



Oxford University Student Union

Independent Review of Higher Education Funding and Student Finance

Oxford University Student Union Response to Call for Proposals¹

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Introduction

The Independent Review of Higher Education Funding offers a unique opportunity for a re-evaluation of how British universities can develop in the 21st century. It is well recognised that the expansion of university places in recent decades has altered dramatically the nature of higher education. It is no longer the preserve of a privileged few but is seen rightly as a mass-participation activity which brings large economic and social benefits to individuals and British society.

This change has not, however, been matched with either a fair or adequate funding system. In spite of the excellence of British universities, they are underfunded by international standards. Even allowing for the increases in government funding to universities which took place from 1997 onwards the current unit of resource per student is still less in real terms than it was in 1989. Ill-judged cuts in government funding to universities have recently seen cuts of 9.2% for 2010/11² with a 3.6% real-terms reduction in the teaching grant. These cuts threaten the continued development of Britain's universities, along with the economic recovery which they will drive.

In the light of these cuts it is essential that we avoid a return to the sustained reductions in funding of the 1980s and that the opportunity is taken to place higher education on a sustainable footing. Media coverage recently has been focused on the opportunity that this Review has to recommend the abolition of a cap on undergraduate fees³. Such a recommendation would be a mistaken response to short-term funding difficulties. We are proposing that a new funding system is created which recognises that individual students accrue different benefits from their education and should pay according to those benefits.

Our proposals will ensure fair access to universities (as no-one will pay for their education at the time of receiving it) and that considerations of cost play no part in a prospective students' decision-making process. As the representative body of Oxford students we are familiar with why students decide not to apply to Oxford; the recurrent theme is the fear that they will not be able to afford to study here. Placing a high headline figure on the value of an Oxford education would be a mistake which would risk perpetuating the stereotypes that Oxford and its students have worked for years to dispel.

The funding difficulties facing universities are real and must be addressed. This should not be done in a panicked way which will deter students. Instead, any recommendations should recognise the need for a sustainable solution which works both for individual universities and the entire higher education sector. Universities are essential to Britain's future and as such there is a compelling public interest in how they develop. A progressive graduate contribution would allow universities to attract funding on the basis of how they are meeting student needs and the benefits which they are offering to their graduates. Competition between universities is desirable, but not at the cost of artificially skewing student decision-making by placing different headline figures on the total value of the education which they will receive. The recommendations made by this Review will shape the future of universities for decades and we hope that it will keep these facts in mind when reaching an eventual conclusion.

² 'Teaching and research escape 9% grant cut', Times Higher Education Supplement, March 18 2010

³ 'University fees may rise from £1,000 annually from 2012', Guardian, May 2 2010

Future Trends in Higher Education

1. Recent years have seen a dramatic expansion of the UK higher education sector. This expansion shows no sign of decreasing with the current model. Demand for university places continues to rise year on year, with increases in capacity being unable to match increases in demand. This expansion of higher education is an undeniably positive situation. The exceptionally strong nature of British universities⁴ comes with tangible benefits for graduates, the British economy, and British society more generally.
2. These benefits can be seen in a variety of ways. In addition to the economic benefits outlined below there is an inherent value to higher education. The research done at universities is essential for solving many of the most challenging problems facing humanity today. At Oxford alone this includes world-leading research on areas including anthropogenic climate change, tropical diseases, obesity and demographic change⁵. The total value of these activities exists in an economic sense but is ultimately unquantifiable. Research depends on students continuing to work in academia. The government's framework for the future development of UK higher education⁶ explicitly calls for a greater concentration of research activity in research-intensive universities, with changes in the HEFCE allocation of research income recently reflecting this call. Given the importance of research there is a national interest in ensuring that students in higher education are able to continue to postgraduate study without financial disincentives to doing so. This is particularly so at Oxford, which sees a far higher proportion of its undergraduates continue to further study every year than is the average within the UK higher education sector⁷. The problems of access to undergraduate and graduate study are interlinked and will be examined later in this submission.
3. These facts demonstrate that there is a long-term need for UK universities to have sustainable and higher levels of funding. The UK spends a lower proportion of its GDP on higher education than either the United States or the OECD average (the UK spends 1.3% of its GDP on universities as opposed to the US which spends 2.9% or OECD countries which spend an average of 1.5%)⁸. Although funding for higher education has recently increased this should be seen as compensation for years of underfunding for UK universities. A 40% cut in the unit of resource for teaching took place during the 1990s with the current annual unit of resource per student being approximately £7,500 as opposed to £9,000 in 1989/90.
4. Given the current state of the public finances, it appears that universities cannot rely on a continuation of increased levels of government spending on higher education. This has been shown through comments from ministers⁹ and through recent cuts in funding from HEFCE. There remains, however, a compelling case for continued public investment in higher education. For every £1

⁴ There are 17 UK universities in the top 100 globally and 29 in the top 200 as of 2008 (<http://www.guardian.co.uk/education/table/2008/oct/09/top200.universities.worldwide>)

⁵ <http://www.ox.ac.uk/research/index.html>

⁶ <http://www.bis.gov.uk/policies/higher-education/shape-and-structure/higher-ambitions>

⁷ Oxford University Careers Service, 'Destinations of Leavers from Higher Education' (2008)

⁸ Universities UK's submission to the phase I call for evidence from the Independent Review of Higher Education Funding & Student Finance (2010)

⁹ 'Universities face funding freeze for years, admits David Lammy', Daily Telegraph, January 25 2010

million of government investment in universities in 2007/08, £4.14 million in economic output was generated. The same year saw the higher education sector generate £59 billion worth of output to the UK economy and nearly 670,000 full time equivalent jobs¹⁰.

