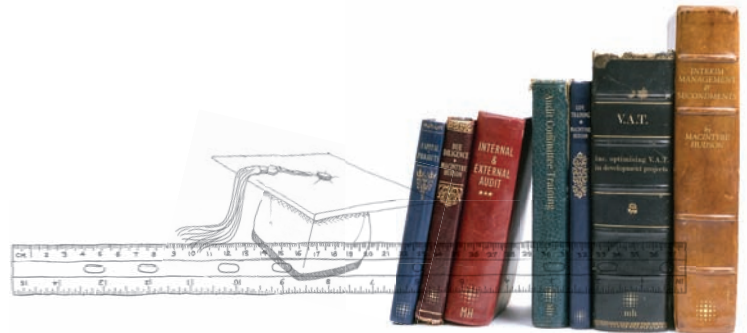




HE News

Summer 2010



HE News is an occasional review of press articles and other documents. Its purpose is to advise MH staff of current issues of importance or interest which may affect their work. It is also circulated to MH clients for their interest. **This edition makes reference to publications up to 31 July 2010**

1. The place of Higher Education (HE) in the new government

Governmental responsibility for HE still rests with the Department for Business, Innovation and Skills – not in the new (!) Department for Education as some would have preferred.

The Secretary of State, and President of the Board of Trade, is Vince Cable.

The Universities Minister is David Willetts.

2. Background to the funding cuts

The need for reductions in HE funding – some already imposed, more anticipated – has been driven by the decision to reduce public expenditure. The recession and its impact on employment opportunities has also had the effect of **increasing student demand**: more young people have determined to seek

a place in higher education, partly to “ride out” the recession and partly to better equip themselves for employment; more older people, often made redundant as a result of the recession, have decided to return to education with a view to improving their future employment prospects.

Higher Education Institutions (HEIs) are faced with the need to:

- Seek additional and alternative sources of income
- Reduce their existing costs
- Allocate limited places to a greater number of prospective students.

This edition of HE News will seek to review recent developments relating to each of the above issues. It will also make reference to the financial arrangements and controls required of HEIs in receipt of public funding.

3. Developments in the funding position

The previous two editions of HE News have sought to summarise the reductions in funding being made available to the Higher Education Funding Council for England (HEFCE) between 2010 and 2013. The Winter 2010 edition of HE News noted the requirement for a cumulative reduction in public funding of £915m to be accommodated.

Since then there has been an election, of course. The new Government made an immediate decision to reduce Government expenditure by £6.2bn. HE's share of this was to be £200m. That's another £200m. This £200m includes a reduction of £118m in the £270m University Modernisation Fund established in the spring. Thus, **a further £82m in efficiency savings has to be found**. It appears likely that at least some of the savings will have to come from the teaching budget.

3.2 The impact of the June Budget

Estimates of 25% (even 40%) reductions in expenditure by all Government departments, except Health and International Development which have ring-fenced, have been widely reported. However, reductions seem unlikely to affect all departments equally. Whilst not “ring-fenced” early signs suggested that education may receive a more favourable treatment than some. More detail will not be known until the spending review in October 2010.

Other intentions outlined in the Budget either may, or will, impact upon the operation of HEIs.

- VAT is to increase to 20% - which will increase the cost of most supplies and services. Estimates of a £70m to £100m increase in costs

across the sector have been made

- Whilst HEIs will not necessarily have to comply with the two-year public sector pay freeze for 2011-12 and 2012-13 it seems likely that the general environment of funding cuts will produce a similar effect.

3.3 Revised grants

In July HEFCE announced revised grants for 130 HEIs and the 123 FE colleges which receive direct funding. HEFCE also stated that it reserves the right to **review all of its allocations for 2010-11** in the light of the spending review in October.

3.4 Penalties for over-recruitment

Some 60 HEIs have received a reduced grant for 2010-11 following the imposition of penalties due to over-recruitment in 2009-10. The total penalties amount to almost £16m.

Clearly, in these financially difficult times such a nasty “surprise” is the last thing HEIs need. No doubt many are reviewing the robustness of their student record controls and procedures.

