BU Policy and Public Affairs Team - summary re fees and funding developments – May 2021

Context

The main issue for the government is the rising cost of the student loan book. If the numbers of students continues to rise and the repayment of loans is depressed by a poor economic outlook for graduates, this will be a growing problem. Note we have also turned the corner on the demographic dip, so in theory numbers are likely to go up – and they did so last year after the A level results debacle (after the announced student number cap was abandoned) and may do again this year.

The cost of all this was also made worse by two previous events:

- the decision by Theresa May in December 2017 to increase the threshold for student loan repayments, after the "youthquake" election in 2017 (which also led to the launch of the Review of Post-18 Education and Spending in February 2018 and the Augar review), which reduced recovery rates;
- the decision by the Office for National Statistics in December 2018 that the loan book had to be brought back onto the government's books (*government revenue will no longer include interest accrued that will never be paid; and government expenditure related to cancellation of student loans will be accounted for in the periods that loans are issued rather than at maturity*).

This summary is from the House of Commons Library in December 2020:

- *Currently more than £17 billion is loaned to around 1.3 million students in England each year. The value of outstanding loans at the end of March 2020 reached £140 billion.*
- *The Government forecasts the value of outstanding loans to be around £560 billion (2019-20 prices) by the middle of this century. The average debt among the cohort of borrowers who finished their courses in 2019 was £40,000.*
- *The Government expects that 25% of current full-time undergraduates who take out loans will repay them in full.*

Apart from the cost, there are three underlying concerns driving policy:

- Universities have been shielded from the austerity of the years before the pandemic because they have been funded through student loans. Although these were capped, and so have gone down in real terms, universities are perceived to have had it easier than other public services. But the government still bears the cost in the end and as described above it's growing . And the government wants to fund its skills agenda.
- Given the financial pressures on the Treasury, there is a focus on productivity and investment return. The government wants to focus investment on strategic areas for the economy. This was the case before the pandemic but has become more acute with the focus now on both "building back better" and delivering a Brexit dividend. For example, in his January 2021 instructions to the OfS about the 2021/22 teaching grant allocation, Gavin Williamson said: "*The OfS should reprioritise funding towards the provision of high-cost, high-value subjects that support the NHS and wider healthcare policy, high-cost STEM subjects and/or specific labour market needs."*
- There is a long standing concern about quality and outcomes in the sector. This goes back to Jo Johnson, and his reforms, including the establishment of the Teaching Excellence Framework (TEF) and his idea of linking TEF outcomes to fee increases (which was never done). Again, this has become acute in the last couple of years. For example, in their restructuring framework issued in summer 2020 setting out potential arrangements to help universities in financial difficulties in the pandemic, the DfE said: *"Public funding for courses that do not deliver for students will be reassessed."*

There may be a fourth – you will remember Michael Gove saying everyone had had enough of experts. There are exceptions to this, particularly those involved in vaccines and technology research with large IP portfolios. But the sector did not support Brexit, is seen as "woke", and universities have been described as "left-wing bastions", with staff accused of indoctrinating students. You can see the impact of this in the latest developments around free speech. But it can also be suggested that the government just doesn't have a lot of time for the sector (and the way that universities and students have been treated during the pandemic (ignored, or worse, blamed) suggests that there is something going on beyond just logical arguments linked to hard cash.

Policies

The main policy is the skills agenda, as seen in the Queen's Speech. This means technical education, and is about flexible lifelong learning (16 to retirement). This will be expensive. And HE and post-18 education is only part of this much bigger story.

So that may well mean that there have to be cuts to the overall amount of the funding for HE. It also means that they will seek to target the funding that is available so that they can have more of what they want (supporting the economy and society) and less of what they don't (graduates who can't get graduate jobs and will never repay their student loan).

