



# **Funding Widening Participation in Higher Education:**

**A discussion paper**

*by  
Richard Brown and Wendy Piatt*

**July 2001**



The Council for Industry and Higher Education (CIHE) believes that in an age of global competition, the competitiveness of the United Kingdom and hence the generation of wealth, jobs and a harmonious and civilised society, requires excellence in all organisations.

*The Council's mission is to encourage excellence in learners and learning organisations by enhancing the process of partnership between business, academia and Government.*

The Council leads in developing an agenda between academia and business on the shared issues that will affect future competitiveness; it debates that agenda with Government and its agencies and seeks to bring about the changes needed to sustain excellence in knowledge creation, dissemination and application. The Council's policies are developed by a Council of leading people from a wide range of businesses, universities and colleges with the involvement of the Government.

344-354 Gray's Inn Road, London WC1X 8BP  
Tel: +44 (0)20 7833 9712 Fax: +44 (0)20 7833 9710  
e-mail [cihe@btinternet.com](mailto:cihe@btinternet.com)  
web: [www.cihe-uk.com](http://www.cihe-uk.com)



ippr is the leading independent think tank on the centre left. Through our well-researched and clearly argued policy analysis, our publications, our strong networks in government, academia and the corporate and voluntary sectors, we can play a vital role in maintaining the momentum of progressive thought.

ippr  
30-32 Southampton Street  
London WC2E 7RA  
Tel +44 (0)20 7470 6100 Fax +44 (0)20 7470 6111  
e-mail: [info@ippr.org.uk](mailto:info@ippr.org.uk)  
web: [www.ippr.org.uk](http://www.ippr.org.uk)

# Funding Widening Participation in Higher Education: a discussion paper

## CONTENTS

	<b>Page</b>
<b>Foreword</b>	
<b>Summary</b>	<b>1</b>
<b>1. The Current State of Higher Education</b>	<b>3</b>
<b>2. An Increasing Polarisation</b>	<b>4</b>
<b>3. Student Perceptions</b>	<b>6</b>
<b>4. A Framework for Discussion</b>	<b>7</b>
<b>5. A Brief History</b>	<b>8</b>
<b>6. A Step-by-Step Approach</b>	<b>10</b>
<b>7. A Two Year Basic Entitlement</b>	<b>13</b>
<b>8. The Focus of Additional Funds</b>	<b>14</b>
<b>9. Conclusion</b>	<b>15</b>
<b><i>References</i></b>	<b>17</b>

## FOREWORD

The UK needs better educated and skilled people in all walks of life. It is through greater investments in learning that both a more wealthy and innovative and also caring and civilised society can be created.

Higher education has a vital role to play in this process. The expansion, dissemination and application of knowledge is central to the economy, society and personal fulfilment. Yet too many people remain excluded for a variety of reasons.

The Government, higher education institutions, schools, businesses and a host of agencies, organisations and individuals are working to redress the current iniquities. But without changes to the systems for funding individuals from non-traditional backgrounds and those higher education institutions that see it as their main mission to focus on this issue, progress will remain limited. As a result the Government may not achieve its target that 50% of those aged up to 30 should be engaged in higher education by 2010.

Both The Council for Industry and Higher Education (CIHE) and the Institute for Public Policy Research (IPPR) care deeply about these issues. The suggestions in this discussion paper have evolved from discussions with various members of CIHE's Council and from a series of seminars organised by the IPPR as part of its current review of higher education. However, the authors take personal responsibility for the ideas presented.

The IPPR will be launching a fuller report on the funding and structure of post-16 education in the autumn.

Richard Brown  
Chief Executive  
CIHE

Wendy Piatt  
Research Fellow  
IPPR

## **Funding Widening Participation in Higher Education: a discussion paper**

### **SUMMARY**

There is widespread concern that the current funding of higher education students and institutions does not encourage a widening in participation by those from non-traditional backgrounds. While there are many factors that limit participation in higher education and more evidence is needed on the role finance plays, recent surveys suggest that the spectre of debt continues to influence many students and affects their risk/reward perceptions.

The whole higher education sector is under-funded, but the financial position of certain institutions that have a focus on widening participation is particularly serious. Benefiting little from the increase in research funding, but with higher costs in attracting and supporting non-traditional students, they are having to retrench. This could limit easy access to certain courses by those from non-traditional backgrounds.

With a new Government committed to implementing policies and effecting change, now is the time to look again at the funding of such students and institutions.

We offer a framework for change that proposes a further transfer of available public funds from relatively well-off students and institutions towards those individuals for whom lack of finance is a real deterrent to participation. It proposes:

- the charging of market interest rates on all loans for fees and maintenance costs; the income generated should be directed to:
- greater equality in the treatment of part-time, mature and full-time students with the establishment of a comprehensive system of bursaries covering tuition and maintenance costs for those from non-traditional backgrounds; these might be targeted in particular on getting students from backgrounds where there is no history of higher education through their first year;
- all loans should be repaid on an income contingent basis with provision for early repayment;
- the means testing of tuition fees does not encourage personal ownership and is costly to administer; institutions receive a premium for recruiting poorer students from certain postcodes; there could be advantages in using the same criteria for student bursaries;
- the current fixed tuition fee should be relaxed in stages with premium charging institutions providing self-funded bursaries above the level of the State funded bursary;
- those institutions charging premium fees should receive somewhat less funding from the funding councils with the resources released going to those institutions that can only charge less but have higher costs in widening participation; in particular the premium for students from lower social groups should be increased (as proposed by the Education Select Committee);

Consideration should be given to:

- funding institutions on the basis of completed credits rather than completed years; this would reward rather than penalise institutions for the steps they help individuals take down the lifelong learning road; the policy of bearing down on non-completion should be softened;
- offering tuition-fee free higher education for an initial two years to all those eligible; thereafter the majority of students should pay full tuition fees as an investment in their own learning, personal development and subsequent enhanced income. Bursaries could still be available for specific groups of students.

