Interaction Survey 2009-10, September 2011

<sup>11</sup> For example, through the OFFA guidance and the calculation of average fee levels

37. As Government will be aware, there is significant evidence to demonstrate that it is net upfront cost that has the biggest impact on participation in higher education<sup>12</sup>, indeed this is a central principle that lies behind the progressive graduation contribution scheme that has been introduced. It is for this reason that many universities have made the decision to support affordability during study for students rather than introducing fee waivers. For example, Alliance universities report that consultations with students from lower-socio economic backgrounds have corroborated that this is the preferred means of support.

#### **Widening participation funding**

38. As the White Paper highlighted, increased participation has been supported by the HEFCE WP Allocation over recent years. We are pleased that HEFCE has been able to protect the non-mainstream allocations relating to widening access for 2012-13, this funding has proved to be critical support for social inclusion and social mobility.
39. We note that these allocations will be subject to review as part of the second stage of HEFCE's consultation. At this stage we would like to offer support towards gathering evidence to ensure that any future decisions on this will not have a negative impact on the ability of institutions to attract and support these students throughout university.

#### **Part-time transitional arrangements**

40. We welcome the Government's commitment to achieve parity between modes of study. However, there is still a great deal of uncertainty as to how part-time students will be supported during transition to the new system. Clarity is needed on this issue as a matter of urgency.
41. Students studying part-time have been given no guidance as to their transitional arrangements. BIS and HEFCE have confirmed that full time students commencing their studies in the last year of the current arrangements, and in receipt of fees and grant support, will be protected for two years during the transition to the fully operational new funding system in order to complete their studies. We ask that BIS liaise with HEFCE to publish transitional arrangements for part-time students as soon as possible in order to give these students assurance regarding their future arrangements.<sup>13</sup>

#### **Postgraduate education**

42. 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,<sup>14</sup> overall demand is likely to continue to rise. There are two associated issues that we would like to raise.

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<sup>12</sup> University Alliance, The impact of fees: a review of the evidence, January 2010

<sup>13</sup> For further information on this issue, please see the joint response submitted by the Open University and Birbeck, University of London

<sup>14</sup> HEPI and The British Library, Postgraduate education in the United Kingdom, 2010

43. Firstly, as the White Paper acknowledges, there are real concerns about access to postgraduate education for students from poor families – largely because of the lack of student support towards the upfront cost. We therefore support the proposal that HEFCE should review participation in postgraduate study. Alliance universities are often the largest providers of postgraduate taught degrees in their region and will therefore have much to contribute to this on-going assessment.
44. Secondly, funding solutions for postgraduate study, so that it is sustainable and can support needs-blind access, is an issue that still needs significant focus. The White Paper asserts that HEFCE will consult on how postgraduate teaching funding will be allocated in the future as part of their winter 2011 consultation. However, we would strongly suggest that a wider review of the funding issues involved will be needed. It may be that these issues can be covered by Professor Sir Adrian Smith’s Postgraduate Review Group.

#### **Getting the message right**

45. Coverage of the reforms to student finance has shown that there is still a significant level of confusion about graduate contributions. Given the potential for misconceptions about the system to keep individuals from applying to university (especially first generation students<sup>15</sup>) means that this issue continues to be critical to address. The campaign recently launched by BIS is an important step forward but, given how ingrained misunderstandings about debt and risk have become, sustained and multi-stranded effort in this area will continue to be critical.

#### **Solutions**

46. To mitigate the unintended consequences outlined above and to ensure that the White Paper is truly able to deliver against the intentions it set out we propose the following amendments to the Government’s proposals.

