

**FIVE FOUNDATIONS
FOR AN ALTERNATIVE
HIGHER EDUCATION
FUNDING SYSTEM
FOR ENGLAND**



national union of students

FOREWORD

We are approaching a crucial moment in the development of higher education policy. The government is leading a debate on the future of higher education, and it is expected that the outcome of that debate will have a major impact on the way the sector is funded after the next general election.

It is essential that the student voice is put at the centre of this debate and that students are properly represented in the actual funding review, which is expected to be launched before the end of 2009. It is also imperative that the review has a wide remit, so that it can go beyond simplistic issues and look at the overall structures for learning in higher education – and propose significant changes to those structures, where change is needed. To ensure these things happen, we need urgently to develop a clear and comprehensive solution to the problems and failings of the current funding system.

The purpose of this paper is to provide an outline of the foundations for a possible new structure for funding higher education in England. It should be seen as a précis of an alternative funding policy, which NUS will publish in the near future, following further consultation with our members and partners. NUS will be uncompromising in its opposition to the marketisation project that lies behind the variable fees system, but is serious about entering into a real debate with the higher education sector, government and opposition parties to ensure an equitable and sustainable funding system.



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SUMMARY – FIVE FOUNDATIONS

- 1.** The way 'student support' is funded should be considered independently from the way that the 'individual contribution' to the costs of higher education is collected. This will allow greater flexibility to better meet both the needs of students and the aims of a contribution system.
- 2.** Students should be provided for according to their true needs while they study, and should make a contribution to the costs of higher education according to the true benefit while they work. We would define this as a progressive approach.
- 3.** There should be significant flexibility for students, so that they can move between stages in the structure with ease and without penalty. As part of this, the system should make more use of flexible units of academic credit. There should also be flexibility to meet diverse needs on the student support side.
- 4.** The systems and processes of higher education funding should be made more efficient and ensure that maximum resources are applied, either in support for teaching and learning or in direct financial support for students. Unmanageable levels of debt, in particular, are bad for both the borrower and the lender and should be avoided wherever possible.
- 5.** The financial compact between the state, individuals and employers should be re-established. Each should play a role within any new, fair and progressive funding structure.

Taken together, these foundations should be set as aims for the forthcoming review of higher education funding, and NUS calls on the government to do this when setting the terms of reference for that review.

DISCUSSION – TOWARDS A BETTER FUNDING SYSTEM

- 1.** In this paper, we outline the foundations of an alternative structure for higher education funding in England. We discuss some of the main features of the present system, and how we would take a different approach.
- 2.** There are several distinct functions at work in the present funding structure. It directs resources to HEIs, a proportion of which is derived from grants from the state and a proportion of which comes from individuals through fees. It directs resources to students, in the form of various grants and subsidised loans, to support them during their studies. It theoretically facilitates an economic market in HE provision, but such a market has not yet emerged in reality.
- 3.** The present structure is designed to bring these functions together, at least in part, unifying them through the mechanism of student loans. It is student loan accounts that represent the majority of the student financial support provided, and it is student loan accounts that hold within them the individual expenditure on fees. The student loans system is also often used to distribute non-repayable grants.
- 4.** Other aspects remain separate. The core mechanism for distributing grant funding for teaching, while regularly reviewed, does not deviate from the basic tenet of a formula-based system of block grants. Some effort is now being made to supplement this with a certain amount of 'demand-led' funding – but this remains a relatively small proportion of the total.
- 5.** The 'first foundation' of our alternative structure is to disaggregate the funding mechanism for 'student support' from the funding mechanism for the 'individual contribution' to the costs of HE provision. This will allow greater flexibility in setting mechanisms that better meet our stated aims.

- 6.** Furthermore, we have a different conceptual view of each of these functions, seeing each of them as a distinctive stage – and we believe that different approaches are required for each stage. To create a fairer structure, we believe it is essential to first be clear about what each part of the structure is seeking to achieve, and what might limit those goals.
- 7.** We advocate here a structure based on a very clear set of stages, designed to establish the right financial relationship between students and 'the system' at each stage. An outline of this structure can be seen here:

Stage	Prepare	Study	Work
'Support track'	Targeted support for individuals who need help for first entry to HE	A range of support provided to students according to need	Repayment of a proportion of the support provided
'Provision track'		Provision made for students, free at the point of use	Contribution linked to the amount of study and to earnings

- 8.** The structure requires the separation of the financial arrangements for student support and for provision. It sets out how students should be in a liberated position during the stages of preparation and actual study, able to make decisions according to their learning needs without concern to price or potential returns (as would be the case under an extension of the present system), or viability in relation to the support they could obtain.
- 9.** At its most basic, the 'second foundation' of our alternative structure is that students should be provided for according to their true needs while they study, and should make a contribution to the costs of higher education according to the true benefit while they work. We would define this as a progressive approach.