In addition we want to see the Government investing more in higher education and in particular in

- improving teaching infrastructure;
- raising the so-called 3rd Funding Stream to at least £100 million per year;
- increasing the Collaboration Fund to a similar amount to help the sector restructure and be fully fit for the vital roles it has to perform in an economy that increasingly relies on the generation, dissemination and application of knowledge;
- a stream of funding that would draw together the ragbag of current funding initiatives for distribution on a formula basis so institutions can have greater flexibility to pursue their own distinct missions and maintain a diverse sector serving diverse stakeholder needs;
- raising staff salaries especially in areas where levels are not competitive and staff shortages are a serious current or future problem; the shortage of PhD students in subject areas where demand for well-qualified people is high has also to be addressed; finally, pension provisions across the sector should be aligned to improve flexibility.

## **Funding Widening Participation in Higher Education: a discussion paper**

### **1. The Current State of Higher Education**

UK higher education is one of the most efficient in the world. It produces more graduates who are employed three years after graduation (and on full-time and permanent employment contracts) than most other countries (1). The course non-completion rates are amongst the lowest in the world (2) and the cost of a first-year degree is well below the OECD average.

However, this has been accompanied by declines in staff salaries and student experiences. Funding per student has fallen by 38% in real terms since 1989 following a decrease of 29% between 1976 and 1989. Student/staff ratios have as a result worsened. Yet staff effort has also risen trying to put right learning deficiencies in many post-school students and in reaching out and supporting students from non-traditional backgrounds. Some commentators now consider that UK higher education needs an additional £2.5 billion per year if the amount spent as a proportion of GDP is to equal the EU average or £3.5 billion to reach the OECD average (In 2000/1 the UK spent some .94% of GDP on higher education against an OECD average of about 1.3% in 1997 (2)). Many see the higher education sector as undercapitalised, overtrading, encouraged to expand at below marginal costs and now (according to *New Directions for Higher Education Funding* - the Taylor Report for Universities UK) facing a deficit on its teaching account alone of at least £900 million per year. Provisional findings from the Transparency Review suggest that to meet this shortfall, some institutions are cross-subsidising their teaching from a variety of sources. Certain institutions are better able to do this than others. Equally, others are taking funds from teaching to support their research capability with the aim of improving their research ratings in the RAE.

There is a particular financial squeeze on those institutions that have limited research funding and have attempted to meet the Government's social objectives by recruiting from a wider social spectrum. Such institutions usually have less opportunity to cross subsidise their teaching because their income from research, consultancy, overseas student fees and other sources is less. Yet their costs of remedial, access and initial learning support are greater. The 5% teaching premium for students from deprived areas is inadequate to cover such costs - the Education Select Committee recommended it be increased to at least 20%. The lower retention rates that are the natural concomitant of inadequately funded widened access result in institutions being financially penalised and having to repay grants. This worsens their financial position still further. Yet the Government has instructed the Higher Education Funding Council for England (HEFCE) to "bear down on non-completion".<sup>1</sup>

The premium for those engaged in widening participation is also inadequate to provide the additional education and careers advice and guidance that should be offered to those from lower social groups. Research over many years (3) has shown the importance of such guidance. Most recently work by Professor Kate Purcell for the Review of HE Careers Services concluded that those students who most need help are those least likely to seek it. Other research for that review demonstrated that

---

<sup>1</sup> This paper focuses on the learning and teaching activities of higher education with particular reference to England.

there is wide disparity in the level of resources devoted to the careers services. Generally the older institutions have greater resources and provide more, yet it is in the newer institutions where the student need is greatest. The latest work on non-completions by Peter Elias for DfES again points to the importance of better guidance and advice. Higher education is not just dealing with full time students from middle class backgrounds but also has to meet the needs of part-time and mature lifelong learners.

## **2. An Increasing Polarisation**

The sector is becoming increasingly polarised between the haves and the have-nots and the policies of the Government have failed to redress this sufficiently and may have inadvertently compounded the problem.

Research Council funding and support to institutions from the Research Assessment Exercise (RAE) have increased along with the science budget. The very welcome real terms increase of 7% in the science budget for each of the three-year review period compares with less than a 1% real increase in HEFCE's teaching budget on a per capita basis. The increases in R&D budgets do not improve the financial position of the majority of institutions. The RAE has increasingly focused resources (quite appropriately) on a limited number of centres and teams of international excellence. Oxford University and Imperial College London derive some 37% of their total income from research grants and contracts whereas there are others where the proportion is less than 1%. Equally, the RAE rewards research excellence of a specific kind rather than the totality of research effort.

Important and necessary increases in infrastructure support for research will similarly only benefit a limited number of institutions. Where funding has been particularly geared around Wellcome Foundation investment this has focused investment on a still smaller number of older institutions. (The current OST commissioned review of research infrastructure might lead to further funds being available to meet current gaps). By comparison, many post-1992 institutions inherited a legacy of local authority under-investment and high maintenance for which no special funding arrangements have been made available.

