HOUSE OF LORDS
Library Note

Debate on 25th February: Higher and Further Education Funding

This Library Note aims to provide background reading for the debate to be held on Thursday 25th February:

"To call attention to the consequences of the cuts to higher and further education funding that have been announced"

This Note provides a snapshot of the UK higher and further education sector as it stands today, together with details of recent policy developments in these areas. It also gives details of the funding announcements made by the Government and the Higher Education Funding Council for England (HEFCE) and the reaction to those announcements by the universities and colleges. Finally, the Note outlines some of the recent contributions to the debate on how higher education in particular should be funded.

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1. The UK Higher and Further Education Sectors

1.1 Higher Education

A picture of the UK higher education sector as it stood at the beginning of the academic year 2008–09 is provided below:

- 132 universities and 33 higher education colleges;
- 2,396,055 students and 179,040 academic staff and 203,720 non-academic staff;
- Total income of £23,439 million and expenditure of £22,884 million (2007/08);
- 36.3% of income came from funding body grants and 57.4% was spent on staff costs (2007/08);
- As a percentage of GDP the UK spent 0.9% of public expenditure on higher educational institutions in 2006. The OECD average was 1.0 % and the EU19 average 1.1%;
- According to Universities UK, the output of universities represents 2.3% of GDP, which is comparable to the contribution from computing services or the recreational service sector.

(Sources: HL *Hansard*, 14th December 2009, col WA180; Higher Education Statistics Agency website Some Headline Statistics and Finance Data Tables; OECD, *Education at a glance* (2009), p 221; and 'Higher education's importance goes well beyond teaching', *The Guardian*, 3rd November 2009)

1.2 Further Education

There are currently 353 colleges in England and 426 in the UK as a whole. In England there were:

230 general further education colleges (GFE)
93 sixth form colleges (SFC)
16 land-based colleges (AHC)
4 art, design and performing arts colleges (ADPAC)
10 special designated colleges (SD)

(Association of Colleges website, 'About Colleges', January 2010)

Drawing on data from the Association of Colleges the following is a snapshot of the further education sector:

- Every year colleges educate and train around three million people;
- 737,000 16 to 18-year-olds choose to study in colleges (compared with 487,000 in all schools);
- 172,000 students study higher education in a college;
- 135,000 college students are aged over 60;
- The total college income in England in 2007/08 was £7.2 billion;
- Colleges employ 263,000 people,140,000 of whom are teachers and lecturers; and

- Staff costs (excluding restructuring) total £4.6 billion, accounting for 63% of total college spending.

(Association of Colleges website, College Key Facts: Summer 2009)

2. Policy Background

On 3rd November 2009, Lord Mandelson, Secretary of State for the Department for Business, Innovation and Skills (BIS), made a statement in the House of Lords in support of the publication of a paper entitled *Higher Ambitions—the future of universities in a knowledge economy*. The Business Secretary warned that "the coming decade will see public expenditure inevitably more constrained. Attracting the best students and researchers will become more competitive. Above all, it will be a decade when our top priority is to restore economic growth, and our universities need to make an even stronger contribution to this goal". He added that "able people and bright ideas are the foundation stones of a thriving knowledge economy. Producing both are what good universities are all about. So in the next 10 years we will want more, not fewer, people in higher education and more, not less, quality research" (HL *Hansard*, 3rd November 2009, col 124).

A press release that accompanied the paper summarised the Government's proposals:

- More competition between universities, giving greater priority to programmes that meet the need for high level skills;
- Business to be more engaged in the funding and design of programmes, sponsorship of students, and work placements;
- Creating more part-time, work-based and foundation degrees to make it easier for adults to go to university, with routes from apprenticeships through to Foundation Degrees and other vocational programmes;
- Encouraging universities to consider contextual data in admissions, as one way of ensuring that higher education is available to all young people who have the ability to benefit;
- Universities setting out clearly what students can expect in terms of the nature and quality of courses offered;
- Sustaining our world class research base by continuing to focus on excellence, concentrating research funding where needed to secure critical mass and impact; and
- Encouraging collaboration between universities on world class research, especially in high cost science.