4. Extra income

Obviously, in response to such a restricted funding position, HEIs will hope to achieve extra income as well as seeking efficiency savings. The major

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source of this aspiration is through a relaxation of the cap on tuition fees.

HE News has made frequent reference to the hopes of universities that an increase in tuition fees will be permitted. Recent editions have noted the work of the review group, led by Lord Browne, whose remit has been widened to review "HE Funding and Student Finance".

Should the work of Lord Browne's group lead to an increase in fee income for HEIs then the extra income should **compensate to some extent for the funding cuts**. But universities have been saying for some time that an increase in tuition fees was necessary to stabilise the existing financial position – before the recent cuts. Further, any increase would probably not be implemented immediately. And it would also come with strings attached – which may involve extra costs.

4.1 Recent views of the universities

All of the different mission groups, except for the Million+ Group of post 1992 institutions, believe that tuition fees, or graduate contributions as they are increasingly being called, should be allowed to increase.

The Russell Group of large research-intensive universities believes that:

- The cap on fees should be gradually removed and **universities be allowed to set their own fees**
- The cost of student support could be reduced by charging a real rate of interest on loans

- The Student Loans Company might finance the loans by selling bonds, linked to graduate repayments, to private investors.

The 1994 Group of smaller research-led universities believes that the fee cap should be raised incrementally, as do the University Alliance of non-aligned universities and GuildHE, but up to a maximum level. The sale of bonds to private buyers is also supported by the University Alliance.

The Million+ Group has recommended:

- A maximum rate of interest on loans of 2%
- Extending the graduate contribution period from 25 to 35 years
- Removal of statutory bursaries
 - all of which could lead to the **possibility of reduced fees**.

4.2 Recent developments

In May David Willetts made it clear that there would have to be a "new settlement" (an increase in fees?) but that this would include not only more funding for HEIs but better teaching for students – as should have happened when fees were first introduced.

And now even a fee increase may be in doubt. The possibility of a graduate tax, rather than tuition fees, is again being promoted in some quarters. In July, Vince Cable raised the possibility of a **lifelong tax on graduates** (or perhaps 25 years after graduation). The funds received by the Exchequer would be ring-fenced.

Such an arrangement is probably not quite what many universities had in mind. Doubts it might raise would probably include:

- How soon would additional funds be made available to the institutions?
- How secure could universities feel in the belief that the ring-fencing of funds received from this tax would endure? Would the arrangements receive similar treatment from successive Governments?
- According to what criteria would the distribution of this extra funding be made?

HE News has also made reference in the past to anxiety over the level of student loans and the cost of their subsidy by Government. It should be remembered that student loans may be composed of two parts: for fees and for maintenance costs. A removal of fees will therefore not, of itself, solve the concerns over student loan arrangements.

4.3 Alternative sources of income

Fee increases or not there is a chink of light for HEIs regarding increases in income.

Despite the recession cash donations to universities, from individuals and organisations, increased to £511m in 2008-09. More people, and more organisations, donated.

However, this increase may have been due the HEFCE scheme to match, or part-match, donations. This scheme is due to end next year.

5. Reducing existing costs

5.1 Staff costs

Whenever and however HEIs receive extra income they will still need to reduce their costs. Staff costs are inevitably at the centre of any cost-cutting drive.

5.1.1 Redundancies

The spring 2010 edition of HE News summarised some of the approaches already underway to reduce staff costs. Jobs were under threat.

The University and College Union (UCU) is **making job security**, seemingly rather than pay, **its key issue**. It believes that HEIs collectively are planning for 2300 compulsory redundancies.

A ballot for a national strike is to be held in the autumn if employers fail to negotiate with the union over the avoidance of redundancies.

5.1.2 Pay claim

Any pay increase would produce an upward pressure on staff costs at a time when institutions are trying to reduce them. In May, the UCU lodged a **claim for a 4% increase**; in June the Universities Colleges Employers Association (UCEA) refused to increase its offer of a 0.4% pay increase for next year.

Although universities are not legally bound to comply with the two-year freeze on public sector pay they are expected to **have regard to policy on public pay or risk loss of funding**.