The increases in the funds for infrastructure have done little to address the problem of teaching infrastructure (in science and more generally). Many future research scientists are being taught in old and ill-equipped laboratories, hardly an inducement for them to pursue a scientific career. The requirement for matching funds in many of the grants (JIF and SRIF) can mean funds having to be diverted from teaching infrastructure (and from the arts and social sciences).

Specific initiatives such as the Science Enterprise Challenge, University Challenge, Public Sector Research Exploitation Fund, funds for attracting top researchers and raising the salaries of post-graduate research students and for the Cambridge/MIT strategic partnership have had little impact on the newer institutions.

Excellence in knowledge transfer that may be more evenly spread across the sector has largely gone unrecognised and unrewarded. Sometimes it may have been miscategorised as a "3" under the RAE (a mixture of perhaps a low research score but high knowledge transfer score), sometimes it may not have been appreciated because the criteria for recognising such excellence have not been established.



Criteria are needed to identify excellence in knowledge transfer with funding via the “third stream” to reward such excellence.

The so-called “third stream” of funding was seen by some as offering alternative support to the RAE for those institutions whose mission was more directed towards their local businesses and communities. However, it has not only been spread across all institutions but there is an increasing DTI/OST focus, consistent with the injection of additional funds from those departments. This increasing emphasis on technology and knowledge transfer and innovation rather than the DfEE agenda of people transfer, continuing professional development, employability, skills development and knowledge of the work-place through work experience could result in proportionately more support for research focussed rather than widening participation focussed institutions. Early indications are that the new Higher Education Innovation Fund (the mainstay of 3rd stream funding) will favour science and technology even more and with at least 40% of funds focused on Innovation Centres.

Finally, different pensions arrangements between the pre- and post-1992 universities limit the flexible deployment, retirement and recruitment of staff. The USS pre-1992 pension scheme offers larger benefits and enables participants to access the scheme before age 60. While there are higher costs for employers, HEFCE offers greater central support. For post-1992 institutions, the Teachers Superannuation Scheme cannot generally be accessed for early retirement. The Dearing Committee largely ignored the implications as had Universities UK and the Government. Yet a unified system of higher education with the flexible deployment of staff and full cooperation between institutions cannot be achieved until this issue is tackled.

The effect of all of these trends has been to worsen the relative and absolute financial position of certain newer institutions. The publication of recent HESA statistics in the THES and work for the Long-term Strategy Group of Universities UK by Brian Ramsden notes the wide variations in the financial performance and health of institutions. While there is no simple correlation between financial health and type of institution, on measures such as:

- surplus/deficit as % of income
- days ratio of net liquid assets to total expenditure
- ratio of interest payments to income

certain institutions focusing on widening participation (along with some smaller institutions) are generally in a worse financial position than most older universities when allowance is made for certain one-off factors such as the funding of recent infrastructure. With less resources, financial penalties for lower retention rates, less careers advice and guidance and a large company bias against their graduates, - all of which affect their market image - as well as a statistically inevitable trend decline in the number of mature first-time students, such institutions are finding it harder to maintain their student numbers. The press (and even Ministerial) focus on league tables, where position and prestige are associated with research ratings, increases the polarisation.

The movement of students and to some extent academics to those judged as of a higher status, worsens still further the financial position of other institutions. This in turn results in further cutbacks, redundancies and the closure of departments and even campuses (*vis.* the Humberside campus of Lincolnshire and Milton Keynes campus of De Montford and the publicised staff reductions at South Bank, Luton, East London and elsewhere).

In any competitive market there will be losers as well as winners. If some over expanded, it is not surprising if they now have to retrench. But is there currently a level playing field for all?

### 3. Student Perceptions

There are many reasons why more from lower social groups do not enter higher education. Perhaps the main barrier is the fact that staying on rates at school among these groups are too low. The supply of qualified and motivated young people needs to be increased.

The work of Helen Connor at the IES (4) and others has shown that participation and continuation in higher education is not just a matter of personal finance. Having the necessary qualifications, the application process itself, the pressures of academic life and the provision of wider support facilities (mentoring, peer groups, crèches, etc) are also relevant. While finance is a key factor we need more evidence about its relative importance compared with other potential barriers. Universities UK are conducting a general study on student debt that should throw light on this.

There is, however, a wide perception that the Government's student funding policies have undermined the access objectives through a failure to appreciate the effect of removing maintenance grants and imposing student debts on those from lower social groups where there has always been an aversion to debt. According to research from Professor Clare Callender, some 87% of students experienced some financial difficulties in 1998/9 and this is especially true of those from lower social groups.(5). These individuals have the highest debts (despite the fact that they will almost certainly not be paying tuition fees).

Neither is the issue one simply of better informing prospective and actual students of the financial returns from higher education. Higher education offers a good rate of return on the investment made; but the extent of that investment has to be recognised along with the fact that the return may be less for those from lower social groups. The quoted so-called "returns" are not true rates of return only wage premiums. They take no account of the costs or income foregone. When these are estimated - however crudely - and included, the true rates of return between different forms of qualification appear more finely balanced.