(Department for Business, Innovation and Skills Press Release, 'Mandelson outlines the future of higher education', 3rd November 2009)

Following the publication of *Higher Ambitions,* the Government announced that an independent review of higher education funding and student finance had been appointed under the chairmanship of Lord Browne of Madingley. Its aim was to publish its findings in autumn 2010 with any changes implemented following the review coming into effect in the academic year 2011–12 "at the earliest". In a written statement Lord Mandelson said that variable fees had provided institutions with an "income stream worth £1.3 billion per year, which has helped to sustain the long-term financial health and viability of this crucially important sector". However, he added that "to continue to thrive in the coming decade, institutions will need to respond to the changing needs of students, businesses and the wider community as well as adapt to demographic changes and growing international competition”. The review would therefore “consider the balance of contributions from all those who benefit from the higher education system”. The terms of reference for the Higher Education Review were outlined as follows:

> The review will analyse the challenges and opportunities facing higher education and their implications for student financing and support. It will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers. Its primary task is to make recommendations to Government on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students.
>
> (HL *Hansard*, 9th November 2009, cols WS36–7)

A statement in the House of Lords by Lord Mandelson on 11th November 2009 outlined the Government’s strategy for skills and their role in the economy. In support of the publication of *Skills for Growth* (November 2009), Lord Mandelson said that “skills in our society must always be an individual’s ladder up. That is why the skills system also needs to mesh with our university system. We need schools and colleges to make a strong vocational offer that leads to a clear vocational route from apprenticeship to technician to foundation degree and beyond. Equipping unemployed people with the skills that they need to get jobs in key sectors will be essential to a strong recovery”. In regard to further education colleges he added “many of our colleges are performing at world-class levels and overall success rates have increased by over 40 per cent in the last 10 years. We will build on this by providing progressively greater autonomy to colleges that demonstrate teaching excellence, but also by cutting funding to low priority and poorly provided courses. We will invest in the courses that employers judge are in line with their needs and requirements” (HL *Hansard*, 11th November 2009, cols 805–6).

Subsequent to these developments press stories speculated about the likely impact on higher and further education funding of the recession and Lord Browne’s review. An article in *The Observer* claimed that leaked documents showed the Government were “preparing some £350m of cuts for 2010–11 that will slash the number of training places on offer by hundreds of thousands” (‘Secret Labour plan to axe spending on training for young people’, *The Observer*, 8th November 2009). *The Times* claimed that “students could pay more than double the present fees for university courses” and “the cost of repaying student loans after graduation is also likely to rise sharply as the current subsidised rate proves unsustainable” (‘Students face doubling of fees and rise in loan costs’, *The Times*, 9th November 2009). *The Guardian* reported that the “boom times look to be over for universities as managers plan thousands of job losses to respond to looming public spending cuts and the aftermath of recession” (‘Universities plan job losses in response to looming public spending cuts’, *The Guardian*, 17th November 2009). Following the Pre Budget Report in December, which proposed savings of a further £600 million from higher education, science and research budgets, between 2011 and 2013, it was reported that “universities are slashing thousands of jobs, scrapping courses and mothballing campuses as they struggle to survive huge budget cuts” (‘Harsh lessons in economics as cuts leave universities to find £600m’, *The Times*, 12th December 2009).

3. Announcements on Higher and Further Education Funding

To accompany the publication of the Department for Business, Innovation and Skills strategy Skills for Growth, the Government published a paper entitled *Skills Investment*

Strategy 2010–11 (November 2009). In the foreword to the document, Lord Mandelson wrote that "in light of the inevitable constraints on the public finances over the coming years, skills policy must focus resources even more closely on skills that underwrite our economic growth and support high value-added employment" (p 3). In regard to funding, the document outlined that "we are already committed to making £340 million of efficiency savings across FE and skills for the financial year 2010–11. £100 million of efficiency savings will be achieved through re-assessing the funding made available to delivery partners, including the Learning and Skills Improvement Service" (p 4).

Initial details of the funding allocated to higher education for 2010–11 were revealed in a letter published on 22nd December 2009. Writing to Tim Melville-Ross, Chair of the HEFCE, Lord Mandelson argued that "the economic situation is extremely challenging, and across the public sector we are all facing difficult choices". In the letter the Business Secretary set the funding for the coming year at £7,291m, a reduction compared to the allocation of £7,809m for 2009–10:

> Compared to the figures in last year's grant letter, these include the £180m efficiency savings announced in the 2009 Budget, which you are already implementing; and the deduction of £83m following the letter sent to you by my predecessor in October 2008. In addition, it has been necessary to make an adjustment of £135m from your baseline to meet additional pressures, in particular the higher than expected costs of student support during the economic downturn. It is for you to take final decisions on how to allocate the revised figures. But we are agreed that you should aim to deliver the further savings in ways that minimise impact on teaching and students. I also wish to protect research funding. To achieve these goals, we have agreed to switch £84m from your capital baselines, so that the reductions to the teaching grant can be held to £51m.
>
> (HEFCE website, Letter from Lord Mandelson to Tim Melville-Ross)

The letter also made provisions with regard to student places, noting that "some institutions have recruited above their permitted numbers for 2009/10". As a "result of this over recruitment ... I am now asking you to make the appropriate adjustments to the allocations of those institutions that have over-recruited, at a rate of £3,700 per full time under-graduate and PGCE student recruited above the permitted level. This figure represents the average cost to the Government of providing student support".

