BROKE & BROKEN

A CRITIQUE OF THE HIGHER EDUCATION FUNDING SYSTEM

national union of students

FOREWORD

The issue of higher education funding is looming on the horizon yet again. It has been four years since the last memorably heated debate over top-up fees, during which a Government with a seemingly unstoppable majority was very nearly brought to heel.

There were three reasons why higher education funding became a touchstone issue that year. Firstly, NUS and many other organisations campaigned intensively as a broad coalition to make our voices heard. Secondly, it became one of the biggest issues on the doorstep, with huge numbers of people deeply concerned about the impact this policy might have on them and their families. And thirdly, many politicians and influential commentators were suspicious and sceptical of the introduction of a higher education market, or placing such a high proportion of the cost of higher education on individuals, or the possibility that soaring debt might damage our attempts to widen participation, especially amongst those most disadvantaged in our society.

This time, it is incumbent on student leaders to make sure the first two conditions are a reality again. I am convinced, however, that the third never went away. Many have witnessed with mounting dismay the growing consumerisation of education. They know instinctively that dividing up our limited resources through a market mechanism is wrong. They can see that higher education, like the society around it, is unequal and unfair. They only need some more knowledge in their armoury, to confirm their suspicions and bring them firmly to our side. That is the purpose of this report. It has been created to show how the higher education funding system we have today is so socially regressive and so harmful to learning.

It is important to state what this report is not about. It is not for special pleading on the principle that education should be free. I believe it should be – but I know that the debate has moved on and we won’t win by dredging up the old arguments. It is also most emphatically not the last word – our next duty is to produce a rigorous alternative policy, and we will do so in the coming months.

There are those who claim that this is an issue due to be kicked into the political long grass until after the next general election. We must ensure that this does not happen. Students will feel betrayed if their concerns are relegated in a cosy Westminster deal. I expect Ministers to be brave by launching a full and comprehensive review, according to the original timescale – so that students can hold them to account for the outcome.

NUS has taken a brave decision by moving our policy from a simple question of whether or not we should make an individual contribution, to step up to a real debate about how our universities are funded. I now challenge our political leaders to give us the debate we deserve.

Wes Streeting
National President

INTRODUCTION: AN OVERVIEW OF THE CURRENT SYSTEM

In this document we put forward a critique of the current higher education funding system for undergraduate provision in England, and make the case for a wide and comprehensive review of the system in 2009. We are concerned to ensure that there is no self-imposed narrowing of the scope for that review, which would run the risk of concentrating on relatively specific aspects of the current model, leaving many failings of the system, and its underlying market logic, untouched.

The system was brought about by the Higher Education Act 2004 and subsequent secondary legislation. The debate around this Act was highly controversial, and the Commons vote at second reading was the closest that the Government had come to defeat since 1997 – the Bill passed at that stage by only five votes.

This document represents a critique of the system that eventually came about as a result of these developments. The focus of the case we will build here is on full time undergraduates in England. It may be helpful for some readers to revisit the key aspects of the 2004 settlement:

- The previous fixed rate fee of £1,200 per annum (pa) could now be replaced by any fee up to a cap of £3,000 per annum, variable from course to course.

- Institutions would be required to make an "Access Agreement" with a new regulator, the Office for Fair Access (OFFA), before they would be allowed to charge a fee above the previous fixed rate.

- The cap level could be varied by the Government with inflation, but any other change would require the approval of both Houses of Parliament.

- Previously, students had to pay their fixed fees up front, but under the new arrangements, a student could ask the Government to pay their fees in advance, and take up a loan to match their value.

- This means that most students now take up two categories of loan from public sources: a loan for fees and a loan for maintenance (living expenses), and these loans would be treated in exactly the same way for repayment purposes.

- Repayment of loans would be income contingent – a graduate would pay 9% of their gross income over a £15,000 threshold.

- The interest rate for the loans would be linked to the retail prices index (RPI) measure of inflation; outstanding loans would be cancelled after 25 years.

- The Government would provide non-repayable grants (partially offset against their loan entitlement) to the poorest students, as determined by a means test.

- Institutions charging the full fee must give bursaries of at least £300 to all students in receipt of the maximum central means-tested support.

- Institutions may also distribute bursaries to students for any other purpose; although not a change to their powers, additional income from higher fees has led to more discretionary grants being offered.

- The arrangements for part-time undergraduates were left essentially unchanged in these reforms; part-time undergraduates would continue to pay fees up front and have access to little financial support.

In the years since, the system has evolved and developed. For the 2008/9 academic year and beyond, the Government improved the centrally distributed package of student support, raising the threshold of family income in the means test, so that far more students receive a non-repayable grant. In addition, a change to loan repayment was proposed, with the possibility for graduates to take an optional 'repayment holiday' of up to five years.

In some ways, the system has not operated as originally intended. Ministers had sought a market in course prices to match the market already perceived in the relative prestige of different institutions. In practice, this did not emerge, with almost all institutions charging the maximum fee of £3,000 pa. The attempt to create a market of price was thwarted on that occasion by the simple device of a cap on fees exerting a strong external control on price variations.

One of the central presumptions of this document is that a market of prices would emerge if the cap was set at a higher level than it is today. The higher the level, the less regulated that market becomes. Here, we model some of the implications of a rise in the cap level to £7,000. This represents a doubling of the present level, adjusting for the fact that the current cap would reach £3,500 by 2010 simply through inflationary rises.