---

#### **Rates of Return** (Anna Vignoles, Centre for the Economics of Education)

Crudely taking account of the costs of learning and the income foregone (and this varies with the length of the learning)

- A levels/Degree - 9% per annum (men and women)
  - A levels/HNC - 8% p.a. (men) 7% p.a. (women)
  - ONC, OND, BTEC National/HNC, HND, BTEC Higher - 6% p.a. (men) 4% p.a. (women)
  - C&G/C&G Advanced - 4-14% p.a. (men)
-

Nor do existing calculations disaggregate and recognise:

- the different support arrangements for part-time and mature as against full-time students;
- the different returns associated with different courses (there is some evidence that certain vocational qualifications have lower labour market value than "academic" qualifications (see Vignoles); and how many from lower social groups enter the long but ultimately high return courses in medicine or the law?
- the different returns associated with different institutions and courses (employers do not value all institutions and students equally);
- the lower earnings graduates from lower social groups secure (those from social class IV and V earning on average 7% less than graduates from social class I & II) (6).

Employer recruitment practices have continued to aggravate the divide between institutions. While most do not specifically exclude candidates from any institution and while there is a slow move to competency based recruitment that is inherently less discriminatory, many employers still focus on a few generally older institutions. They even pressurise the recruitment intermediaries to adopt a similar approach so that many newer institutions receive less careers information.

Higher education is a more risky investment for those from lower social groups and an element of this risk is borne by and reflected in the performance of the institutions that have the greatest exposure to such students.

#### **4. A Framework for Discussion**

We start from a set of current policies and do not have the luxury of designing a new funding system for students and institutions from scratch.

Emphasising the problems of certain institutions and the students who attend them (notably those from lower social groups) may help to focus the debate. The Taylor report for Universities UK was comprehensive but produced no clear-cut consensus. Neither did it focus on the particular problems of widening participation and the need for joined-up thinking on this issue

The IPPR is due to publish a pamphlet in the autumn setting out a package of proposals for the reform of the funding and structure of post-16 education encompassing both higher education and the learning and skills sector. This paper offers some recommendations that will be pursued in greater detail in the pamphlet and raises questions for discussion across higher education (including with the teaching unions and the NUS who have all expressed concerns on the subject) and with the Government.

The proposals seek to reflect the following principles:

- a basis in sound economics distinguishing between the funding needed to secure macro outcomes and the specific objectives of widening participation
- more equitable treatment between part-time, mature and full-time students
- offering greater clarity to prospective students
- freeing resources through reducing regressive subsidies and costly bureaucracy

- supporting institutional diversity and mission focus
- securing additional funds that are focused on achieving specific and measurable objectives
- deliverable in stages with the current position as a starting point.

There are arguments for separating the funding of students from the funding of institutions. However, given the inter-relationship between the two in the area of widening participation, the focus of this paper, we look at both issues together.

There are also arguments for increasing the amount that certain students pay towards the cost of their higher education given the relatively high returns most achieve.

## 5. A Brief History

1997 saw the report from the National Inquiry into Higher Education (the Dearing Committee). In its evidence, the then CVCP argued for a rebalancing of higher education funding between the state, employers and graduates with a replacement of the means-tested maintenance grants and loans package with a more effective income-contingent loan system that might also be used to pay for tuition. It was stressed that the proceeds should go to higher education. CIHE had long argued that students should help meet the costs of their higher education given the private financial returns from their learning, the regressive nature of the previous system and the inability of the state alone to meet the long-term needs of the sector.

Dearing backed the introduction of income-contingent loans and graduate contributions of 25% of the average costs of tuition. The inquiry also proposed that in the context of a new contract between higher education and the Government, public funding for higher education should increase with the growth of GDP, student choice of institutions should play a larger part in the distribution of funds by the Funding Councils and the annual reduction in the unit of resource should be substantially ameliorated.

The response of the new Labour Government was to accept the principle of fee contributions by full-time home and EU students but to charge on a means-tested, flat-rate, up-front basis. In effect it also replaced the principle of maintenance grants with subsidised loans, means-tested against family income. Liability for tuition fee contributions applies to all full-time undergraduate UK and EU students with associated means testing.

Critics regretted that the Dearing proposals were not implemented, considered that the replacement of maintenance grants with loans would deter those from lower social groups and that means testing was both bureaucratic and often inappropriate. Thus the low-earning graduate from a wealthy background has a tuition fee debt liability but the financial analyst from a poor background has none. Attempts at means testing Greek students have led to particularly derisory remarks. Even Vice-chancellors from Russell Group universities continue to lament the current deterrent effect of student debt on those from non-traditional backgrounds (7) where there is little history of debt and where the risk from undertaking a higher education course is greater. Treasury concerns and influence may have been a factor in determining the past Government's policy. The Government has since said (January 23rd PQ) that if the Dearing proposals for a flat rate £1,000 tuition fee repaid after graduation had

been implemented, institutions would have received about another £400 million next year. We understand that the abolition of maintenance grants saved the Government some £900 million per year while resource accounting removes a further £920 million of public expenditure. These figures need to be borne in mind when considering proposals that appear to increase Government contributions in the future.

Since then, the Government has adjusted the means tested threshold so that about 50% of students will pay fees from the next academic year. Of the 50% who will pay, about two-thirds will pay the maximum contribution of £1,075 and a third a partial contribution. £1,075 represents roughly a quarter of the average annual HE tuition costs per full-time student. Some support for poorer students has been offered via bursaries (a return to grants in all but name) and support has been extended to various part-time and mature students (partly to try and stem the reduction in the numbers applying). In Scotland, the Cubie report and political bargaining has resulted in the removal of tuition fees for Scottish and EU born students and hence no up-front charges. The Cubie proposals for a very high repayment threshold (in combination with continuing interest rate subsidy) that would have resulted in slow repayments and hence high exchequer costs, have not been implemented.<sup>2</sup>

Across the UK, higher education institutions are debt collectors of fees while there are costs, especially to local authorities, in administering the means-testing formulae and in subsidising the interest cost of loans even to students of high earning parents (who make a turn by them investing their loan at public expense). The cost of the student loan system under resource accounting and budgeting is some £938 million in 2000/01 (£1.88 billion in cash flow terms) with the interest rate subsidy projected to account for some £400 million per year (according to Professor Nick Barr). According to London Economics (8) the subsidy on real interest rates will be some £370 million per year in the steady state. The administrative and cash flow costs to institutions are unknown.