On 1st February 2010 HEFCE announced its decision on funding following a meeting of its board on 28th January 2010. A press release confirmed HEFCE had allocated "£7,356 million for the 2010–11 academic year covering teaching, research, capital and related activities" and that the "grants to individual institutions will be decided by the Board at its meeting on 4th March, and the full grant announcement will be published on 18th March". The board's decisions were summarised as follows:

- £4,727 million recurrent funding for teaching. This represents an increase of 0.4 per cent in cash terms or a decrease of 1.6 per cent in real terms, compared with 2009–10.
- £1,603 million recurrent funding for research. This represents a £32 million or 2 per cent increase in cash terms (maintained in real terms) on the £1,571 million allocated for the 2009–10 academic year.
- £562 million in capital funding, which represents a 14.9 per cent reduction in cash terms on the 2009–10 allocation.

- £294 million in special funding for national programmes and initiatives. This represents a 7 per cent reduction in cash terms on 2009–10.
- £150 million for the Higher Education Innovation Fund (HEIF), which compares with £134 million in 2009-10. This represents an 11.9 per cent increase.

(HEFCE Press Release, 'HEFCE announces funding for universities and colleges in 2010-11', 1st February 2010)

In a circular sent to universities and colleges HEFCE set out the background issues the board considered in making these decisions. They were:

- On 29th October 2008 the Department for Innovation, Universities and Skills (DIUS) announced that growth in additional student numbers (ASNs) for 2009–10 was to be limited to 10,000, rather than the 15,000 originally planned in the 18th January 2008 grant letter. This affects the numbers continuing into 2010–11.

- On 6th May 2009 DIUS announced a reduction in funding of £180 million. The HEFCE Board provisionally agreed in May 2009 that this would be split as a £164 million reduction in teaching funding and a £16 million reduction in research funding. This split has now been confirmed by the Government in its 22nd December 2009 grant letter.

- Also in May 2009, DIUS confirmed that growth in ASNs for 2010–11 would be limited to 10,000, rather than the 25,000 originally planned in the 18th January 2008 grant letter. This brings the total reduction in funded places by 2010–11, compared with previous plans, to 20,000. The corresponding reduction in funding is £83 million.

- On 22nd December 2009 the Department for Business, Innovation and Skills (BIS) announced in its grant letter a further reduction of £135 million in addition to the reduction of £180 million, to meet additional pressures, in particular on the student support budget. This reduction was to be met by a further reduction of £51 million in teaching funding and £84 million in learning and teaching capital funding. In addition, BIS has confirmed that our flexibility to carry forward capital balances at year-end has been removed, resulting in a further £51 million reduction.

- The 22nd December grant letter also said that HEFCE should aim to deliver further savings in ways that minimise the impact on teaching and students. [Lord Mandelson] also wished to protect research funding.

The letter confirmed that the figures announced amounted to a total reduction in 2010–11 of £449 million but "do not take account of the £600 million reduction in the higher education and science and research budgets by 2012–13 announced in the pre-Budget report on 9th December 2009".

4. Reactions

4.1. Russell Group

Responding to the proposed cuts outlined in Lord Mandelson's letter to HEFCE, Michael Arthur and Wendy Piatt of the Russell Group claimed "it has taken more than 800 years to create one of the world's greatest education systems and it looks like it will take just six months to bring it to its knees". They added that:

> Such huge cuts in university budgets would have a devastating effect not only on students and staff, but also on Britain's international competitiveness, economy and ability to recover from recession. Research-intensive universities have been given some consolation; we certainly welcome the relative protection for research announced in December and the pronouncement that the needs of world-class institutions must be prioritised. But we are deeply concerned that cuts of this magnitude in overall funding will erode the sustainability of our research and affect even the most outstanding universities...
>
> With just 1% of the global population, we produce 7.9% of the world's research publications and 12% of all citations. The total contribution of higher education to the economy in 2007/8 was £33.4bn—equivalent to 2.3% of GDP. Our gross output exceeds that of either the pharmaceutical or the aerospace industry. Sadly, the UK can no longer claim to be world-leading in many fields of endeavour. What a great shame it would be to undermine one of the few spheres, namely our universities, in which we do actually still excel.
>
> ('Universities face meltdown—and all of Britain will suffer', *The Guardian*, 11th January 2010)