10. Not all students, perhaps not even a majority of students in the future, will follow a linear path through these stages. The structure outlined above must therefore be treated as cyclical. It must be possible in any new system to move seamlessly between periods of study and work, and to combine study and work. The mechanisms in the funding structure must facilitate and support this flexibility.
11. The present system is inherently inflexible. It relies on units of funding measured in full-time equivalent (FTE) years, such as an annual fee payment or an annual loan for support. It is clear that, in many situations, taking amounts in annual units is useful and appropriate, but does make it more difficult to construct flexible funding mechanisms that can cope with the demands of those who want to study more flexibly.
12. It is perhaps surprising that more use has not been made of academic credit as a measure and determinant in funding structures, given their near-ubiquity in determining the structure of courses and the quantity and level of learning that relates to particular outcomes.
13. Student support in the present system is a particularly strong barrier to flexible learning. Financial support for part-time students is hard to obtain, and the amounts involved are meagre. We wish to bring about a structure in which student support for non-traditional modes of learning is substantially better than at present.
14. The 'third foundation' of our alternative structure is to ensure significant flexibility for students, so that they can move between stages in the structure with ease and without penalty. As part of this, we will base important quantities on more flexible units of academic credit, rather than less sensitive 'blocks' of study – this may be described as a 'credit-related' structure. We will incorporate strong support for flexibility to meet diverse needs in the student support side of our proposals.

15. The present system is disadvantaged by large inefficiencies. In 'fuelling' the system with loans for support and for fees at no real rate of interest, the government is obliged to account for the costs of doing so in the form of a 'resource accounting' charge. This effectively suppresses the expenditure that government is able to direct to the main activities that it wishes to support.
16. The total level of student debt is predicted to reach around £46bn by 2013, according to projections issued by the Department for Innovation, Universities and Skills. This indicates the extent to which the present system is unsustainable. If the present system was extended, perhaps by increasing the cap on fee levels, then the levels of student debt involved might reach the point where they began to have a severe impact on other parts of the economy. One possibility is that government would have no choice but to incur a major loss in writing-off loans or selling them at very poor prices.
17. The 'fourth foundation' of our alternative structure is to make the systems and processes of higher education funding more efficient and to ensure that maximum resources are applied, either in support for teaching and learning or in direct financial support for students. Our proposals are premised, in particular, on the belief that unmanageable levels of debt are bad for both the borrower and the lender and should be avoided wherever possible.

- 18.** The most damaging consequence of such high levels of lending from the state to individuals is the effect it has on the balance of the relationship between individuals and the state. If the state begins to lend to individuals in such huge amounts, the risk is a disruption of the compact between them, and confusion in the obligations of both sides.
- 19.** A financial relationship based too heavily on personal debt is also a relationship that excludes the organisations between individuals and the state. Employers have a role to play in the structure, and this role should be as integrated as possible. The present system does not create enough opportunities to engage employers.
- 20.** Furthermore, for all the individual and employer contributions that may be made, the provision of – in fact, the presence of – higher education in our society is a public good. The level of public expenditure on higher education has been increasing in recent years, but we must be concerned to see that sustained in years to come. Higher education must continue to draw a large proportion of its funding from the state, maintaining a sound balance between state funding and revenue from other sources.
- 21.** The 'fifth foundation' of our alternative structure is to re-establish a financial compact between the state, individuals and employers. Each should play a role within any new, fair and progressive funding structure. Within this aim, we are strongly committed to developing proposals that include a significant demand for additional central public funding, as a basic condition of there being a greater individual contribution.

22. We believe that these are the right foundations for a fairer, more dynamic and more effective higher education funding system. In the near future we will devise detailed proposals that reflect these foundations, following consultation with our members and partners. We call on the government to put these foundations at the heart of the forthcoming review of higher education funding, by asking those who are commissioned to carry out the review to treat them as aims for the review to deliver.

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