We lack a macro-economic synthesis of the public funds that go into:

- subsidised loans (according to the Treasury, about a third of total lending to students)
- subsidised fees
- access and related funds
- special initiatives for particular categories of students
- potentially avoidable transaction costs (for institutions, local authorities, the SLA and the DfES) (though strictly speaking these are of a different nature to the other four).

---

<sup>2</sup> The Scottish Executive's proposals (9) included:

- Tuition fees for full-time undergraduate students should be abolished
- Access bursaries should be available for poorer students and those from disadvantaged backgrounds of up to £2,000 a year
- An extra £500 should be targeted to those students with parental income of less than £15,000
- A Graduate Endowment Scheme should be established as part of the existing student loans scheme with a total contribution of £2,000 payable once a graduate's income exceeds £10,000.

## 6. A Step-by-Step Approach

Starting from the current systems in place, certain steps might be taken.

First, market interest rates might be charged on all student loans. This is the position in the Netherlands and Sweden, was the position until recently in New Zealand and will be the position in Hungary. The current subsidy is doubly regressive in that it not only subsidises all students irrespective of their ability to pay, but also enables those who do not need the loan to nevertheless take it, invest it and make a turn at the taxpayer's expense. We suggest that for all students market interest rates should apply post-graduation with zero real rates during the period of study.

The main argument against open market rates is that students from poorer backgrounds might be hurt. The counter argument is that there needs to be an overall student funding regime that makes sound economic sense in its own right. If the Government then wants to introduce active measures to encourage widening participation (as it should) then it should be designed separately. To mix the two as currently introduces distortions. The other argument against market rates is that it could produce an unmanageable level of debt for those whose initial jobs were at salary levels below the income contingent threshold, such as teachers and nurses. The Government could, however, offer debt redemptions for such occupations (as it currently is doing for teachers), subsidised rates for those on specified courses or let real interest rates only apply once income had reached the income contingent threshold. Alternatively the salary threshold for income contingent repayments might be raised (eg. to £25,000) with the debt cancelled after, say, 10 years if the threshold has not been reached. Further modelling on the options is needed. We favour keeping the scheme as simple and free from Government interventions as possible.

The loan subsidy is about 40% of the face value of the loan. The resulting subsidy is some £400 million per year. The amount released under the option chosen above should be directed to supporting the widening participation objectives. Funds might in particular be directed to establishing a national system of bursaries for targeted groups. These would cover maintenance as well as tuition costs. They might be particularly directed at first-time students from families with no history of higher education. There might be an HE Allowance Fund administered by the Student Loan Company (as suggested by Professor Leslie Wagner) or such bursaries might build on the Education Maintenance Allowances (EMAs) available for those covered by the Learning and Skills Councils. The IPPR has suggested they might be called HEMAs (Higher Education Maintenance Allowances). "HEMAs offered for just the first year would help to overcome debt aversion and minimise the perceived risks. The first year is a crucial period that demands rapid acclimatisation to what is, for some, an alien environment" (10). The removal of the perceived burden of debt could have an important impact in easing the transition.

If £300 million (of the £400 million potential) was generated and released for bursaries, this could enable institutions to offer each year bursaries covering tuition fees and maintenance costs of £5,000 to 40,000 students in their first year and 20,000 of those students in their second year of study.

It should also be a policy objective to, wherever possible, align the funding regimes across "tertiary learning". Individuals should be helped to dip in and out of lifelong learning irrespective of the sector. An individual should be able to undertake IT and Management courses (theoretically in different sectors) without having to worry about

different support regimes. The proposal for HEMAs to sit alongside EMAs would help achieve this.

Second, the policy of "bearing down on non-completion" with the claw back of grant from certain institutions should be modified. Students and institutions should take pride and credit from every step taken down the learning road. To brand people as failures because they have not lasted a long course does not encourage a culture of achievement and lifelong learning. There may be good reasons for what might be an interruption. Equally, the individual may have secured a job as a result of the period of study.

A more constructive approach is needed. Schools need support to offer better advice and prepare students for what is usually a dramatic change. Higher education institutions need increased funding to offer a broader range of counselling services and to offer more accredited access courses. Increased priority should be given to encouraging multiple entry and exit points. The introduction of Foundation Degrees is a move in this direction. A system of credits and intermediate awards together with better arrangements for credit accumulation and transfer would help students and institutions. Equally, funding institutions according to credits awarded rather than years completed by students should be considered. Many institutions operate a 360 credit system (even if the number of modules differs). Such an approach would recognise that the distinction between so-called "full-time" students and "part-time" students is now blurred to the point of invisibility and would support our recommendation for all students to be treated on a similar basis.

A more consistent treatment of part-time, mature and full-time students is needed. The former may pass 75% of their first year but then be classed as a non-completion whereas this does not happen in the case of full-time students; this again penalises certain institutions that have a larger percentage of such students (who in turn are more likely to be from non-traditional backgrounds).