However, in an article published in *The Guardian*, Lord Mandelson argued that "tighter budgets can be a spur to further diversifying the funding of British universities". Focusing on the positive implications of the cuts, he added "it can also focus minds on teaching and research excellence and new ways of delivering higher education ... I don't deny that this is a challenging agenda. But by no stretch of the imagination does a 5% reduction in public support over a number of years for universities reverse a decade of committed investment in universities, or leave our best institutions on their knees. It can, however, be an opportunity to do some clear thinking about the future of British higher education" ('Universities will benefit from tighter budgets in the long term', *The Guardian,* 19th January 2010)

4.2 Million+

When the funding allocation was announced on 1st February by HEFCE, Professor Les Ebdon, Chair of the university think-tank Million+ and Vice-Chancellor of the University of Bedfordshire responded by saying that "as a result of these cuts, the number of places available in universities in 2010 will be the same as in 2008. This is completely counter-intuitive". In a statement about the impact of the cuts on student numbers he added:

> The evidence points to rising demand but funding for student support which the Department of Business, Innovation and Skills (BIS) provided to allow 10,000 additional students to be recruited in 2009 has been withdrawn and universities will not have these numbers available for students wishing to start university in 2010. Even worse, HEFCE is also including 'ELQ [Equivalent or Lower Qualification] students' in student numbers in 2010. These students already have

> a university qualification and universities do not receive any teaching funding for the majority of these students and they are not entitled to student support. It is quite ludicrous that the students of tomorrow should have their opportunities restricted on the back of students who do not receive any student support and for whom universities do not receive any teaching funding. There can be no excuse for the Government limiting opportunities and funding must be provided to ensure that all those who are qualified can find a place at university in 2010.
>
> (Million+ Press Release, 'Million+ comment on decision to restrict university student numbers to 2008 levels', 1st February 2010)

Professor Ebdon also criticised the long-term effects of cutting expenditure on capital projects to support teaching:

> The Funding Council is clearly trying to manage the cuts by protecting the unit of resource in teaching. However, money has been poured into research infrastructure since 2002 and universities which teach the majority of students were expecting capital investment in teaching to receive similar treatment. The failure to invest in teaching when the sun was shining now means that the capital programme will be virtually non-existent. In the future, universities will only be able to invest if they can borrow against income. Capital expenditure to improve teaching infrastructure does not just benefit students. It also benefits construction companies which supply the equipment. If the Government is hoping to grow the economy out of recession, slashing capital expenditure in universities in projects which would have directly benefitted the private sector does not seem to be a very wise approach.
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> (*ibid*)

4.3 Universities and Colleges Union (UCU)

The impact of the cuts on jobs was the focus of the Universities and Colleges Union response to the announcement. It argued that 15,000 jobs were at risk across higher education due to the budget constraints. UCU general secretary, Sally Hunt, said:

> You cannot make savage funding cuts without serious consequences, despite Lord Mandelson's insulting efforts to sell the cuts as an opportunity. The government is abandoning a generation who instead of benefiting from education will find themselves on the dole alongside sacked teaching staff. We will see planned changes and building projects put on hold, we will see our already comparatively large class sizes increase to among the biggest in the world, we will see thousands more students denied access to university as youth unemployment rises and we will see staff following them to the dole queue.
>
> The government can come out with as many statements as it likes about the importance of education, how it will be protected from the recession and its own commitments to social mobility, but the hard facts and punitive cuts tell a much harsher and sadly more accurate story.
>
> ('15,000 jobs to go if university cuts go ahead', UCU website, 8th February 2010)

4.4 Universities UK

Representing Universities UK, Steve Smith claimed the cuts "will leave universities in England with £449 million less than they had expected for 2010–11. The lack of clarity about the £600 million saving sought by 2012–13 will also cause a great deal of uncertainty for the sector". He added that the cuts would impact on the quality universities could offer students and asked for assurances there would be no further cuts:

> While HEFCE has done an admirable job of making difficult decisions, the continued uncertainty about the nature and scale of the cuts puts a real additional pressure on universities' ability to plan effectively. The cuts represent a reduction of 4.6% in the unit of funding—the amount of teaching support for students. In the long term, this has the potential to threaten universities' ability to offer the high-quality experience our students deserve and expect.
>
> In terms of university applications, we expect to see a further increase in numbers this year. With the confirmation that student numbers will be capped again this year, we are going to see even more pressure on places and the possibility of many well-qualified students missing out. According to HEFCE, around £10m will be clawed back from universities who over-recruited in 2009–10, and universities are under threat of similar penalties in 2010–11.
>
> The higher education sector is prepared to take its share of the pain, but universities must receive confirmation that there will be no further cuts.
>
> (Universities UK Media Release, 'Universities UK response to HEFCE letter on funding for 2010–11', 1st February 2010)

4.5 Association of Colleges (AoC)

Responding to the Government strategy document *Skills Investment Strategy 2010–11*, Martin Doel, Association of Colleges Chief Executive, said:

> To call this an 'investment strategy' is somewhat misleading since it embodies significant savings. However we are relieved that the more extreme measures which appeared in a version of this strategy leaked to national media earlier this month have not been included.
>
> Within the strategy there is a considerable shift in priorities—consistent with those set out in last week's Skills for Growth paper. Although Colleges are the most responsive element of the education sector they will need time to adapt. You can't make these type of changes overnight.
>
> These savings do represent cuts—particularly to the rates of funding for certain courses—at a time when the services of Colleges have never been more in demand. We are therefore looking to work closely with Government and its agencies to ensure that students, communities and businesses that Colleges support are protected, as far as is possible, from the consequences of funding changes.
>
> (Association of Colleges website, ''Skills investment strategy' published—AoC Comment', 17th November 2009)

In February 2010, the AoC issued a further statement that claimed “colleges, by far the biggest providers of vocational training in Britain, face a £200million cut to funding for adult students”. The statement added that colleges “have been told ‘adult learner responsive’ budgets will shrink by 10 to 25%” and courses affected include:

- Bricklaying, joinery, plastering, plumbing, painting and tiling;
- Electrical installation;
- Catering and care—including professional hospitality awards and safe handling of medicines for care workers;
- A levels and GCSEs for adults;
- Qualifications for youth workers;
- Security, hospitality and licensing;
- Qualifications in paralegal administration;
- IT help desk/junior technician courses;
- Aeronautical engineering; and
- Certificate in British Sign Language

Martin Doel said that “Government and its agencies also need to be transparent about the consequences of this decision; if you cut budgets then you must accept that, even with the best will in the world, Colleges won’t be able to enrol and teach the same number of students. Unlike the current debate about university funding cuts—which will take place in the future—these changes are real and are happening now. They will affect students trying to enrol this September” (Association of Colleges Press Release, ‘Colleges helping beat the recession face new £200m adult course cuts’, 2nd February 2010).

4.6 Selected Press Coverage

A week after the announcement of funding cuts, the press carried stories about how they would affect particular institutions. An article in *The Guardian* claimed that savings universities were preparing included:

- More than 200 job losses at King’s College, London, around 150 at the University of Westminster and, unions claim, as many as 700 at Leeds, 340 at Sheffield Hallam and 300 at Hull.
- Entire campus closures at Cumbria and Wolverhampton universities, where buildings will be mothballed and students transferred to other sites.
- Teesside University scrapping £2m worth of scholarships and bursaries that would have helped poorer students. It will also share services with a further education college in Darlington.
- Postponing plans for a £25m creative arts building at Worcester and £12m science block at Hertfordshire.
- Under-subscribed arts and humanities courses are being dropped. The University of the West of England has already stopped offering French, German and Spanish; Surrey has dropped its BA in humanities.
- Student/lecturer ratios are expected to rise, with more institutions using postgraduates and short term staff filling in for professors made redundant.

(‘Thousands to lose jobs as universities prepare to cope with cuts’, *The Guardian*, 7th February 2010)

More recently, the *Daily Telegraph* reported that a number of universities were planning on recruiting more students from overseas to make up the short-fall in funding (‘Universities admitting more foreign students’, *Daily Telegraph*, 12th February 2010) and that the reduction in places available at universities would make 2010 "a nightmare year to be applying for university" ('The crisis in university applications', *Daily Telegraph*, 13th February 2010). *The Guardian* reported that further education was becoming more expensive: "since 2005, the amount that most adults pay towards courses has doubled so that, by next year, over-18s will generally pay about half the cost of each class, instead of 25%". The article added that colleges feared a reduction in applications if fees rose and the Government reduced funding ('Colleges fear course costs will rise again', *The Guardian*, 26th January 2010).

