

## **New Ways of Funding Public Higher Education: The UK**

### **Experiment**

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In 2004, when the UK prime minister, Tony Blair, won a Parliamentary majority of only five votes, to introduce “top up” tuition fees—covered by income contingent loans, to be introduced in 2006—such a radical approach was thought to remain in force for a long time. Two caveats to the new fee structure (not in Scotland) were accepted. The first stipulates agreeing to establish a nonstatutory Office of Fair Access, which would require universities to submit access plans and would approve schemes—whereby universities used part of the new fee income to fund bursaries to support students from economically disadvantaged backgrounds. The second itemizes promising to set up an independent commission, to examine the operation of the new fee regime after three years. The clear expectation was that institutions would vary their fees, according to their position in the market place, and that the introduction of the new fees, even though supported by loans, would deter some students. Neither expectation was realized: All but two institutions charged the full £3,000 fee and there was no

diminution in the student application rate. Indeed, some universities found themselves unable to spend the amount they had put aside for bursaries.

### **THE BROWNE REVIEW**

The idea behind the independent commission was primarily to provide a report back to Parliament on whether the interests of disadvantaged students had been safeguarded. The government appointed Lord Browne, former chief executive officer of BP, to chair the commission, which reported in 2010 the *Securing a Sustainable Future for Higher Education*. The Browne review recommended that no limit should be placed on fees and that controls on student numbers, which has been a feature of UK higher education since the 1980s, should be abandoned. Fees would be repayable against an interest rate fixed at the government's rate of borrowing. Yet, a graduated institutional levy would be introduced on any fees above £6,000, so that, for example, 75 percent of any fee above £12,000 would be paid by the institution to the government. This plan was intended to serve as a discouragement to charging high fees, which it seemed some universities might wish to do. On the other hand, Browne argued that market competition raised quality.

However, Browne reported in the teeth of the economic crisis when a new coalition government of Conservatives and Liberal Democrats had set itself to reduce public expenditure by 25 percent over three years. All government expenditure was subjected to a Comprehensive Spending Review, which imposed a 40 percent cut on higher education as a whole; and, in particular, an 80 percent cut on institutions' teaching grant, which was to be replaced by tuition fees. The Browne proposals for open-ended fee charges and for the removal of

limits on student numbers were rejected and a tuition fee cap of £9,000 was announced. However, some public funds would be used to support courses of strategic importance (i.e., science, technology, and medicine). It remains unclear whether these decisions reflected an act of policy, building on 2004 policies, or an accidental outcome of seeking to protect another part of the Department of Business, Innovation and Skills' (the responsible government department) budget. The decision was certainly difficult for the Liberal Democrat side of the coalition government that had entered the general election promising to remove fees altogether, each individual Lib Dem candidate being forced to sign a "Pledge" to do so. However, from its point of view the Treasury promised to make a long-term contribution to reducing public expenditure.

#### **THE WHITE PAPER**

The rationale, post hoc or otherwise and the final shape of these decisions was provided by a government white paper (Higher Education: Students at the Heart of the System) in 2011: £9,000 was to be the maximum that institutions could charge for a tuition fee to home students; but institutions planning to charge more than £6,000 must convince the Office of Fair Access that they had in place secure and realistic access policies before they could exceed that figure. The student number target was frozen to protect the Treasury from an open-ended loan commitment; but to introduce flexibility and competition a pool of 85,000 places would be withdrawn from the present funded total of student places to allow unrestrained recruitment against 65,000 places from students scoring AAB and above in their General Certificate of Education A level examination—thus, A's in maths and physics and a B in chemistry would put a student into that

category. Up to 20,000 other places would also be withdrawn for universities and colleges charging at or below £7,500—and therefore likely to be places to be filled in widening participation programs. This “margin and core” approach was clearly intended to favor universities attracting the best-qualified students (they were also generally the most research-orientated institutions) over those that drew their student body from a much-less, well-qualified field. Graduates would only become eligible to begin repaying the loans if they earned £21,000, and the repayment period would be 30 years. In addition, maintenance grants were also covered by loans, so that final repayment was for fees and maintenance combined.

By July 2011 the majority of institutions indicated an intention to charge fees within £1,000 of the maximum fee figure, with an average of £8,500 emerging. This was £1,000 higher than the Treasury had anticipated and immediately placed the forecast cost of the scheme in jeopardy. Since then, 25 institutions have lowered their fees in order to gain access to the 20,000 additional places, where high-level qualifications are not required. The new fee proposals were widely predicted as likely to deter applications, particularly from students from disadvantaged backgrounds; but the latest figures show only a minor fall. Mature applicants would be the least likely to have to pay back the full loan, because they might leave the workforce before the 30-year expiry date of the debt period.

## **THE POLICY RATIONALE**

Four main strands of thinking seem to have gone into this set of decisions. First, a significant element of public expenditure has been removed. Although most

commentators foresee that the scheme will increase public expenditure in the short run, much will depend on the Treasury's ability to sell on the loan portfolio to private finance houses. Second, the plan will increase competition and, thus, in New Public Management terms, efficiency. Third, the existence of an intensified market will drive up the quality of academic programs (the government white paper demands an immensely detailed presentation of market information by each institution, to improve the effectiveness of the market). Fourth, the plan seeks to enforce a greater differentiation of the system by fee levels and entry qualifications. One further intention and one that was much trumpeted, was to place private institutions on the same legal footing as public universities, as far as eligibility for funding. The private sector is tiny by comparison with the public sector of higher education, but organizations like Apollo have obtained a foothold in the system. This has been vitiated by the government's decision not to embody the changes in legislation—for fear, it is alleged, that they might be unpicked in the process of Parliamentary scrutiny. This leaves the funding council's powers unchanged even though its funding remit is now much diminished. In addition, the Office of Fair Access is denied the legal powers it requires to enforce a decision to deny a university the ability to charge the maximum fee—whether or not it can satisfy the office, in regard to its access arrangements.

## **THE IMPACT**

It is too early to say what the ultimate impact of these changes will be, but some tentative conclusions can be offered. The new scheme is essentially a graduate tax, which assumes that higher education is a private rather than a public good—

thus, reversing a perception that has held force since 1945. The strong universities, which can attract entries of highly qualified students with entries, will be strengthened. The less strong universities, with weaker recruitment, may struggle, but the evidence so far does not suggest that any will actually go out of business as a result of the changes. One fear, however, that the redistribution of additional places would permit new entrants to the market at lower prices has been realized by the decision to allocate 10,000 of the 20,000 places to further education colleges, which all bid for numbers at fee levels of £6,000 or below—thus removing these students from the university sector. This decision was heavily influenced by the Treasury’s wish to reduce the borrowing costs caused by so many high fee institutions. This policy has involved a transfer of places from large post-1992 institutions to what in the United States would be called the community college sector.

The effect of these changes is combined with a further concentration of research funding. The *Times Higher Education* has calculated that in the 2012–2013 allocation, the Russell Group of research universities has received an increase of 1.5 percent while the Million Plus and Guild HE Groups of teaching-focused universities have lost between 10 percent and 16 percent; this trend may increase inequalities in the system if the “core and margin” approach persists. The contention that competition and a greater reliance on markets improve quality in higher education is widely disputed, and the danger is that the system will become more polarized than it is now. The wider danger is that the planning of higher education in the future may owe more to fluctuations in interest rates, the Treasury’s borrowing powers, and the operation of money markets. Thus, in the transfer of student places to cheaper institutions (described above), rather than to

educational needs and the pressure of student demand, the Treasury, rather than students, may turn out to be the real "heart of the system."