Third, more equitable treatment is needed between full-time, part-time and mature students. Those from lower social groups might particularly be part-time students. They should not be disadvantaged. We propose that *all* students should be entitled to take out loans covering tuition fees and maintenance costs with repayment on an income contingent basis that directly reflects the individual's ability to pay and the wage premium higher education has produced. Income contingent loans should encompass tuition fees and maintenance in a single system with market interest rates charged. All students should also be eligible for the national system of bursaries.

Fourth, we question whether the basis of entitlement to support should be related to means testing. Successive Governments have had a policy aim of reducing their reliance on means testing. None have so far succeeded. The argument for a further attempt at removal is strong in the area of post-compulsory lifelong learning. Individuals have to be persuaded to see learning as a personal investment in their own future. They have to take greater responsibility for their own personal development. Means testing that looks back at parental income and assumes parents will continue to provide the funding does not encourage this outlook.

Institutions get a premium for recruiting students from specific post-codes. There would be a logic in those being the same individuals who are eligible for a bursary. We are attracted by the potential to align the criteria.

Both postcode premium and means testing seek to identify and support students from the poorest backgrounds. However, means testing has been criticised as invasive of personal privacy, bureaucratic to administer, involves those outside higher education making judgements on those who should be supported and can be inappropriate in certain circumstances. Equally, it has to be recognised that the postcode analysis is somewhat crude and is less appropriate in rural areas. Nevertheless, work is in hand to refine its application and institutions could have a measure of discretion in its application<sup>3</sup>.

Fifth, loans should be recovered through the income tax system. This is the position in Australia (since 1989), New Zealand (since 1993) and the UK (since 1998). However, the quantum of the loan will be greater as it will embrace fees as well as maintenance support. Since the income tax basis of repayment can be burdensome on the employer and does not give scope for graduates or employers to pay the loans off more rapidly, there should be flexible repayment options with incentives for early repayment.

A more radical approach would be to institute a system of negative income tax to support the cost of individual learning. This might be more attractive and less costly to administer than loans or individual learning accounts. The rate of tax could be modulated to reflect specific courses or specific circumstances.

We are tempted to ask why have loans at all? Why not couple a no fee/maintenance grant system to a “pure” graduate tax (eg a penny in the pound until, say, aged 50) which is, of course, a progressive rather than regressive tax? If institutions wanted to charge fee “premiums” (with bursaries) it would be a matter for them. The “transaction” costs of such a system would be minimal – unlike any system that needs to keep track of “loans”.

Sixth, the fixed tuition fee should be relaxed in stages in a controlled manner where the effects can be monitored. To avoid any destabilising effects, there might be a 10% initial band. Such differential fees should help the newer institutions. Institutions currently cannot compete on price for full-time students. Yet institutions cannot all have the same resources or sustain equal quality (for the reasons given earlier). Market prices apply for part-time, mature, postgraduate and international students. Most private organisations strike a balance between the quality and price of the products they offer their customers. It is no wonder that those HEIs that cannot command the fixed price they have to charge are losing customers to other institutions. The Government imposed price-fixing helps neither students nor institutions.

Targeted bursaries (as proposed above) should support those who cannot afford the higher fees up to a set average or threshold level. Premium-charging institutions

---

<sup>3</sup> Whether the removal of means testing would incur costs for the Treasury would depend on the extent of the countervailing bursaries/HEMAs (as proposed above) and some modelling on options is needed. There would be an initial £400 million cost in abolishing up-front tuition fees. (However, the Treasury earlier saved £900 million by abolishing maintenance grants and funds might be released by selling student debt to the private sector - say for an initial 5 year period. This would be more feasible once market interest rates were charged. The private sector would want to agree assumptions about the amount that might be recovered and appropriate risk premiums. The terms on which the loan book was purchased might be adjusted retrospectively and reflected in subsequent sales.)



should then provide from the extra income generated their own system of top-up bursaries to meet the additional premiums charged.

Seventh, the current complicated system of institutional support for non-traditional students might be simplified. We can appreciate why currently there is some confusion and uncertainty in the minds of students and those who advise them about eligibility for financial support (it is worth glancing at the DfES web-site on student support!) We have been told that the bureaucracy involved in determining support under the various categories (bursaries, child allowances, access, mature and part-time allowances etc) is only matched by the confusion for the applicant. At the last count there were no less than 21 different public bursary schemes in England alone. Equally we understand that in the USA where each institution is responsible for helping students find the most appropriate financial package there are high administration costs. The Government might therefore establish a national system of bursaries to cover tuition and maintenance costs. This should apply to all students irrespective of their mode of study. The scheme might be administered by institutions as they should be in the best position to tailor the scheme to local circumstances and support their specific widening participation strategies. It should be a general principle that responsibility is devolved to institutions and that wherever possible block funding is provided to support the delivery of institutions missions and business plans. (11)

Finally, additional support is needed for those institutions that cannot command premium prices but may have additional costs in implementing the widening participation agenda. New funds are needed from the Government. In addition, the funding councils might provide less (though not proportionately less to the additional income generated) to premium charging institutions. Those institutions with higher remedial costs could then receive a larger widening participation premium (as proposed by the Education Select Committee). This premium should be of a sufficient amount to cover not only the additional costs of learning support on entry but also for the counselling of such students, including via better resourced careers services. Current funding council methodologies can accommodate this flexible approach.