5. Higher and Further Education Funding: Contributions to the Debate

The controversy surrounding the funding available to higher and further education institutions for 2010–11 has reignited debate about how higher education in particular should be funded. A report published by the Department for Business, Innovation and Skills *The Role of Finance in the Decision-making of Higher Education Applicants and Students* (January 2010), produced on its behalf by the Institute for Employment Studies, found that tuition fees were seen as an "inevitability" by students. The report argued that "financial factors tend not to dent HE [higher education] aspirations among those planning to apply. Indeed, they tend to be outweighed by a range of non-financial factors, especially for younger people". In regard to tuition fees, the report found that "there is broad support among students for financing these through loans for tuition" (p 1).

In October 2009, the CfBT Education Trust published a report *Funding Upskilling And Reskilling In The 21st Century: From Personal Pension Accounts to Personal Skill Accounts* (October 2009) that focused on the funding of adult learning. It proposed "a national system of compulsorily funded personal skill accounts where employees contribute 1% of national insurance, employers contribute 0.75% and the taxpayer contributes the equivalent to 0.25%". In support of the publication, Tony McAleavy, education director at the CfBT Education Trust, said "that in the long term, Britain's skills needs cannot be met through public spending alone, but, at a time of financial constraint, are we willing to devote our own money to it?". He added:

> One response to the problem is compulsion, as in the compulsory funding for pensions and social care. The report proposes that a new system of personal skills accounts could be funded through "compulsory" tripartite contributions, with adult employees' national insurance contributions increasing by 1 percentage point, employers' increasing by 0.75 percentage point on all earnings, and the state contribution increasing by an equivalent of 0.25 percentage point. This, the report argues, would give all employees access to an individual fund for their own upskilling or reskilling needs, with any unused funds into personal pensions on retirement.
>
> ('Couldn't we pay for skills the way we pay for pensions?' *The Guardian*, 27th October 2009)

Policy Exchange, an independent educational charity, published a paper *More Fees Please?* (11th February 2010), which examined the future of higher education funding. The report stated that "continued underinvestment could lead to a serious deterioration of quality in the [HE] sector. It is crucial that the Government does not see fees as a replacement for state funding and an excuse to continue to cut a sector that is of real importance to our economy and society. However, it is right that those who benefit from higher education—graduates—should have to contribute to its costs. We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education" (p 7). However, the report added that fees should only be raised when three basic principles have been met:

- The Government must strike a deal with universities to ensure that they invest more in teaching and the student experience.
- There must be a clear requirement for universities to focus on protecting the poorest students, with an easy-to-understand system of aid for those who need it.
- There must be fundamental reform to the system of student support to make it more sustainable. The Government should make it clear that the main purpose of student support is to help those who are unlikely to meet their educational goals without financial help. This means that not all students can (nor should) be fully supported in the same way.

> (Policy Exchange Press Release, 'Slashed budgets and under-funding threatens quality of Britain's universities', 11th February 2010)

However, Roger Brown, professor of higher education policy at Liverpool Hope University, reflected on whether increasing tuition fees was the right way to raise money for universities:

> There are three ways the present unit of funding can be secured without loss of quality or damage to access. One is further efficiency gains. Another is to reduce the present, relatively generous, subsidies for student support and research (also protected in the expenditure cuts). The third is take advantage of the imminent fall in the numbers of 18-to 21-year-olds who constitute the majority of our full-time students. A recent estimate is that this could save £1bn of public money annually by 2020.
>
> If, nevertheless, public support for teaching is to be reduced, then we should acknowledge the risks in raising the fee.
>
> First, increasing the fee (if it continues to be variable) will lead to wasteful positional competition as institutions that can afford to, charge 'what the market will bear' without regard to the best overall use of resources. This will certainly occur if the fee is raised above £5,000. Second, the richer and more selective institutions will gain at the expense of the poorer and less selective ones. Third, if the proportion of teaching funded through government grant is reduced, it weakens the government's ability to "steer" the system to correct market failures.
>
> This leads to the question of whether the continuing public subsidy should be used to protect particular categories of provision. Without some compensating device, the resourcing disparities between institutions, already enormous, will become completely indefensible. Since the wealth of institutions usually correlates with the wealth of their students, this is a central issue of social justice. Put another way, if we want UK higher education to look like the school system, with massive differentials in facilities, opportunities, and outcomes (depending on ability to pay, location and social capital), simply raising the fee without taking any other action is the surest means of achieving it.
>
> How should the moneys be raised? In its recent policy statement *Higher Ambitions* the government said that it wished to see a better balance between the contributions of taxpayer, student/family and employer. But private debt is at

