

UNIVERSITY OF EXETER

Higher Education Funding and Student Finance Review - Response to Call for Proposals, May 2010

Proposal

The University of Exeter welcomes the opportunity to respond to the Call for Proposals, and agrees wholeheartedly with Lord Browne, who is seeking proposals “that will ensure our universities and colleges are internationally competitive, financially sustainable, with fair access for all”. In that light we would like to make the following comments and suggestions regarding the future funding of teaching and student finance. After a brief preamble we respond directly to the four questions posed in the Call for Proposals.

In order to build a higher education system that endures over the long term, the past investment in the Higher Education sector should be consolidated and further increased but it is recognised that any changes have to be affordable within the current public financial pressures. It is noted that the UK spends 1.3% of GDP on tertiary education compared to 2.9% in the US and 2.7% in Canada [*OECD Education at a Glance 2009*]. We believe there are elements of the current system to be commended and retained; we also propose some significant changes to the funding and student finance system that will improve our global competitiveness and will increase market forces within the UK to the benefit of funders, students and employers.

We believe the following elements are vital to a new funding and finance system;

- The principle of contributions from both the state and the individual should be sustained. But with the advantages gained by graduates especially in terms of lifetime earnings and in the context of increasing pressures on tax revenues and public expenditure, it is right to look to an increased contribution from the individual.
- Contributions from the individual graduate (prior to financial support for those less able to afford higher fees) should be substantially higher than at present, leading to higher investment in our universities, enabling them to compete globally and generate more returns for UK plc. The market forces that higher fees would entail will directly drive up the quality and diversity of our HE sector. Recognising the challenging political and economic terrain the UK and the western world now inhabits, we propose the growth in fees to the desirable level is incremental,
- HEFCE and other funding councils have a vital role to play in directing the public investment in the sector and universities. Public funding has provided support to universities' ability to self-invest, and in particular the core grant element has given considerable discretion to universities to decide how best to address their core mission. Market-oriented fees, when placed alongside existing core / 'strategic margin' funding, would support institutional autonomy with all the positive market/diversity-creating advantages that confers.
- The involvement of employers is essential but it is difficult to envisage employers as a long term and recurrent direct source of funding. The contribution from employers is more focussed on engagement with individual students be that in student placements enhancing employability skills or in the financial support of individuals and should be encouraged and incentivised.
- The student support system of loans and also grants to the poorest students must ensure that entrance to higher education is needs-blind and that no suitably qualified student is discouraged from applying to higher education on the grounds of affordability.

- A growth in fees should not impinge upon improving participation and access to HE. We should ensure the support available is targeted to those that need it the most and that concerns about debt are not a deterrent to participation. This support should extend to part-time students, and postgraduates also.
- A realistic but non-commercial rate of interest should be charged on student loans to alleviate the tax payer subsidy. The rate should not be commercial but linked to the government cost of borrowing. As acknowledged from the First Call for Evidence, the income contingent repayment of student loans is positive, should be retained and the deferred nature of the payment emphasised. In addition incentives should be put in place for early repayment.
- The current system of a proportion of tuition fees being directed by the universities to provide bursary support should continue, and it is critically important that the administration of these bursaries remains with institutions so that local needs can be addressed. It is essential that this mechanism is retained in order for the more selective institutions to recruit students from a wide socio-economic background. It is noted that further encouragement on the take up and targeting of these bursaries is required.
- A simplification and increased clarity of information provided is needed (to potential students and their advisors) regarding the levels of support available and the expectation and benefits of a University education. More generally, clear and relevant information regarding the different subject areas and universities to aid student choice must be available. The TQI Steering Group's review of public information about higher education (HE), looking at how Teaching Quality Information (including Unistats and the NSS) is currently used, and the needs of the information users (including potential students, the wider public, and HEFCE) is important in this regard.