The above package and the idea presented in the next section needs to be modelled on various assumptions to relate it to existing allocations. The work of London Economics offers a starting point. In so far as the proposals result in lower administration costs, then there would be a freeing of institutional and local authority resources. There might be longer-term savings of public expenditure if the debt was in the private sector.

## **7. A Two Year Basic Entitlement**

One other option is worth considering. The funding of higher education is already far too complex for students (actual or potential), parents, local authorities, institutions and funders. Equally, the fear of debt is a deterrent to many. If an initial entitlement could be offered at no cost to all students, then the perceived disincentive of up-front fees, the bureaucracy of means testing, the mixed students/parent/state funding and institutional debt collection could be avoided. The wage premium for students from traditional backgrounds remains substantial while higher education generally tends to be associated with higher rates of labour market participation and lower unemployment rates. Hence there could be economic arguments for shifting the costs of higher education still further onto those graduates who can afford to pay.

In addition to the bursaries covering maintenance and tuition costs as proposed above for targeted groups, the Government might therefore provide an entitlement to two years tuition-fee free higher education. Thereafter, it would be for individuals to decide on the added value, on the most appropriate timing of further study and on the form and place of study. They would be that much more mature and knowledgeable about themselves and the options available and could make more informed decisions. With most students bearing the whole cost of their subsequent learning, there would be an additional shift in power towards consumers (as proposed in the Dearing report) and greater pressure on institutions to explain the value they were offering and the performance measures against which they should be judged. Individuals should feel that their contribution to the cost of their learning and subsequent wage enhancement is an investment. There could still be bursaries for targeted groups such as those from non-traditional backgrounds. For the average three-year degree course the student contribution would rise from the current 25% to 33%. With targeted bursaries we would expect most to pay this. The enhanced contribution would also apply to other EU students. Non-EU students currently pay full fees for all their years of study. This option was explored at some length in the CIHE report *Paying for Education Beyond Eighteen* (13).

A two-year entitlement would build on the approach to Foundation Degrees, enable them to be offered free and encourage their uptake. Making the first two years free would simplify the entitlement arrangements and be consistent with the removal of the bureaucracy of means testing. The aim of widening participation would be enhanced.

While it might be argued that longer degree courses would suffer if most individuals had to bear the full costs beyond the second year, it has been argued elsewhere (12) that HEFCE should review its support arrangements so as to encourage work related learning including via sandwich placements. The financial return to an investment on longer courses such as medicine and law should support the additional cost to the students involved. Even so the fees for the third (and subsequent years) might be payable only after graduation (as in the Scottish model).

## **8. The Focus of Additional Funds**

At the same time additional funds are needed for higher education

- to raise the quality of the teaching infrastructure and to support scholarship
- to raise the 3rd stream of funding via the Higher Education Innovation Fund to at least £100 million per year with the objective of building capacity across the sector on both the DTI/OST and DfES agendas
- to increase the Collaboration Fund to £100 million per year so that much needed restructuring via voluntary cooperation and collaboration can be achieved (see the CIHE document *Cooperation and Collaboration: informing the debate*). Most institutions (as charities) have inadequate reserves to engage in major restructuring and the associated costs of redundancies, building rationalisation, conversion and upgrading and new investment in courses and CIT. There is a one-off cost in getting the sector from where it is now to where it needs to be to be fully fit for purpose in the 21st century. With the current limit on the fund, proposals for major restructuring are unlikely to be submitted, especially given the need for wide consultation and all that that implies.
- to supplement a mainstreaming of the current ragbag of initiative funding in ways that offer institutions some margin of flexibility so they can better deliver

their own distinct and diverse missions without interventionism and micro-management (see *Funding by Mission* Nigel Brown for CIHE and SCOP July 2001).

Finally, funds are needed to improve the salaries of staff and align pension provisions between the pre- and post-1992 institutions. Staff shortages are becoming serious in subject areas such as computing and economics where rates of pay in higher education are uncompetitive and where student demand and national need is strong. While there is no evidence that too many academic staff are concentrated in older age groups, except possibly in a few subject areas, it remains important that highly capable and qualified staff are attracted into the profession. The quality of the student experience and the capabilities of students entering the labour market must not be allowed to fall further in the future. Equally serious is the shortage of PhD students in subject areas where demand for well-qualified people is high.

The 1999 Bett report on pay suggested that funding should rise by some 9% in real terms by 2002. This amounts to an estimated £365 million in 2001/02. The provision of £330 million over 3 years for pay structures and mechanisms only partially meets this shortfall. The additional funds should be provided to institutions via their block grants. It would then be for the institution to decide how best to reward, retain and attract suitable staff.

The need for alignment of pension provisions was noted earlier and is necessary to achieve the flexibility and restructuring that the sector needs to be fully fit for purpose in the 21st century.

There are arguments that since individuals derive considerable benefits from obtaining a degree, they should contribute more to the costs of their learning and to the additional funds that need to be found. Some of our proposals involve such a transfer. If the Government considers the political consequences of greater transfers to meet the injection of the additional funds proposed above to be unacceptable, the state will have to bear the additional costs.

## **9. Conclusion**

The current arrangements for funding students and institutions do not sufficiently encourage a widening of participation in higher education. The system

- raises the risk premium for non-traditional students (through their having to take on debt);
- is socially regressive (including through the subsidising of loans that benefit the overwhelming majority of traditional students);
- is complex, confusing and bureaucratic (eg through means testing and an array of national and institutional support packages);
- does not focus resources sufficiently to support those institutions whose prime mission is to encourage a widening in participation.