> record levels (while there is increasing evidence that the financial benefits of higher education are highly variable by institution, subject, family background and chosen occupation). Few British employers are prepared to contribute to the costs of mainstream teaching. It therefore seems inevitable that the taxpayer will continue to fund a significant share of the costs of university teaching.
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> ('Is increasing tuition fees the right way to raise money for universities?' *The Guardian*, 19th January 2010)

Mike Boxall, a specialist in higher education at PA Consulting group, thought that "radical changes to our concept of higher education are inevitable and necessary" in an article published by the *Times Higher Educational Supplement.* Looking at the future shape of higher education, he observed:

> Universities are now regarded as one group among many others able to support policy objectives, and increasingly find themselves competing with alternative providers for public funding of teaching, research and knowledge transfer.
>
> What about student-led change? Will we see something similar in higher education to the revolution in the music industry, where networks of subversive users used technology to create an alternative system for meeting their needs, which the mainstream industry has been forced to follow and legitimise? Certainly the growth in high-quality open-source content creates the potential for a user-designed higher education system, and services are already emerging to facilitate and even accredit this modern form of do-it-yourself education.
>
> However, there is—and will remain—more to higher education than access to educational content. Other vital dimensions include the formative experience of learning with peers, the interaction between academic scholarship and 'real world' challenges, and the cachet attached to qualifications from well-regarded institutions. These things cannot be provided through DIY learning models.
>
> Could we envisage a system designed by and for employers? The view of higher education as a grounding for professional employment has become the new orthodoxy, shared by the Government, employers, institutions and students. More than a third of higher education students now follow vocationally related programmes, and all the indications are that this will increase.
>
> But despite their criticisms of current provision, most employers still regard themselves as customers of the outputs of the higher education system, not as funders, and even less as co-providers. As one very large employer put it to us, 'we are in the business of business, not of education'.
>
> So, we see the Government, students and employers all looking for different experiences and outcomes from higher education, and recognising that universities are no longer the only—or necessarily the most responsive—option. Universities must stop simply asserting their special place in the new world order of higher education and demonstrate it in the terms expected by their customers and paymasters. They must be willing to discard the anachronistic shibboleths that constrain innovation and modernisation.
>
> ('The age of entitlement economics is over—the sector must compete', *Times Higher Educational Supplement*, 28th January 2010)

Boxall pointed out that "we are starting to see successful examples of the possibilities for creative iconoclasm. One example is the establishment of university-based 'learning hotels', opening up the community of scholars by inviting academics and practitioners from a range of disciplines to work together on complex problems. Linked with experiments in flexible career paths that encourage academics to combine teaching and research with professional practice, the university becomes a creative meeting place for the interchange of people and ideas". In concluding the article, he notes that "none of these innovations will singularly define the future shape of the system. Some may not work at all. But they serve to remind us that responding to new situations is often about letting go of outmoded assumptions and practices" (*ibid*).

On 5th January 2010, *The Times* reported that Cambridge University was planning to raise up to £400 million from its first bond issue ('Cambridge University follows Ivy League trend with £400m bond issue', *The Times*, 5th January 2010). Responding to this development, David Blanchflower, a professor of economics at the University of Sterling, argued that "bond issues, as announced by Cambridge University, and a substantial rise in tuition fees, look almost inevitable. In fact, tuition fees will likely have to rise for those who can afford it, to help pay for those from poorer backgrounds, who can't. Rich students have been subsidised by the poor for too long. A university education for most people generates high private returns but much lower social returns. So the argument that 'everyone else should pay for my education' runs increasingly thin when the benefits to the individual are high. Universities need to raise money from somewhere. Three years ago they may have had the option to borrow from banks but the price of credit has risen and it is no longer a readily available option. In contrast to the US, alumni giving remains small although it is another potential source of funds, especially if there are tax advantages".

However, Karel Thomas, of the British Universities Finance Directors Group, was less certain, saying that "a private placement may be appropriate for a few universities but would warrant additional fees. For the average university looking to raise £10 million to £20 million, a bond issue or private placement is not a viable way of raising money. Until universities are clearer on the way funding and student finance is going, they are unlikely to want to tie themselves into long-term bonds or debt finance" ('Are bond issues right for universities?', *The Times*, 8th January 2010).