Philosophically the University does not believe there should be a cap on its pricing for any programme. There is no cap on postgraduate and part-time student fees, nor on international fees (i.e. students from outside the EU). The cap is reminiscent of the early days of motor cars where a man with a red flag walked in front to maintain speeds of less than 4 mph. We therefore propose that in order to generate the appropriate levels of investment to sustain and enhance the UK's competitiveness in a global market, the cap on the undergraduate student fee contribution be raised substantially and eventually removed. This will enable the market within higher education to be fully liberalised, so that the fees system gives the stronger UK universities the ability to compete with their international peers. We recommend that this position should only be reached following a period of the market maturing, and only once the support structures have been fully realised. In short, and from today's fee position where all universities charge the same fee for all of their courses, we believe there should be a staged progression to a position where universities can set their own fees. This provides time for families to plan and for information, advice and guidance to be improved. In such a system it is an article of faith that an admission to University is always subject to ability to benefit rather than ability to pay.

We propose that the milestone towards a fully market-driven fees scenario is a fee level of £10k, which itself is reached in increments. Recognising the reality of the financial challenges and associated political risks facing the new government, we propose that the fee cap is raised initially to £6k as soon as practicable. This allows a market to start to develop with a moderate change in fees, following which £1k increments would be applied on an annual basis until a £10k cap is reached, allowing a mature market to develop, for the enhanced communication regarding higher education to embed, and time also for potential students and their families to adjust. (The figures above are in 2010-11 prices.)

The logic of an initial £6k fee cap is that this is, approximately, the resource HEIs currently receive for a classroom based student (circa £2.6k of HEFCE teaching grant plus £3.3k of tuition fees). It also reflects a calibration of the necessity to increase the investment in HE and from the individual, taking into account the likely political appetite to do so.

The outcome of the HEFCE review is clearly an important part of the overall funding picture. In essence, our proposal is that the existing HEFCE resources should continue to be directed

towards core funding, with increasing investments towards the higher cost and nationally strategic/vulnerable subjects, and also some further 'strategic margin' as fees substantially increase for HEFCE to invest towards national priorities and towards supporting provision on a regional basis.

Response to Questions

1 In light of short term pressures and longer term trends, how do your proposals for reform ensure the sustainability of the higher education system as a whole?

The current system of subsidised loans for fulltime undergraduate students on eligible courses where 72% of the maximum loan is available regardless of income with the balance income-assessed, and where the loans are subsidised by the tax payer to the extent of £1billion is clearly not sustainable. Sufficient levels of bursaries and scholarships and loans should be there to support the less well-off students and to ensure that affordability is not a discouragement to participation. In the current scheme, the repayments are income contingent and this should be maintained but there should be real incentives for early repayment loans.

The reform of the loan system in charging a reasonable market rate of interest and eliminating the tax payer subsidy will bring that aspect of funding system into balance and allow further expansion both in terms of numbers and also the level of the loans making increases in fees possible.

The proposal allows the reinvestment of some of the current public funding of fulltime undergraduates into strategically important areas, wider aspects of higher education and offers a pathway for increasing funding and further expansion of the sector.

However it is clear from the evidence given to the review that the communication to aspirant students and their advisors has to be clearer about the level of support available, the payment deferral and the affordability of higher education. Institutional bursaries administered at a local level to allow specific targeting to meet local regional needs should be maintained and efforts continued to target bursaries based on need and to encourage take up.

There has to be an overall limit of the number of fundable places available. Within that framework, market competition should operate but with a regard to ensuring core provision across regions.

In addition to the reform of the loan system and the balance of funding between the student and the tax payer there are other areas that should be further developed.

Steps have already been taken to promote alumni giving for institutions to build endowment funds in line with the US model where needs blind admissions is possible. The HEFCE Matched Funding for Voluntary Giving scheme has been useful but there is a long way to go to reach the American culture of giving.

Encouraging employers to fund higher education directly on a recurrent basis could be difficult and currently employer engagement succeeds within niche areas of specific courses. However there is an opportunity for incentives to be given to employers to encourage their involvement in higher education around funded placements to enhance employability, employer sponsorship of students (financial and in kind) and for employers giving golden hellos to pay off student debts on recruitment of graduates.

2 What type of mechanism should be used to drive up quality, efficiency and innovation in the UK HE system and what metrics should be used to assess quality improvements?