#### **Short-term**

- a. A major focus on evidence of student demand, and the different markets that operate within higher education so that the parameters of student number controls can be evaluated/ adjusted on the basis of this evidence. This might include:
- patterns of demand in relation to the redistribution of numbers
  - feedback from students that were unable to attend their first-choice university
  - the impact on the subject availability and choice including for STEM
  - the take up of places in FE and private providers
  - the take up of places at institutions charging under £6,000
  - the operation of different markets within higher education

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<sup>15</sup> BIS, The role of finance in the decision making of higher education applicants and students, January 2010

- b. As we highlighted in our response to HEFCE's consultation *Teaching funding and student number controls, consultation on changes to be implemented in 2012-13*, it is essential that the 20,000 places are re-distributed on the basis of both quality and value for money. We have proposed that the following should be taken into consideration when re-distributing places to the margin:
- alignment with the Key Information Set
  - employment outcomes
  - student demand, for example applications per place
  - benchmarked NSS scores
  - non-continuation and completion
  - evidence that the places can be filled (this is especially important as places will be removed from established popular courses at the core)
  - providers should have a portfolio of validated programmes of study in place that can be marketed with to meet UCAS guidelines
  - there should be a link with the quality assurance system in some way, particularly if that moves to a more risk-based approach
- c. Given that the increased emphasis on DLHE survey data, the issue of whether this data is able to adequately represent the range of modern graduate careers should continue to be looked into.
- d. Clarity is needed as a matter of urgency as to how part-time students will be supported during transition to the new system.
- e. A major, multi-stranded and sustained public information campaign about the graduate contribution scheme should continue to be supported.
- f. Funding solutions for postgraduate study, so that it is sustainable and can support needs-blind access, is an issue that still needs significant focus. It should be considered whether this issue can be looked into by Professor Sir Adrian Smith's Postgraduate Review Group.

#### **Medium-term**

- g. A steady state for 2013-14 - in which case it would be critical that there are no further increases in numbers removed from the core or a reduction in the AAB+ threshold). This would allow for:
- some settling of the system and further evidence gathering (see above) about the impact of these policies,
  - associated systems, for example UCAS and the Student Loans Company, having adequate time to adapt
  - mechanisms to be developed so that we can receive early warning of issues as they arise so that the necessary policy adjustments can be made
  - universities to plan ahead to make effective investment and strategic decisions

- h. Given the timing of recruitment cycles, this means that there should be no further policy changes or extension of present proposals before 2014.

**Longer-term**

- i. *A tapered approach to core and margin:* should a further reduction in the core be required. Government and HEFCE should explore the possibility of introducing a tapered approach in coming years that would effectively be cost-neutral to deliver. This would work by ensuring that there is no false, single cut-off point at £7,500 for the allocation (or redistribution after initial allocation) of the 'margin' places. We would recommend allocating these numbers through a more gradual/tapered mechanism to reflect the different markets in higher education (e.g. 20% allocated to £8,000 fee places, 20% to £7,500, 20% to £7,000, 20% to £6,500, 20% to £6,000). These numbers are illustrative but they would avoid the false 'cliff edge' at £7,500 and allow a market to continue to exist between £7,500 and £9,000 whilst averaging out at the same cost for the public purse overall. To be clear, this is a cost-neutral solution. This would enable institutions to make the case for bidding back numbers on the basis of value-for money, both for students and the public up-front investment.
- j. *Radical reduction of the AAB+ threshold:* given that the government's ultimate stated aim is to increase dynamism and reduce control, HEFCE should continue to look at options for a radical reduction of the AAB+ threshold in year three (2014-15) and beyond. In particular, careful consideration should be given to whether this can be achieved in one step, as a gradual reduction would be likely to cause more problems and instability as different institutions are affected year on year. We fully understand that the main reason for the current restriction to AAB+ is the need to control expenditure and that this group is relatively predictable in number. We therefore suggest that some modelling is done to assess whether adjusting the remaining core to counter this uncertainty would mitigate against this. Of course reductions in the threshold would need to be finely balanced against the impact of a further reduced core.
- k. *Achieving total growth:* as referred to in the White Paper, in the longer-term it should be a priority to re-introduce the Robbins Principle. Can we achieve the separation of some undergraduate numbers from Government subsidy in order to grow the system and achieve a real market in higher education? If we are going to be able to produce the number of graduates we need to stay globally competitive this issue needs to be revisited. Ultimately we need to consider ways to reduce the Government's long-term costs (subsidy reduced) and short-term cost (up-front sale of loan books/encourage up-front repayment).