Some of the implications we discuss are financial – in terms of both the personal finances of students and graduates and the overall financial position of the sector. We are also concerned very closely with how money is distributed in the sector, and how this might change if a full market of prices was to emerge. Some other implications are considered – we are interested in the effect of a market model of HE funding on the teaching and learning, the mentality of students, the future of scholarship, and the ethos of higher education itself.

Above all, this is an inquiry into the fairness, or otherwise, of the settlement reached in 2004 – and a guideline for our approach to the forthcoming review of that system.

TABLES, FOOTNOTES AND REFERENCES

In this document, endnotes are used to give references.

A superscript numeral (e.g. the fee levels have previously compared.[1]) indicates that you will find a related endnote on page 16. These endnotes also include references, where appropriate, to previously published material. We have attempted to provide a web link to these sources where possible, to make it easier for readers to return to them.

A superscript letter (e.g. the fee levels can be compared.[(A)]), indicates that you should refer to a graph or table in the bar at the right hand side; in this case, table A. We also provide a summary of tables, with information on the source of the data in each case, on page 16.

THE SYSTEM FAILS ON ITS OWN TERMS

Students have to take a huge financial risk, with no guarantee of success

It is often said that students are reluctant to pursue an application to study in higher education because of their fear of debt, yet we live in an era where personal debt is too often treated as wealth. The world's current economic problems, and especially what has come to be termed the 'credit crunch', bring fear of debt back to the foreground.

The Higher Education Policy Institute (HEPI) has projected that if the variable fee cap was set at a maximum of £7,000, we might expect an average annual fee of £4,300 to emerge across the sector[1]. If a student were to pay a fee at this level over the course of a three-year degree, and also take up the average loan for living costs (projected at £3,500[2]), then at the end of their programme they would have acquired a public debt of around £25,000, once interest has also been added for each of the three years[3(A)]. In the case of a student at the extreme high end of the borrowing range, paying the maximum fee (£7,000) and borrowing the maximum available amount for maintenance (in London, £6,500pa[4]), they would owe no less than £37,000 on graduation, including interest[(B)].

This level of debt has previously only been associated with home ownership, and like home ownership, we are expected to take it on willingly because it represents an investment. Under a mortgage, however, it is a certainty that one will eventually own the home outright, provided one is able to keep up on one's repayments.

This parallel does not apply to an educational process, where the outcome is reliant on factors beyond the individual's control and their success in cultural assimilation. Students from disadvantaged backgrounds often lack confidence in their own abilities, and a real fear of failure – and the 'investment', from their point of view, therefore often looks unsound. It is unreasonable to expect people from a background of no wealth to consider taking on such enormous debts, in the face of such huge risks.

The means of providing bursaries are faulty in both principle and practice

Since 2006, when the new funding system came into effect, no real differentiation has been seen in fees. For reasons set out in this document, we might consider that to be a very lucky escape. However, there is evidence that a shadow market is emerging in student support provision, especially in the level and conditions of discretionary bursaries. This means that student support is often not targeted towards those who need it most, but is instead used to lubricate the HE market.

Forthcoming research by Claire Callender, Professor of Higher Education Policy at Birkbeck[5], shows how institutions at the top end of the market of prestige are able to give large needs-based bursaries to their relatively sparse population of students from low income backgrounds, focusing on that objective and offering few bursaries to promote other purposes. The low end of the market of prestige has far more students from low income backgrounds, and those institutions cannot afford to provide as much support to individuals.

Callender's research shows that (in 2006/7) the average annual needs-based bursary for the poorest students in the Russell Group of universities was £1,791, but in the Million+ Group of universities this was only £680[6(C)]. This is student support based not only on need but also on the 'prestige' of institutions.

This is not the whole story, because there is a clear difference in the purposes for which bursaries are applied by institutions. In the Russell Group, 77% of all bursaries were awarded on the basis of financial need, but in the Million+ Group, this was just 45%[7]. Instead, many more bursaries were awarded for purposes linked to recruitment, incentives to make these institutions the first choice for students, and some prizes for academic merit. In this system, student support is directed towards marketing and recruitment, and not towards genuine financial need.

Students lack the proper advice and guidance to navigate the HE ‘market’

An essential feature of any successful market is that people who participate in it as ‘consumers’ have all the necessary information to navigate their options successfully. In the case of higher education, this is incredibly challenging because it is a relatively complex and rarefied environment where it is difficult to weigh up all the relevant options and factors that might affect the individual’s choices.

Information, advice and guidance are areas of significant weakness in secondary education, and are even worse for adult learners. They are hugely inconsistent, often values-loaded and insufficiently responsive to student needs. There is no overall strategy, and it is extremely difficult to assure the quality of advice or to monitor the outcomes produced.

This is crucially important because the market cannot ever produce fair results if some participants in it do not have the necessary cultural capital to compete effectively. National Student Survey data and league tables are useful tools, but they do not help to generate cultural capital.

Research published by the Sutton Trust shows how students from backgrounds where no previous family member undertook higher education find it much more difficult to obtain proper advice and guidance[8]. It is difficult for these students to understand how the market in higher education is differentiated.

If a full market based on differential prices was to emerge, without substantial improvement in the provision of advice and guidance, then there would be a major risk that many students would not comprehend the market, and select courses primarily on the basis of cost. This effect would be most prevalent in students from disadvantaged backgrounds, who may believe that by attending an institution where the fees are lower, they can still obtain a comparable experience to that offered at a ‘famous’ institution, but at lower personal cost and risk.