The effect of progressively raising the cap on fees will allow a real market to develop gradually. The market will drive up quality and standards, efficiency and innovation but it is clear that for an effective market to operate the prospective student will need to have information to make their decisions. The student needs to know for their basic decision making about choosing to continue into higher education

- What university is about and what to expect
- What are the benefits and opportunities arising from an university education
- The choices to be made between subject areas
- Simplicity and clarity about the support available

In terms of the market perception of quality, in order to inform their choices, the students' questions involve:

- Are my entry qualifications sufficient? (entry standards)
- How likely am I to get a degree? (completion)
- How good a degree might I get? (degree classifications)
- Will I enjoy my time there? (student experience)
- What other activities are available?
- What will I do afterwards? (destinations)
- How will employers view my qualifications?

The metrics that answer these questions are in the main already measured via HESA data, the Destination of Leavers from Higher Education or the National Student Survey. There is the potential for further refinement; for example the review of the suitability of the DLHE survey is appropriate following the outcome of this funding review.

These are perceptions of quality from the student's experience. A consultation on the future quality assurance method is currently taking place and the outcome of this covering the institution wide assessment of teaching quality and enhancing academic standards is also a factor to be included. Institutions and HEFCE have shared the work of enhancing standards and the aim of investing in high quality provision. It is difficult to envisage formulaic funding regarding quality metrics enhancing quality standards and is an area in which the market would be more effective. The introduction of the National Student Survey is an example where the feedback from the student has led to enhanced provision. The management information given to the individual institutions from their student body through the survey has led directly to action being taken to improve the student experience.

3 What type(s) of participation will be important to incentivise in future and how should this be achieved without compromising quality and sustainability

The principle of higher education free at the point of delivery is to be supported and maintained, and it should be ensured that any reforms do not adversely affect participation. The lack of support for part-time students is not rational with the widely acknowledged need to up skill the workforce. It provides a disincentive for part-time study and other more flexible learning patterns that may be more applicable to individual student's circumstances particularly whilst working.

Arguably with deregulated fees, within the postgraduate taught provision a market is already operating but with the information available to applicants it is difficult to understand how they make choices. The extension of Teaching Quality Information to the postgraduate students would be welcomed including a survey regarding the student experience and basic quality data to provide meaningful information for applicants (although there will always be a problem about reliability/availability of data as the cohort sizes are typically smaller than undergraduate courses). It is clear that the availability of financial support (in the form of studentships) is a significant factor in the recruitment of postgraduate research students.

Internal Exeter surveys support this and show that studentships are becoming an increasingly important factor in student decision making. As set out in the Smith review [*One Step Beyond: Making the most of postgraduate education*], the benefits of postgraduate education are wide-ranging and are fundamental to the expansion of research and innovation and to economic growth. To strengthen the UK's research base and its position on the higher education global stage as advocated in the Government's 'Higher Ambitions' blueprint, financial support to postgraduate taught and research students should be given consideration.

Whilst competing on a global stage it is also important to recognise the local environment of each institution and the system of university administered bursaries are a direct mechanism for regional and community needs to be addressed and should be preserved.

4 How would fair access be promoted and enforced in the higher education system you propose?

Whilst participation has not decreased following the 2006 reforms, applications to elite universities from lower socio-economic groups has not significantly improved. There is a continuing need to raise aspirations and to give students the confidence to apply to the top universities based on their ability not on their background. Universities contribute to this but influences at secondary school level are important and those people that inform pupils' views have their part to play in giving a clear message about the opportunities; so again improved communication about access to higher education is imperative. As part of the reforms suggested in this proposal more funding should be directed at expanding 'compact' school initiatives and summer schools that aim to break down these perceived barriers to application. The additional funding for bursaries generated through the raising of the cap on fees will be available to support entrants from the full spectrum of backgrounds. It is crucial that these bursaries are associated with and administered by individual universities so that these needs are addressed.

In terms of access once a student has decided to apply to higher education, the use of contextual data for admissions is being developed within the sector and should be supported further. The current role of OFFA is to work collaboratively to promote fair access to higher education in particular for low income and other under-represented groups and this collaborative role and sharing good practice will produce more positive results than enforcement.