5.1.3 Bargaining arrangements

The spring edition of HE News also made reference to a variety of strategies being considered by some HEIs, involving **variable contract arrangements to reduce staff costs and save jobs**. There are recent reports of increasing numbers of Vice Chancellors wishing to withdraw from national bargaining arrangements.

In the spring there were already signs of growing tensions between those interested in pursuing local arrangements over contracts and pay and those determined to adhere to national agreements. These tensions look set to increase.

5.1.4 Pensions

The winter 2010 edition of HE News made reference to comments in the Grant Letter that moving towards a sustainable position on pensions would be a key challenge. The Universities Superannuation Scheme (USS) for academic staff was in deficit by some £5bn.

Employer contributions to the USS scheme were increased in October 2009 to 16%, which represented a collective increase of £110m per annum. A review group has suggested that new arrangements involving:

- A higher contribution by members
- A later retirement age
- A pension related to a career average (not final) salary

would be necessary.

The protection of the USS scheme is the other big issue for the UCU. Any changes to pension benefits are decided by

the scheme's Joint Negotiating Committee comprising five employers, nominated by the Employers Pensions Forum (EPF), five member representatives nominated by the UCU and an independent Chairman, Sir Andrew Cubie.

The employers proposed the following changes:

- An increase in the contribution by members of 1.15% (to 7.5%)
- Any future increases in the contribution rate to be shared 50:50 between members and employers
- A normal pension age of 65 for most active members, followed by an increase to 68 between 2024 and 2046
- Closure of the final-salary scheme to new entrants, a career-average scheme to be offered in its place.

The union proposed increased contributions of 1%, any future increases to be shared 35:65 between members and employers, and a normal pension age of 65 for new entrants. The union appears to have made no offer of any change to the age at which benefit would be paid, nor on the final salary arrangements. Further, the union takes the view that changes recommended by the employers exceed those necessary to make the scheme sustainable.

Linking the operation of the scheme with the aspiration of HEIs to receive more income through an increase in tuition fees David Willetts, the Universities Minister, has made the observation that "it's very

hard asking students to pay higher fees to prop up final-salary pensions... when their own parents have lost theirs".

In July, Sir Andrew Cubie, the independent Chairman of the NJC, used his casting vote in support of the employers' proposals. These proposals have to be approved by the USS trustees following which existing members, and all those eligible to be members, will be consulted in the autumn.

Members aged over 55 on the intended date of introduction of the changes (1 April 2011) would be exempt from the changes to the USS scheme.

Academic and senior administrative staff in the post-1992 universities would still have access to the Teachers' Pension Scheme.

5.2 Efficiency savings through shared services: VAT issues

It should be possible to make efficiency savings if HEIs could share certain administrative services such as payroll management. But such an arrangement would count as a "purchased service", which would be subject to VAT. Therefore, for a such arrangements to prove viable each institution would need to save at least 20% of the cost of their existing independent service.

Universities are calling for a more flexible approach to the outsourcing of suitable services, which would then enable them to make better use of public money.

6. Student places

6.1 Demand for 2010-11

Latest figures from the Universities and Colleges Admissions Service (UCAS) reveal that there are more than 540,000 student applications for 400,000 places this year. This represents an increase of 11.6% over 2009-10. Although some 100,000 applications are usually rejected a large number of qualified applicants seem sure to miss out.

6.2 Competition in the future

Applicants for places starting in 2011 seem sure to be asked for higher entrance qualifications. The use of the A* grade, which universities were discouraged from using until further data are available on the predictability of A Level grades, is becoming commonplace. This increase in entrance qualifications is not only due to the greater competition for places and grade inflation but also the decision of some elite universities to **reduce the number of places in response to funding cuts**.

6.3 The provision of extra places

6.3.1 For 2010-11

After the latest £6.2bn cut across all Government departments there will now be 10,000 extra places available this year.

Under the University Modernisation Fund arrangements described in the previous edition of HE News 20,000 extra places were to have been funded. Following the cut of £200m from HE funding referred to in item (3) only 10,000 places will now be

funded in this way. 8,000 of these extra places will be for full-time students and 2,000 for part-time students.