(A) Projected public borrowings (cap = £7,000, average student, figures in £)

	Loan for fees	Loan for living expenses	Cumu. total	Interest
Yr 1	4,300	3,500	7,800	296
Yr 2	4,300	3,500	15,600	593
Yr 3	4,300	3,500	23,400	889
			Total	25,178

(B) Projected public borrowings (cap = £7,000, top paying student in London, figures in £)

	Loan for fees	Loan for living expenses	Cumu. total	Interest
Yr 1	7,000	6,500	8,000	304
Yr 2	7,000	6,500	21,500	817
Yr 3	7,000	6,500	35,000	1,330
			Total	37,451

(C) Members of the Russell Group in England:

The University of Birmingham, The University of Bristol, The University of Cambridge, Imperial College of Science, Technology & Medicine, King's College London, The University of Leeds, The University of Liverpool, London School of Economics and Political Science, The University of Manchester, The University of Newcastle-upon-Tyne, The University of Nottingham, The University of Oxford, The University of Sheffield, The University of Southampton, University College London, The University of Warwick

Members of the Million+ group in England:

Anglia Ruskin University, Bath Spa University, The University of Bolton, The University of Bedfordshire, Buckinghamshire New University College, Birmingham City University, The University of Central Lancashire, Coventry University, University of Derby, The University of East London, The University of Greenwich, Kingston University, Leeds Metropolitan University, London Metropolitan University, The University of Middlesex, London South Bank University, The University of Northampton, Roehampton University, Southampton Solent University, Staffordshire University, The University of Sunderland, The University of Teesside, Thames Valley University, The University of Wolverhampton

THE SYSTEM JUST DOESN'T ADD UP

The repayment system would have to change if debt levels rise too high

As already outlined, we would expect the average student to have acquired, by the end of their programme, a public debt of around £25,000 once interest has also been added for each of their three years of study.

At the moment that such a student's repayments commence, the annual interest charged to the account will be around £950 [(D)]. Under the present repayment system, the graduate will have to earn £25,550 in that year to offset this interest, before making any dent in the original value of what they borrowed. The Association of Graduate Recruiters estimated the median starting salary for graduate positions to be £24,500 in 2007 [9] – and many graduates do not take jobs designated as 'graduate' jobs, so the true average of all post-graduation salaries is likely to be lower than this figure. According to a Times survey conducted last year, the highest average starting salary from any institution was around £27,000 [10]. Almost no graduate would be able to reduce the balance of their loan in the early years of repayment under the current conditions.

The implication of this is that the terms for repayment would have to become much less benign if the fee cap level was raised. This could involve increasing the repayment rate (presently 9% of earnings over a £15,000 threshold), or lowering the threshold itself. It would almost certainly mean discontinuing the provision of an automatic loan write-off after 25 years.

It is essential to understand that any significant rise in the fee cap level will require an equally significant alteration to the repayment conditions, hitting graduates in the pocket. Those who borrowed the most, typically those from disadvantaged backgrounds, will be worst affected.

The exchequer cannot continue to provide loans on the scale required

Because student loans are provided at a subsidised rate of interest, they attract what is known as a 'Resource Accounting and Budgeting' (RAB) charge, which takes account of this subsidy within the Government's budget.

A recent estimate shows that the RAB charge is currently around £1.3bn per annum [11]. HEPI has estimated that if the conditions on loans remain the same, then a rise in the fee cap level to £7,000 would cause the RAB to rise by £380m per annum, or by around 30% [12].

In a period of national stringency, it is clear that the Treasury cannot continue to allow the level of subsidy on student loans to rise. This means that, if the underlying system is maintained, ways must be found to reduce the level of subsidy if the cap is lifted. Some argue that one solution would be to offer student loans are at a 'real' rate of interest, but this would leave students owing more, worsening the problem described in the previous column. This, in turn, would inevitably mean even tougher repayment conditions.

The Government has created a system of loans to finance higher education, but the financial plan does not work when the amount of money one is seeking to raise in the long term is increased. Some might say that it is simply a matter of varying the repayment conditions; in practice, that is correct, but the principle is a very different matter.

The current system is supposed to represent a settlement between different parties as to how higher education should be funded, and students are asked to make a contribution on the basis that doing so would be financially benign. The economics of the system mean that, if more money is to be raised, the means of payment must become much less benign – this is would be seriously disingenuous, and detrimental to millions of graduates.

Student borrowing will exceed the graduate premium for some subjects

The 'graduate premium' is the amount a graduate can expect to earn over their working lifetime compared to a person with two A-levels (or the equivalent) [13]. It is inevitable that this varies according to the type of institution attended, but research also shows that it varies according to the subject of study. The average for all subjects, across all institutions, is shown in this research to be around £160,000 [14].

In the case of Arts subjects, the graduate premium is estimated to be only £35,000 over the working lifetime; for humanities graduates the figure is an estimated £51,000 [(E)].

In the same example of a student borrowing our predicted average for each year over a three-year programme, that person will owe around £25,000 to the Student Loans Company (SLC) by the time they commence repayment. As we have seen, interest will continue to accrue at a rate of around £950 pa.

This implies that the average graduate in an Arts subject, taking up an average debt, would see a net premium of less than £5,000 compared to having two A-levels. It also implies that the average Humanities graduate would receive a net premium of – at best – £15,000.