David Greenaway, Vice-Chancellor of the University of Nottingham and a professor of economics, maintained that universities would have to diversify to survive. Writing in the *Times Higher Educational Supplement* he said that "it is clear that less will be available, and almost certainly even less than has been announced thus far". He wrote:

> Whether or not there are more changes in the funding envelope, individual institutions will face tough choices in allocating their resources: they will have to continue to deliver what they do now with fewer resources or they will have to deliver more from existing resources. Crudely, productivity and efficiency will have to increase. Different institutions will make different choices around the programmes they offer, the way those programmes are delivered, the balance of face-to-face and remote learning, the length of time it takes to deliver programmes, the balance between teaching, research and other service, the balance between home and European Union students and full fee-paying international students and so on. It is probable that some universities will co-operate to deliver shared services and some may merge to generate efficiencies and create greater critical mass. More specialisation is possible, with greater diversity of mission and provision inevitable.

> If there is less public funding available to invest and develop, as well as increasing pressure to use those resources more effectively, universities will have to diversify their (revenue and capital) funding base by bringing in more non-public funding. That will almost certainly mean greater reliance on beneficiaries and other stakeholders, either through higher graduate contributions, more business engagement, greater philanthropy, more reliance on higher-fee students or some combination of these.
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> ('We did it before', *Times Higher Educational Supplement*, 28th January 2010)

A number of organisations and groups representing universities, students and business have also contributed to the debate about funding and the future shape of the higher education sector. A report by Million+ recommended that "universities should be free at the point of study to all undergraduate students". Among its proposals were:

- Full-time and part-time students should be treated equally in a single, unified and simplified system. As a result, access to university would be free at the point of study for all undergraduate students. This would have the added advantage of supporting participation and encouraging more flexible options to study.
- An amended graduate contribution system should be considered. This would produce a fairer outcome for the Exchequer and support additional long-term investment of £1 billion and would be unlikely to affect participation.
- In particular, the current option to defer graduate contributions by two years should be removed. Graduates do not repay contributions until their earnings reach £15,000 a year—and contributions are set aside in the event that their earnings fall below that sum. In view of these safeguards, the two year deferment option, available to graduates whatever their level of income above £15,000, should be abolished.
- The graduate contribution period should be extended. Currently any outstanding contributions are written-off after 25 years (a shorter period than in other countries). For example, a repayment period of 35 years would equalise graduate repayment periods in England and Scotland where a 35 year repayment period is in place.

> (*Fair Funding for All*, 13th January 2010, p 4)

An accompanying press release stated that "offering all students a support package will leave students £67 million better off and universities £91 million better off each year. The £158 million cost to the Exchequer of introducing the model can be eliminated with only a 0.5% increase in the rate levied on student loans" (Million+ Press Release, 'Million+ report calls for "equality" in funding for part-time students', 13th January 2010).

The National Union of Students (NUS) report *Funding Our Future* (June 2009) outlined the NUS's proposals for university funding. The report argued for a system where "students contribute to the costs of their degree once they have graduated. Under this system those who benefit most from university by earning more will contribute more. A graduate contribution would be paid into an independent fund—a People's Trust for higher education—which would be built up over time and eventually deliver considerable additional resources for universities in the future". Summarising the proposals on their website, the NUS argue that:

> By abolishing all upfront fees for part-time students, this system would also initiate a new era for non-traditional learning and continuing education through

life. We also envisage a route that allows for voluntary employer contributions, so that employers could support far more employees to study than ever before. NUS' model also allows learners to switch between full and part-time modes of study, creating enhanced flexibility in the sector. We believe that through increasing flexibility in this way, we open the doors of higher education to a wider audience, and provides clear ways for increasing access to higher education for learners from non-traditional backgrounds.

(National Union of Students website 'Funding Our Future: Funding Blueprint launch')

A report published in September 2009 by the CBI Higher Education Task Force examined the relationship between business and higher education institutions. Its main proposals for higher education funding were:

- Government needs to provide tuition fee loans at its own cost of borrowing and remove the interest rate subsidy on all loans. An interest rate which is efficient and equitable is broadly equal to government's cost of borrowing. This could deliver up to an estimated £1.4bn in savings but would be phased in after a three-year period to ensure that current students are unaffected and interest is not payable until after graduation.

- Government must ensure that savings achieved through reforming student support are recycled back into the HE sector to maintain teaching and research quality.

- To maintain standards of higher education, the government and the devolved administrations have little choice but to plan to raise the cap on tuition fees in England, Northern Ireland and Wales. If such fees remain politically unacceptable in Scotland, alternative public sector support for HE will be required.

(*Stronger together: Businesses and universities in turbulent times*, September 2009, pp 34–35)

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