6.3.2 STEM places

There will be 1712 extra places relating to Science, Technology, Engineering and Mathematics (STEM) subjects but these will have been **provided at the expense of places in other subjects**. HEFCE had allocated £10m in support of a change in the distribution of places and had hoped that between 3,000 and 6,000 extra places in STEM subjects would be provided in this way.

Inevitably this emphasis on the provision of places on STEM courses, and the redistribution of funding which goes with it, is causing concern among those involved in the provision of arts and social science programmes.

Whether the new Government continues with this change of emphasis and, if so, how HEIs respond will be a matter of some interest in the immediate future.

6.3.3 Extra places for 2011-12 and beyond

The Government seems determined to increase the number of places available. But it seems likely that this extra supply will come through teaching at Further Education Colleges (FECs) or private providers **rather than in the universities**.

The Government understandably wants to expand HE provision in a way which is cost-effective. At the moment 1 in 8 HE students receive their teaching in an FE college. Most of this teaching

is arranged through franchise agreements with a university. The university retains perhaps 25%-30% of the funding. Therefore, the possibility of the college providing this teaching at lower cost, **if it were directly funded**, clearly exists.

The possibility of expansion of HE through private providers has been given credibility by:

- The preparation of a report by the law firm Eversheds regarding the changes to the Law which would be required to allow profit-making companies to extend their involvement in the sector
- The report was commissioned by BPP, a private provider with degree-awarding powers
- David Willetts's comments, at a conference sponsored by BPP, that "it is important we have a properly diverse sector that involves recognising the role of new external providers like BPP".

Mr Willetts has also stressed that **any reform must also deliver improvements in teaching quality, widen access and improve employment opportunities**.

6.4 Early repayment of loans

The Conservative Party had hoped to **fully fund 10,000 additional student places** through the early repayment of student loans. It was anticipated that those who had taken out such loans would be offered a 10% discount and that £300m could be raised in this way. The Government was unable to put these arrangements in place for 2010, mainly due to pressure

of time.

But HE funding might still benefit from such arrangements. David Willetts has said that he hoped to announce measures after the Comprehensive Spending Review in October following a review of the student loan book and receipt of Lord Browne's review of Funding and Student Finance.

7. An improved student experience: More information for students

David Willetts may have focused initially on the demand for improved teaching for students but recent emphasis seems to have been on the provision of more and better information for students. This information would relate to the operation of the institution and what it will provide for prospective students.

Much of this requirement has been encapsulated in the concept of a **Graduate Employability Statement**. This statement, not greater than 3,000 characters in length, will set out how the institution prepares students for the world of work, including careers guidance and work placements.

HEFCE has asked institutions (Circular Letter 12/2010) to provide such information by 31 August so that the statements can be used by students applying for 2011-12. This request applies to **all HEIs and directly funded FE colleges**.

The provision of statistics on graduate employment will not be required for this statement – but this requirement surely cannot be far behind. Other information which may be required in the future includes details of teaching contact time and group sizes.

Some of these issues could well be embraced in the so-called Student Charters. Other issues thought likely to be included are:

- The time taken for academics to mark essays
- Whether the course is taught by full-time academic staff or by post-graduate students.

An enquiry panel has been established by David Willetts. It will report to him in the autumn – coinciding nicely with the reporting of the Browne Enquiry.

8. University entrance qualifications

Despite the dominance of funding issues this edition of HE News should also note briefly:

- Adjustments to the grades requested of candidates for places in HEIs due to considerations of widening participation and widening access
- Changes to the use and availability of examinations considered by universities for admission to courses
- The comparability of the new A* grade across different subjects

- Projected changes to the entry tariff.

8.1 Widening access and contextual data

A report by the Office for Fair Access published in May notes that although the proportion of disadvantaged young people entering higher education has improved (ie [participation](#) in HE has widened) there had been **no improvement in the proportion of such young people at the most selective universities since the middle of the decade**. Despite the acknowledged efforts of these universities access by the disadvantaged had stalled. Indeed, without these efforts the report suggests, progress to widen access may have been reversed.

The report urges selective universities to review the spending which they devote to increasing access to the disadvantaged. It is suggested that they need to improve the way in which they target students and ensure that **money is spent on effective initiatives**. In particular, selective universities should take steps to identify and support talented students from poor families no later than by year 9 – **before GCSE entries are made**. Such a recommendation begs the questions “will the university be authorised to advise on the choice of subjects to be followed?” and “what influence would the university have over the subjects available in the pupil’s school?”