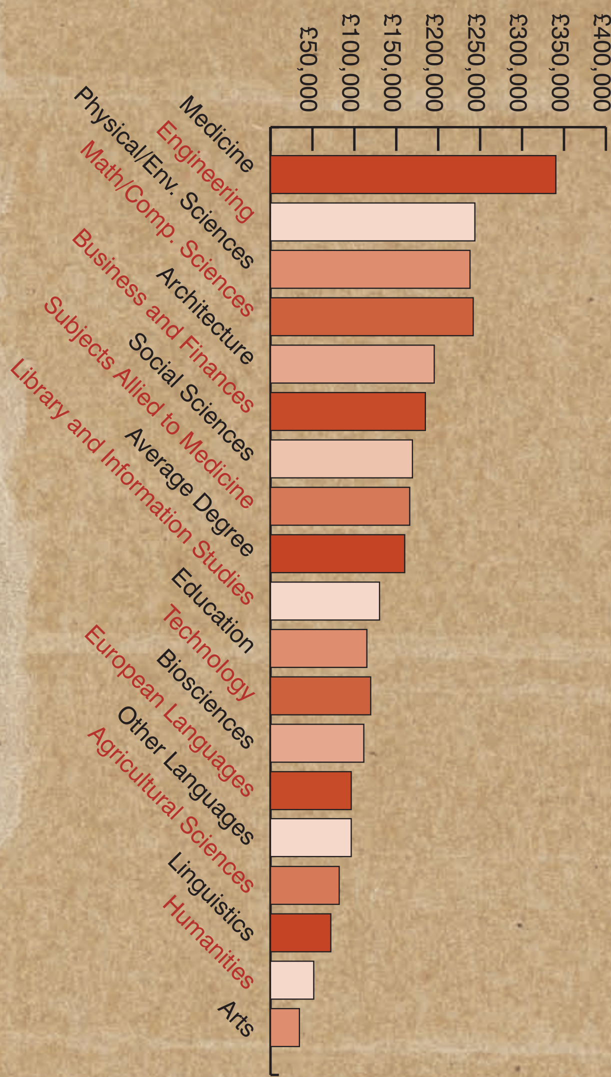
Consider an example where an Arts student took up a place at an institution in London, paying fees consistent with the average of the market, but also taking up the maximum loan entitlement for maintenance. This student's total public debt on graduation would be around £35,000 [15]. It is obvious that they could expect to receive a negative premium – in other words, they would obtain no financial benefit from higher education whatsoever. There are, of course, many reasons to pursue a degree, not only financial considerations – but the potential to earn more is a central part of the Government's justification for its policy, and it is clear that this simply can't be applied in all cases.

(D) Income levels needed to pay off the annual interest accruing to a student loan account, under the current repayment conditions (9% of gross earnings over 15k threshold, figures in £)

Debt level	Annual interest	Income needed to pay off annual interest
20,000	760	23,444
25,000	950	25,556
30,000	1,140	27,667
35,000	1,330	29,778
40,000	1,520	31,889

(E) The lifetime graduate premium, by subject, compared to a person with 2 GCE A-levels

Source: Universities UK



THE SYSTEM COMPOUNDS INEQUALITY

Expenditure on teaching will become sharply differentiated

An increase in fees would make a real and regressive difference in the projected real unit of resource at the institutional level. In a situation where the maximum fee was £7,000, HEPI projects that an average fee level of £4,300 would emerge; this projection is based on[16]:

20% of students paying £7,000
20% of students paying £5,000
51% of students paying £3,300
9% of students paying £2,400

This would mean that, when combined with the average unit of resource from public funds (projected as £4,140[17]), the average totals spent on teaching per student would be:

Top quintile of fee payers: £11,140
Second quintile: £9,140
Bottom three quintiles: £7,302

Thus, the effect of a market opening up is the concentration of resources into those institutions that are able to sustain a high market position, while institutions less able to sustain their market position become relatively impoverished.

Supporters of a market mechanism would argue that this makes the system fairer, because those who enjoy the highest quality would pay the most, but this analysis is far too simplistic. The danger would be that the gap between teaching and resources of the highest quality and the rest of the sector becomes even wider, to the detriment of the vast majority of students and graduates. Over time, the market ceases merely to act as the mechanism for distributing courses of varying quality; it goes beyond this, and becomes the mechanism for determining what is of a high quality, and what is of a lesser quality. The outcome is a highly stratified sector where league tables reign supreme over the more sophisticated assurance systems that the HE sector has worked so hard to develop.

A true HE market will result in an even greater division of wealth in the sector

Anecdotally, we know that the institutional reserves are not evenly distributed within the HE sector. This represents a significant division of wealth, from the multi-billion pound endowments at a handful of ancient universities at one end of the spectrum, to new universities struggling to get by at the other.

The extent of this division is less commonly known, however. Regular research carried out by Universities UK (UUK) records the ratio of general funds to total expenditure of institutions, expressed as the number of operational days that their reserves could theoretically fund[18]. UUK notes that this is a measure of "institutions ability to invest in the future"[19].

The resultant graph is reproduced on the right hand side of the next page[(F)]. It shows clearly the extent of the imbalance of standing reserves – or wealth – across our higher education sector, and with it the sharp inequality in their ability to invest in the future.

Universities are funded by the state for each student they teach according to common criteria, and there is an inherent fairness to that system for distributing these public funds. In a market driven by differentials in fees, however, institutions that are capable of investing most heavily in facilities, resources, services and the student experience will be those able to charge the most.

This means that institutions with greater standing wealth would have a huge, unfair competitive advantage in any 'market' – with disastrous consequences for the interests of the 'consumer'.