The government wants to fund courses that are directly linked to these economic and societal needs - i.e. STEM, healthcare and teaching. They look at a subject level and they look almost exclusively at outcomes – how many graduates are employed, at graduate level, with above average salaries (recent figures show only 66% of working-age graduates are in high skilled employment).They define value for money as return to the taxpayer on the student loan book, earned through societal contribution (nurses) or above average incomes. While humanities graduates go on to be Universities Minister or even Prime Minister, on average their outcomes are not as good as STEM graduates. They are therefore on the whole less keen to fund the humanities or the arts, except for specialist arts provision. This was reinforced in the January 2021 announcements about teaching grant funding (see our 21st Jan 21 policy update here, which while it related only to a tiny bit of direct funding, sets the tone. The Secretary of State spoke in the House of Commons about "slashing" funding for courses like media studies.

This is wrapped up as not just an economic argument but also a quality one, because the Office for Students is consulting[1] on a framework which controversially proposes introducing minimum absolute measures for graduate outcomes (employment, salary and drop-out rates) as part of the quality framework, with no benchmarking and a focus on continuous improvement.

The latest broadside from the SoS in the Sunday Times on 19th May 2021 shows the direction: *"The record number of people taking up science and engineering demonstrates that many are already starting to pivot away from dead-end courses that leave young people with nothing but debt."*

Next steps

The interim update on the Review of Post-19 Education and Funding (issued in January 2021) says:

- the government will consult on further reforms in HE linked to funding and quality,
- with a full response to the Post-18 Review due alongside the next Comprehensive Spending Review *(expected in the Autumn unless it is postponed for the third year in a row)*[2].

An article in the Sunday Times on 16th May 2021 said that we can expect this consultation in June. The story said that there would be a cut to a headline fee £7500 plus government top ups for priority areas.

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[1] Read more about the consultation here:

- The OfS consultation on quality and standards closed on 25th January 2021, it is covered in our 20th November policy update here.
- BU staff can find our consultation response here.
- You can read the UUK response here and the one from London Higher here.

[2] Here is what I wrote about Augar when it was published in May 2019. The Augar report itself is here.

- This consultation is expected to include consideration of minimum entry requirements, which would restrict the availability of government funding for students who do not meet the requirements. This proposal was mentioned in Augar as a possible step to take to address concerns about low value courses. It was widely condemned as a cap on ambition and a regressive step against social mobility when it was first discussed in December 2018[3].
- There could be a headline fee cut as proposed by Augar[4]. The Augar suggestion was that this would be supplemented by top up funding from the government and then "*Government should adjust the teaching grant attached to each subject to reflect more accurately the subject's reasonable costs and its social and economic value to students and taxpayers.*"
    - We haven't seen much discussion about cost of delivery recently, apart from a recognition that STEM costs more and an implication that low cost subjects are over-supplied in the market (bums on seats helping to fill university coffers) and the further implication that low-cost therefore inevitably equals low quality, at least at some institutions. The government could fund top ups for courses in strategic subjects.
    - There could also be top-ups for "high quality" courses or institutions – i.e. the Jo Johnson idea of allowing the fee cap to rise linked to the TEF. This was going to be an institutional, not a subject level thing – and by the time we were talking about subject level TEF (which is no longer under consideration) the fee link had been dropped. But the idea of a link between OfS quality measures (largely defined by employment outcomes, although not exclusively so) and top ups may be very tempting even if it can't be done at a subject level.
    - These are not necessarily separate – it seems likely that if they go down this route, top ups would only be available for "strategic" courses at "high quality" universities as defined above.
    - Another Augar idea was to increase teaching grant for disadvantaged students. This would be a third top up option, to support those institutions making the biggest difference to social mobility. However, it seems unlikely now that the OfS have said they aren't interested in benchmarking quality based on student attributes. Social mobility was a TM idea – this government is all about "levelling up", and MD has said that she thinks disadvantaged students are being "ripped off" by being tempted into universities and should do technical courses instead. If they did it, it would be linked to outcomes not just intake.