There is also news of a scheme being drawn up by UCAS to make it easier for universities

to make offers dependent upon lower A Level grades to pupils from poorly performing schools. UCAS would arrange for details on the grades obtained previously by pupils of a school, the poverty level of pupils and how many go to university to accompany student applications.

8.2 The 14-19 Diploma

Recent decisions regarding the 14-19 Diploma include:

- The withdrawal of the three “academic” lines of study
- Following the closure of the Qualifications Curriculum Development Agency (QCDA) **sole responsibility for the Diploma now rests with examination boards**.

Michael Gove, the new Secretary of State for Education, has made it clear that he does not believe that the development of new educational programmes should be the business of the Government or any quangos.

8.3 Growth of the International Baccalaureate (IB)

The use of the IB is reported to be growing with 224 schools and colleges now offering it. 15 more are said to be awaiting approval and many others have expressed an interest.

8.4 The A* grade: Subject variations

As noted earlier in paragraph (6.2) the use of the A* Grade is being increasingly used as an entrance qualification.

It was anticipated that 6% of papers would be awarded this grade. A study of last year’s

A Level results by Ofqual, the examinations regulator, has suggested that **the proportion of A* Grades awarded will show a huge variation between subjects** – from 45% in Japanese through 13% in mathematics to 1% in ICT. At least to some extent these variations probably reflect the characteristics of the cohorts taking different subjects rather than the difficulty of the subjects themselves.

8.5 Review of the entry tariff

The original intention of the tariff was to ensure proper comparison between different types of qualifications. UCAS has recently decided that, with the changing qualifications landscape, including the fact that only half of those at university offered A Levels as their entry qualification, a review of the entry tariff would be appropriate.

9. Research funding

In the past HE News has noted the plans to introduce the Research Excellence Framework (REF), moves toward a greater concentration of research funding and the use of the potential social and economic impact of research as a criterion for the allocation of funding. These issues have received further attention in recent months.

9.1 Research concentration

A report by Sir Bill Wakeham, formerly Vice Chancellor of the University of Southampton, considers that, given the present

funding constraints, economies in the overall costs of research should be found. He believes that this could be achieved by a **greater concentration of research activity**. Such an approach would facilitate efficiency savings of 5% on the indirect costs of research, such as libraries and administration.

But Les Ebdon, Chair of the Million+ Group of post-1992 universities, believes that a greater concentration of research funding would be detrimental to the economic health of the UK. He cites the following in support of this view:

- 30% of international post-graduates (a substantial “earner”) are at post-1992 universities
- Post-1992 universities carry out more consultancy work for UK businesses than the research-intensive universities

and that

- A greater concentration of research funding sends out the message to British industry that only a few universities were worth engaging with.

9.2 REF and “impact” measures

The allocation of funding through the Research Excellence Framework was intended to take place in 2013. The “impact” of the planned research was to have a weighting of up to 25% on research assessment procedures. However, it now seems likely that the introduction of the REF is to be delayed due to the dispute

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regarding this weighting and the possible emergence of a consensus view across universities.

Again, a final decision on the matter could be taken following the Comprehensive Spending Review and Lord Browne's Report in the autumn.

10. HEFCE: Modifications to financial procedures

10.1 As charity regulator for HE

In June HEFCE announced that, following changes to charity legislation, it has become the "principal regulator" for the 110 Higher Education

Institutions in England that are exempt charities. The Charity Commission's powers extend to those HEIs, but it may only use those powers after consulting HEFCE.

In July HEFCE published (Circular Letter No: 19/2010) a revision to its Accounts Direction for 2009-10 Financial Statements resulting from this new role.

This Circular Letter also provides Accounts Direction for

2010-11 Financial Statements.

10.2 New financial memorandum

HEFCE has also published (in July 2010/19) a revised Financial Memorandum which sets out the terms and conditions for payment of HEFCE grants. It applies to **both HEIs and directly funded FECs**. This document supersedes 2008/19.

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