Not only that, but this advantage will only replicate itself, and become more pronounced, as the higher fees are converted over time into ever greater investment. The rich get richer, while the poor, certainly in relative terms, get poorer. This is an increasingly familiar story in our national life, and the parallel is exact.

Students from privileged backgrounds dominate the 'best' institutions

Taking the analysis even further, we find that there remains a major imbalance of participation across the sector, which correlates with the imbalance of wealth already described.

The Government often makes reference to application figures collected by Universities and Colleges Admission Services (UCAS) to show how applications from disadvantaged groups are rising – but these do not show the underlying reality that there is huge inequality in institutional destination.

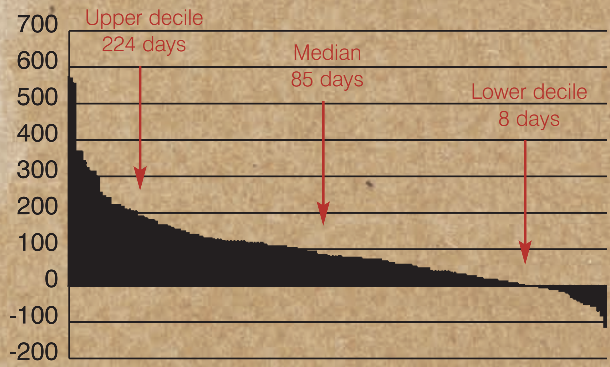
Data from the Higher Education Statistics Agency shows that the percentage of students from socio-economic classifications 4–7 in the Russell Group of universities is around 19% and the percentage who came from state schools is 72%; the same figures from the Million+ Group of universities are 40% and 97% respectively[20 (G)].

Data from the FutureTrack longitudinal survey of HE students shows that, of all university entrants from private schools, 55% will be heading for a Russell Group university, but for state comprehensives the rate is 25%, and for FE colleges the rate is less than 10%[21 (H)].

A great deal more can be done to tackle the serious inequalities that are already ingrained by the end of earlier educational stages, but this takes a very long time to have any effect, and its effect can only ever be limited. We can go further, and quicker, by reforming admissions practices, especially in the more prestigious end of the institutional spectrum.

The absolute imperative, until long-term problems of access and participation have been addressed, is that we should not extend a system that makes wealthy institutions even more disproportionately wealthy than they are now, when the main benefit will be felt by students from privileged backgrounds, and often those who were privately educated at secondary level. This can only serve to worsen the deep divisions in our society along lines of wealth and class.

(F) Sector profile: days' ratio of total general funds to total expenditure *Source: Universities UK*



(G) Socioeconomic and school background comparison by mission group, 2006/7

Source: HESA, exclusions: Uni of Cambridge, Uni of Middlesex, Uni of Bedfordshire

	Percent from state schools or colleges	Percent from NS-SEC classes 4,5,6 & 7
Russell Group	71.8	19.0
Million+ Institutions	97.2	40.3

(H) Comparison of university destination by school type of origin, 2006/7 *Source: FutureTrack*

Independent fee-paying schools

State schools

THE SYSTEM UNDERMINES LEARNING

Fees and markets promote a damaging consumer mentality

Tuition fees represent one of the most explicit ways in which public services are being structured and managed according to a more consumer-provider mindset. The fact is that students are acutely aware of the fees they are paying, and are looking at their educational experience in terms of value for money, rather than in terms of its absolute value.

The University and College Union (UCU) argues that that students are already becoming “more instrumentalist”[22], citing changing behaviours such as a greater tendency to challenge marks, the treatment of a course as a series of disconnected assignments rather than a programme, and a sense of entitlement to a ‘good’ degree. These pressures only become greater if the prices attached to particular courses increase.

There are much worse implications to be considered should the cap on fees reach a level where a genuine market of prices is able to emerge. Students will be asked to make choices based on value for money, often with no real sense of what they are embarking on, and certainly no way to reliably predict their future earnings.

The consequence will be immense pressure on teachers to respond to student demands – even unreasonable demands – and immense pressure on students not to make mistakes, take risks, or pursue any unorthodox line of enquiry that could jeopardise their all-important 2:1.

Market logic places the emphasis of higher education on getting a good deal, as if a ‘good deal’ was a concept that can be reconciled with any educational process that seeks to promote genuine knowledge and understanding. Allowed to progress unchecked, the growing consumerism it fosters may threaten those things that we value most highly in our higher education system. We need to establish a funding system that allows for the pursuit of knowledge for its own sake, instead of an instrumentalist approach where return on investment (whether the individual’s or the public’s) is all that counts.

Students have to work far more to support themselves than ever before

Research published by NUS and the Trades Unions Congress (TUC) shows that the number of students who undertake paid work to support their studies had increased by 54% between 1996 and 2006[23 (I)]. Students from routine and manual family backgrounds are six percentage points more likely to have a job to support their studies than students from managerial, professional or intermediate backgrounds[24].

The economic situation means that inflation is on the increase, and is rising fastest on basics like staple foods that form the bulk of student expenditure. As a result, the frequency of student workers is likely to increase still further, and the ‘background gap’ likely to widen, in the future. The additional pressure on students to mitigate their debt could accelerate these trends.

Research conducted by HEPI shows that when the paid work exceeds 21 hours per week, there is a negative effect on the amount of private study done on students’ courses, and also a related increase in non-attendance at classes[25]. The UNITE student experience survey in 2007 showed that 43% of students believe that paid work adversely affects their studies[26 (J)].