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[3] Here's some of what Augar said on minimum entry requirements:

- ***We consider a minimum entry threshold contextualised for socio-economic background to be feasible*** *and that it could address the problems of low returns for graduates in a socially progressive way.*
- *However, such a threshold would be a significant intervention into what has been designed as a competitive autonomous market. It could be seen as a reversal of the principle of allowing all who are able to benefit from HE to attend, a principle that has underpinned HE policy in recent years and was first pronounced in the 1963 Robbins Report.*

[4] Augar said:

- *The cap on the fee chargeable to HE students should be* ***reduced to £7,500 per year. We consider that this could be introduced by 2021/22.***
- ***Government should replace in full the lost fee income by increasing the teaching grant, leaving the average unit of funding unchanged at sector level in cash terms****.*
- *The fee cap should be frozen until 2022/23, then increased in line with inflation from 2023/24.*
- *Government should adjust the teaching grant attached to each subject to reflect more accurately the subject's reasonable costs and its social and economic value to students and taxpayers.*
- *Support for high-quality specialist institutions that could be adversely affected should be reviewed and if necessary increased.*

- There might also at some point be consideration of limiting student numbers directly, possibly by capping the numbers of students who can access student loans for certain non-strategic subjects. They could go further and apply such limits to those subjects at certain universities, linked to the TEF or OfS quality metrics. This latter solution was also proposed in Augar as a last resort measure.[5]
- It is not likely that there will be a differential fee (and loan) cap. Although mooted pre Augar it seems very unlikely that the government would consider making STEM students borrow (and eventually pay) more than humanities students - it would seem likely to have the opposite effect than that required if it encouraged price sensitive students to study history instead of engineering.
- Degrees in some of the strategic subjects could be completely replaced by apprenticeships – at degree level or not – that is one solution for healthcare and teaching, which are heavily placement based and suited to this model. Unfortunately the government would still bear the cost as the employer, at least for most healthcare students. But it might be popular post-pandemic, because apprentices are paid, and it reduces the headline loan cost. Augar did not suggest this.

And other things?

In the meantime, they have been implementing Augar's other recommendations – the lifelong learning allowance and flexible student loans announced in the Queen's Speech being the most obvious one.

On TEF: the Peace report on the TEF and the government response were finally published on 21st January 2021. The OfS confirmed that they will consult on a new TEF in Spring 2021, aligned to the quality review. This consultation has not yet been launched but there are rumours that it is imminent.

- Augar had other ideas too:
  - index link the repayment threshold for student loans (linked to median earnings) – that would not help the government reduce the cost of the student loan book
  - extend the repayment term from 30 to 40 years – that would help reduce the long term cost

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[5] Augar said this on capping numbers (see pages 101-102)

- *If recruitment practice has not improved by 2022/23, discussed further below, an alternative or complementary option for the government and OfS is the imposition of a cap on the numbers admitted to courses that persistently manifest poor value for money for students and the public. The existing regulations give OfS the power to implement such caps where that is justified in accordance with their regulatory aims, at institutional or subject level.*
- *The government has made it clear that it will not re-impose a cap on student numbers at national level. It would be out of scope for us to propose this and we would not wish to do so, even if it were within our terms of reference. However, we are mindful that the government does exceptionally place a cap on numbers, notably on university places for Medicine, because of the very high cost of a medical degree and of the professional training that follows it, and have considered whether this practice could be extended.[*this looks interesting now in the light of the attempt to apply student number caps in the pandemic which was abandoned so quickly when the extent of the 2020 A-level results mess-ups became apparent*].*
- *We therefore invite the government to consider the case for encouraging the OfS to stipulate in exceptional circumstances a limit to the numbers an HEI could enrol on a specific course, or group of courses.*
- *Where there is persistent evidence of poor value for students in terms of employment and earnings and for the public in terms of loan repayments, the OfS would have the regulatory authority to place a limit, for a fixed period, on the numbers eligible for financial support who could be admitted to the course. The institution in question would remain free to recruit to all other courses without restriction. Such a cap system would clearly target the institutions that are offering poor value, rather than altering the entry criteria for individual students.*

- start inflation based increases on the average per student resource from 2023/24 – that will not help the government's overall cost issue either.

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