Our proposals are essentially redistributive in nature:

- from the student “haves” to the student “have nots”
- from the institutions that can charge premium prices to those that need additional funds to meet the higher costs of widening participation.

In addition, the whole sector needs further funds and we suggest where these might be focused.

The Government has set itself the target that 50% of young people (up to 30 years-old) should be experiencing higher education by 2010. It now needs a funding system to help it achieve this target. We offer our ideas as a basis for discussion and further analysis.

July 2001

## References

1. *The Employment of UK Graduates*; CHERI reports for the EU and HEFCE
2. OECD Higher Education Statistics
3. see for example: *Great Expectations, Working Out, and more recently Moving On* (CSU and DfEE 1999), *Review of HE Careers Services* (DfEE 2001)
4. *Social Class and HE: issues affecting decisions on participation by lower social groups* Helen Connor et al IES March 2001; see also *Socioeconomic Disadvantage and Access to HE* Alasdair Forsyth 2000
5. *Changing Student Finances* Callender & Kemp DfEE 2000
6. see eg. page 45 in *Moving On: graduate careers 3 years after graduation* Elias et al CSU/DfEE 1999
7. see for example Sir John Kingman's Bollard Lecture June 2001 "If we really want to recruit more widely, we have to banish this spectre of student debt and make it more positively attractive, from a financial point of view, for the students from poorer families to apply to university...."
8. *A Review of Funding Options for Higher Education in the UK: a report for Universities UK* London Economics November 2000
9. *Working Together for Wider Access to Further and Higher Education and a Fair Deal for Students* Scottish Executive 2000
10. New Statesman article April 2001
11. see *Funding by Institutional Mission*, Gareth Williams & Richard Brown CIHE 2000; *Funding by Mission*, Nigel Brown CIHE & SCOP July 2001
12. *Work Related Learning* DfES July 2001
13. *Paying for Education Beyond Eighteen* Gareth Williams CIHE 1996.

## **IPPR Publications on Education & Training**

**A LIFE'S WORK Achieving full and fulfilling employment** *Nick Burkitt*  
**contributors:** Nick Burkitt, Peter Robinson, Richard Freeman, Adair Turner, Francis Green, Laura Edwards, David Guest, Mike Emmott, Lisa Harker, Sue Lewis, Mark Corney Date: Jun 2001 There is renewed interest in the quality of people's working lives. Are we really all working harder than we used to? Do we like our jobs less? The Labour Government brought in several new rights at work between 1998 and 2000, but what of the future? How many more jobs do we need to attain full employment? Which areas should be prioritised - work-life balance, discrimination or training? How should we attain the goals - more regulation, or through voluntary methods? Nick Burkitt has brought together employers, trade unionists, academics, and campaigners to address all of these questions and sets a new and ambitious agenda. **Price: £10.95** ISBN: 1 86030 163 0

**BUILDING BETTER PARTNERSHIPS** *Commission on Public Private Partnerships* Date: Jun 2001 The culmination of nearly two years of work, in which the Commission - a group of leading public and private sector managers, academics and trade unionists - set out a new direction for the UK's public services. Following extensive consultation across all sectors - public, private and voluntary - the Commission makes a wide-ranging set of proposals on where, when and how partnerships have a role to play in improving public services. Provocative and forward looking, **Building Better Partnerships** will set the reform agenda on public services for years to come.

**A LEARNING PROCESS Public Private Partnerships in Education** *ed. Rachel Lissauer and Peter Robinson*

**contributors:** Neil McIntosh; Joe Hallgarten; Dr Rob Watling; Dr Noel Thompson; Rachel Lissauer; Peter Robinson Date: Jan 2001 This is the fifth in a series of issue papers published on behalf of IPPR's Commission on Public Private Partnerships. This paper brings together three contributions to the debate on partnerships in education. It looks at the possible role of the private sector in the management of schools, the evidence to date on the success or otherwise of Education Action Zones and the experience of the Private Finance Initiative in schools. **Price: £7.50** ISBN: 1 86030 130 4

**PARENTS EXIST, OK!?** *Joe Hallgarten* Date: Sep 2000 Comprehensive investigation of current situation with family-school partnerships and what can be done to improve them.

"It's a fascinating read. Time and again, Hallgarten deals with a familiar issue and then tells you something about it that you didn't know before. Much is based on published research, but you're not likely to find it all in one place anywhere else, and it's presented here with great insight and clarity." Gerald Haigh, Times Educational Supplement

**Price: £10.95** ISBN: 1 86030 125 8

**KNOWLEDGE LINKS Innovations in university-business partnerships** *Stephen Lissenburgh and Rebecca Harding* Date: Feb 2000 How university-industry collaboration can close the productivity gap **Price: £10.95** ISBN: 1 86030 104 5

**TOMORROW'S CITIZENS** *edited Nick Pearce and Joe Hallgarten*

**contributors:** Anthony Giddens; David Miller; Anne Phillips; Stuart Hall; Rabbi Jonathan Sacks; Nick Tate; Bernard Crick; Charles Clarke MP; Jenny Talbot; William Atkinson; Martin Cross Date: Jan 2000 In 2002, Citizenship will become a compulsory subject in all English secondary schools. With contributions from human rights experts, educationalists and practitioners, this report examines contemporary concepts of citizenship and their implications for education. It explores the relationship between the Citizenship curriculum and current social, political and cultural contexts. **Price: £8.95** ISBN: 1 86030 096 0