The resurgence of student hardship that will arise from the worsening economic situation will result, in turn, in far more students working beyond this level of hours; the evidence shows that between 1996 and 2006, the number of full time students also working full time increased by 86%[27]. This is a truly shocking statistic that indicates the extent of the problem.

When so many students are compelled by circumstance to carry out paid work for so many hours, the direct impact on the quality of their learning experience will be severe. It is imperative that our HE funding system should seek to limit this impact, not to place even greater financial pressures on students through wrongly distributed financial support and the acquisition of huge debts.

The link between teaching and research will begin to break down

Looking at the financial profile of the higher education sector will quickly reveal that the bulk of research funding is concentrated in a small number of institutions[28 (K)]. This concentration has become much more acute over time; research funding in the upper decile of the sector has increased by 83% in the last ten years, compared to the median increasing by 49% in the same period[29].

Research activity is crucial to the development of effective pedagogy within the institution. While it is perfectly possible to develop this through a culture of independent scholarship amongst the academic staff, it reaches its highest level where there is a high frequency of top level research. Achieving this requires high levels of funding.

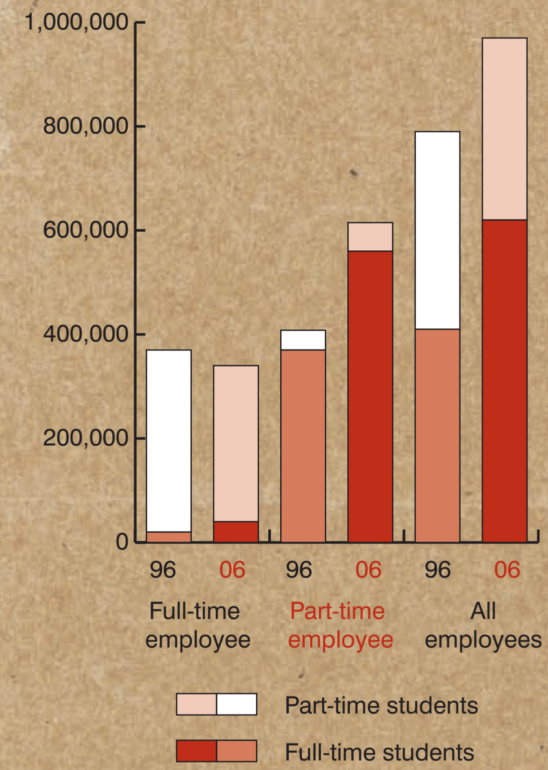
Those institutions that attract the highest levels of research funding are also those institutions with the fewest students from disadvantaged backgrounds. Because of this, concern must be raised about the implications for equality in the learning experience.

To be taught by research active academics at the centre of debate in their field is one of the most important distinguishing features of our higher education system. We have already seen how resources for teaching become strongly differentiated when a market of prices is introduced. There is also the strong possibility of institutions in the 'wide tail' of the market struggling to compete on cost, and limiting research activity to define teaching as their priority and maximise efficiency in that area.

This is, however, counter-intuitive. The result would be to impoverish large parts of the sector, restricting the ability of academics (especially young academics) to develop their scholarship. This will, in turn, have a negative impact on pedagogical effectiveness, and limit the quality of the student learning experience.

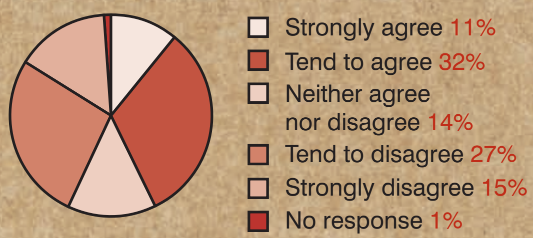
(I) Ten year changes in student employment

Source: NUS/TUC

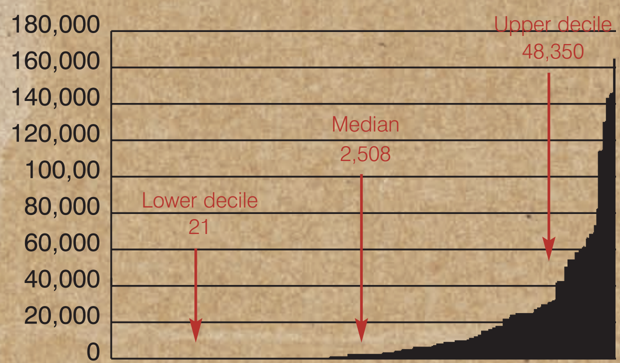


(J) Student responses to the statement "I feel that working in term time adversely affects my studies"

Source: UNITE



(K) Sector profile: research income from all UK public funding councils *Source: Universities UK*



THE SYSTEM IS NOT A FAIR SETTLEMENT

An increase in fees would mean that individuals pay more than the state

In 1997, the Dearing Report recommended that graduates should make a contribution of "around 25% of the average cost of higher education tuition"[30]. It seemed to those involved in producing the report that a balance needed to be struck between the benefit to the individual of enjoying higher education and the benefit enjoyed by the whole of society. Maintaining such a balance is both progressive and very sensible, because it prevents us from moving in a direction where higher education becomes a 'semi-detached' benefit to society. This compact has been undermined by the current level of the tuition fee cap, and would be even more severely undermined by a higher cap level.

The grant letter issued by the Secretary of State to the Higher Education Funding Council (HEFCE) for England, setting out the priorities for expenditure on higher education for the year ahead, gives a projection of the 'unit of resource'. This is the average amount provided for teaching a full-time equivalent (FTE) student from public funds. For the years 2008–2011, the unit of resource will be £4,140 per FTE[31].

This means that students paying fees of £3,300 are matching 80% of the money allocated by the Government for their tuition. Indeed, this is a much more useful measure of the proportion of costs met by the individual than others, because both figures deal directly with the costs of tuition: teaching and learning resources.

In a system where the fee cap was £7,000 and the average fee was £4,300, a student paying the average rate would fully match the amount spent on their tuition by the state; the top-paying student would pay the equivalent of 170% of the state contribution[32].

This represents a substantial change in the alignment between public and private expenditure on HE, which does not reflect the proper balance between individual and public benefit, and runs the risk that universities will become, as an educational concept, less 'public' in the future.

The problems for part-time students have still not been addressed

The new system made no provision for adequate supporting part-time students. Part-time students must pay fees up-front and have access to barely any financial support. While many of those who enter HE as part-time students are non-traditional applicants from lower socio-economic groups who do not have the alternative of studying full-time, the system creates a strong disincentive for part-time study.

Over 40% of all HE students in the UK study part-time[33]. The part-time mode plays a vital role in meeting objectives including the extension of higher-level skills, widening participation, and lifelong learning. Growth in this sector can only continue if part-time students are properly supported. Part-time study is often the first experience of HE for many non-traditional applicants – including those from lower socio-economic groups, mature students, women and those from ethnic minorities.

The Government's recent decision to withdraw funding for equivalent or lower qualifications (ELQs), is likely to have a hugely disproportionate effect on part-time students[34], illustrating the contradictions in an approach that seeks on the one hand to cultivate lifelong learning, widening participation and second chances in education – but on the other to reduce the already limited support that is available for this activity.

Part-time study cannot be seen merely as an alternative to full-time study. For many part-time students the alternative would not be full-time study but not studying at all. There should be no review of the current HE funding system that does not include serious consideration of part-time issues. Talk of a genuine learning society that creates opportunities to non-traditional HE applicants is cheap unless it is matched with a structure for part-time study that is fair and accessible. A new settlement for part-time learning is therefore desperately needed.

Employers – especially in the private sector – do not contribute a fair share

The Dearing Report also contained discussion of the role employers should play in funding higher education, stating that: "employers, too, are major beneficiaries of higher education through the skills which those with higher education qualifications bring to the organisations which employ them"[35].

This is quite right, but since the publication of the report, very little has been done to obtain a substantial contribution from employers. In recent years, efforts have been made to set up new ways that employers can be involved in shaping the curriculum, through sector skills councils, increased representation of employers on many university governing bodies, and at the course level through Foundation Degrees.

Most recently of all, the Government has asked HEFCE to allocate an increasing level of funding for 'demand led' places, where courses will only be run if a specific employer (or employers) have initiated a demand for that course – and in this system employers will contribute some funding for courses to be run[36].

This is small change, however, when it is compared to the vast financial benefit obtained by the private sector each year through the use of graduate labour, which should be reflected more systematically in the HE funding system.

The argument that those individuals who have obtained higher benefit from higher education should make a contribution to its cost beyond that of the rest of society is now well defined. The logical extension to this argument is that where a company's profits are more dependent on their graduate workforce than other companies, that company should be required to pay more towards sustaining the higher education system. It is essential that a way is found to secure a structural contribution from the private sector, in exchange for the supply of a large graduate workforce that the state has so heavily subsidised.

Payment is linked to a notional 'price', not to the actual benefit obtained

Perhaps the clearest way that the present system fails to produce a fair settlement is in the way that the individual contribution is explicitly linked to course prices, not to the actual benefit obtained. It is hoped that this parallel will naturally emerge between the higher education market and the labour market; in other words, that economic fairness will be secured because attending the most expensive courses will produce the highest lifetime earnings.

This is a deeply faulty and amoral conception of the purpose of higher education, or indeed of any educational process and its role in society. It assumes that the objective of our most talented people should be to earn the most.

In a situation where the fee cap was raised to £7,000, but the repayment mechanism became less benign, a highly talented individual who enters public service or academia might never pay off their debt, consigned to a lifetime of 'top-up' payments to the exchequer.

By contrast, any student, whether highly talented or not, who obtains a higher education and goes on to earn a huge salary in the City of London will be able to pay off their debt in a few years and go on to enjoy the high salary without making any further contribution.

Worse still, a student from a family background of substantial wealth will pay the fixed price up front, and never have a penny of their future income taken into account in determining the contribution they are expected to make.

Given everything we know about patterns of participation, and the destinations and outcomes for students from different backgrounds, this is clearly highly regressive. Some will argue that targeting interest rate subsidies on the most disadvantaged would correct the imbalance, but by far the most socially just alternative is to link the individual's contribution to the *outcome* they enjoy, with no way to escape their responsibility.

CONCLUSION: REAL CHANGE IS NEEDED

The forthcoming review of HE funding has been presented in the media as a matter of simply determining whether the level of the tuition fee cap from September 2010 should change, and if so, the point at which it should be set. We have argued here that this would be far too narrow a focus, and that much deeper change is required.

In 2004, Ministers sought to bring about a market of course prices in mainstream undergraduate higher education provision, in a manner consistent with the general direction of government policy at the time. In doing so, we believe they had adopted a false logic of fairness – recognising that there already existed a market of prestige in our higher education system, they sought to change the system so that students would get what they paid for. In their view, highly variable outcomes would be their own justification for making a variable investment. We have attempted to show that this is deeply faulty in both practice and principle.

It fails in practice, because for a market system to work successfully, the 'consumer' must firstly have a free choice to make, and must secondly have a sufficient understanding of the market to exercise that choice. In higher education, neither of these conditions applies. Choice is instead highly limited, first and foremost by attainment (or predicted attainment) at age 18, and secondly by socio-economic and cultural factors. As Polly Toynbee and David Walker[37] have recently and vividly shown, choosing to apply to a 'top' university is not an easy matter for the most disadvantaged young people, even if they might get the highest grades. The information, advice and guidance offered to prospective students are simply not able to improve market comprehension for the majority. Applicants are left to wander unaided through a highly complex decision-making process and confront a sea of promotional materials, a whirlwind of open days, a bewildering array of bursary offers, and suffocating peer pressure (either to get into the best or not apply at all, depending on their background). In this market, consumers only make choices in so far as they were destined to make them.

It fails in principle, because in attempting to ensure that the prices of higher education courses reflect their market value, even greater divisions of quality, experience and outcome are forced to emerge. The richest institutions will be the institutions that benefit most from higher fee income, and the poorest institutions are (inevitably) the least stable and have the least capacity to invest in the future. There is a demographic gulf between the richest institutions and the poorest. Unless every institution in the sector has an equal number of applicants from across the socio-economic spectrum and takes an equal number of students from private schools and state schools, a market can only be regressive and act counter to the pursuit of social justice. A sector that should be an engine room for social mobility instead acts to reinforce inequality of both opportunity and outcome.

In some areas, it is not the new market approach but long-standing problems that must be tackled. The 2004 Act did nothing to address, much less correct, the enormous disadvantage for part-time students, who make up at least a third of the sector. This restricts progress towards our participation goals and renders socially regressive effects on the system. It is imperative that this issue should form a major part of any review. It will also be important to find new ways for private sector beneficiaries of higher education to pay more towards its costs. This issue has largely been avoided throughout the funding debate, but as individuals are now paying far more, it must be addressed.

There are even more pressing concerns. Students are among the groups most severely affected by sharp rises in food and domestic fuel prices. As we have seen, the level of paid work that students now undertake has also risen significantly in the last decade, and this has negative effects on their ability to study effectively. We recognise that the Government has improved the central package of grants for the poorest students, but even this effort is sadly undermined by the murky system of discretionary bursaries, which research has shown does not direct support to those who need it most. It absolutely cannot be right that student support is even partially distributed on bases other than financial need.

In every respect, this is a system that has failed. It has failed to meet its own objectives and it can only fail to create a fairer and more equitable settlement for funding higher education if it is allowed to persist into the future. There is a new opportunity, through the forthcoming review of HE funding, to make the case for radical change.

In the debate that accompanies the review, other voices will call for limitations to the terms of reference, hoping to preserve the most prominent features of the present system. In particular, there are many who favour a market approach, despite its obvious shortcomings and the way that it promotes inequality. To limit ourselves in this way, to accept that the logic of markets is fundamentally the only way to organise a crucial public service, would be shameful.

Instead, we must have a review that allows us to return to the most important question of how the logic of the funding system affects what is offered by, and what learning is produced within, higher education. It is crucial to emphasise that this is not an issue of what students are asked to pay if they participate; it is about ensuring that what they participate in is fairly funded, both useful and valuable, and enables them to do their best – no matter which institution they go to.

The challenge is to create a higher education system that has the potential to be transformative for individuals and for society. Our contention is that this challenge cannot be met under a continuation of the present system or anything similar, and therefore a much more substantial change of direction is urgently required.

To demonstrate your support for NUS' call for a fairer funding system, or to add comments or critique to our report, email fairerfunding@nus.org.uk

OUR CONCLUSIONS IN SUMMARY:

- A narrow focus on the fees 'cap' during the forthcoming review will not address the current failures in the system.
- The system as designed – based on the principle that the market better delivers what students pay for – is faulty and has a range of unintended and negative consequences.
- Inside the market system, assumptions about the ability of educational 'consumers' to navigate choices effectively are misplaced and unsupported.
- The system ensures that the richest institutions financially benefit most from poor performance in widening participation – and vice versa.
- Significant amounts of institutional bursary help arising out of the new system are being allocated on criteria that are not related to financial need.
- The 'credit crunch' and associated effects on food and fuel prices risk engulfing the additional help provided by the Government in grants.
- As a result, rather than act as an engine of social mobility, the current system's 'diversity' acts to reinforce existing social inequality in both opportunity and outcome.
- The system fails to ensure that those who enjoy the greatest financial benefit from higher education will contribute more to its costs.

FOOTNOTES & REFERENCES

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Notes to tables:

[A] NUS calculation

[B] NUS calculation

[C] Correct at date of publication

[D] NUS calculation: assuming interest at 3.8% – see note 3 above

[E] UUK (2007) *The economic benefits of a degree*, p.5

[F] UUK (2007) *Patterns of higher education institutions in the UK: Seventh report*, p.42

[G] Derived from HESA (2008) Performance indicators, Table T1a: Young full-time first degree entrants

[H] Derived from Purcell, K. & Elias, P. (2007) Report to longitudinal steering group, London, 12 November 2007

[I] Trades Unions Congress & National Union of Students (2006) *All Work and Low Pay*, p.6

[J] Derived from UNITE (2007) *The Unite Student Experience Report 2007*, p. 24

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