5. While public investment in universities in 2007/08 represented 61% of all university income there are powerful multiplier effects associated with funding to higher education. Universities directly employ over 314,600 FTE employees with a further 324,400 FTEs employed in other sectors of the UK economy being dependent on expenditure by universities. These jobs are particularly concentrated in crucial sectors of the UK economy such as manufacturing, wholesale/retail trade and other business activities. Supporting these sectors is a national economic priority and the role that universities play in doing this must be borne in mind. A further multiplier effect can be found in the £32.4 billion of output which was generated outside of universities as a result of their expenditure in 2007/08¹¹. The most recent research produced by Universities UK found that the overall balance of revenue to universities did not significantly alter (in terms of the private/public split) between 2003/04 and 2007/08. Although the exact split between private/public funding for universities is inevitably difficult to fully assess there is a clear need for ongoing public funding. This is a consequence both of the importance of higher education for the UK economy but also of the uncertainty as to whether private contributions could fill the gap resulting from dramatic cuts in government funding of universities. Attempting to replace public investment with private funding with no clear guarantee that such private expenditure will be sustained redistributes the burden of funding universities with little clear long-term rationale behind it. It also risks the substantial contribution which universities make to the national economy.
6. While we recognise the importance of contributions to the costs of higher education from both students and government, the precise balance between these contributions should be considered holistically. There are clear economic, social and strategic benefits from public investment in universities. Reducing public contributions to universities while raising private contributions without improvements in the student experience and quality of education merely means that students pay more for their education without seeing a commensurate increase in the benefits which they enjoy.
7. We note the four criteria outlined on page 13 of the call for proposals issued by the Review Panel and have sought to devise a set of proposals for future funding which can meet these points. We also aim to address various proposals for reform of higher education funding and explain why they do not meet the long-term interests of students and the higher education sector. We believe that the most important criteria for a successful funding system must be that it does not deter any potential applicants (either financially or because it is confusing), making it responsive to student needs and demands, and guaranteeing that it will fund universities on a sustainable basis beyond the current squeeze on public finances. The criteria against which our funding proposals have been developed are outlined more fully in paragraphs 17 and 18 below.

Future challenges at Oxford University

8. As has been identified by the University of Oxford's submissions to this Review, there is a pressing need for more funding to flow into the higher education system. This necessity is particularly in

¹⁰ Universities UK, 'The impact of universities on the UK economy: fourth report' (2009)

¹¹ Ibid.

evidence at Oxford. Oxford's own estimates of its costs of undergraduate teaching are currently at £16,000 per student per year¹². This places Oxford in a similar position to the University of Cambridge which estimates its undergraduate teaching costs at £17,000 per student per year¹³ (Cambridge includes bursary provision in the calculation of this figure, it is unclear whether Oxford does).

9. Both Oxford and Cambridge calculate that they are showing deficits of approximately £8,000 per undergraduate student per year. These deficits are comfortably higher than those across the Russell Group. Although the Russell Group does not seem to have made a response to phase I of this Review¹⁴, the London School of Economics notes that the Russell Group average funding gap per Home/EU undergraduate for teaching in laboratory-based subjects is £3,600, or £1,700 per student being taught in a classroom-based subject¹⁵. The larger deficits at Oxford and Cambridge arise both from the resource-intensive 'tutorial' form of teaching and from the high costs of maintaining the buildings, libraries and other facilities that Oxford and Cambridge enjoy. We would be interested to see further work being done on calculation of teaching costs in universities more generally but particularly at Oxford & Cambridge. The costs associated with Oxford's old and historic buildings risk artificially increasing the 'costs' of undergraduate teaching - buildings such as Oxford's ancient libraries and colleges would exist regardless of whether they were being used to teach undergraduates. While Oxford students benefit greatly from their working environment, this environment was frequently not created specifically for undergraduate education.
10. Oxford has recently set up a review of its teaching model for both undergraduates and postgraduates on taught courses. This review is at an early stage and is unlikely to report back for at least 18 months. It is currently aiming to provide a full understanding of current teaching practice across the university with a view to developing principles that can then guide how teaching is delivered. These will include principles both on the format of teaching but also who delivers it in light of the cost pressures which have been outlined in the University of Oxford's submissions to this review.
11. OUSU is currently co-ordinating a student response to Oxford's review of teaching. This is focusing on what students feel they are gaining from their teaching, what they wish to gain from the teaching and the extent to which there is a mismatch between the two. Our response is based on the vast array of survey data that is available but also on focus groups that have so far involved hundreds of students. Future workstreams for this review are likely not to only engage students further; but also academics to help align the university's teaching model both with the pedagogic priorities of the university and the expectations which students legitimately hold. While the costs of Oxford's teaching are exceptionally high relative to the sector as a whole, it is important that the reasons for

¹² University of Oxford's submission to the phase I call for evidence from the Independent Review of Higher Education Funding & Student Finance (2010)

¹³ University of Cambridge's submission to the phase I call for evidence from the Independent Review of Higher Education Funding and Student Finance (2010)

¹⁴ A certain amount of confusion surrounds this situation - requests under the Freedom of Information Act for the Russell Group submission have been rejected under section 22(1)(c) of the Act in spite of the failure for the relevant submission to be published at the same time as all other responses to Phase I of the Review.

¹⁵ London School of Economics and Political Sciences' submission to the phase I call for evidence from the Independent Review of Higher Education Funding & Student Finance (2010)

these costs are properly understood. Attempting to justify increased charges to students on the basis that Oxford's system of teaching is inherently expensive is not an adequate rationale for raising fees. An approach should instead be taken - both at Oxford and within the higher education sector - which places student expectations of their teaching at the heart of the undergraduate teaching model, with the costs of teaching following from this principle. Our work in response to Oxford's review of its teaching model is designed to begin this process in the hope that it can serve as an example of how student views on their teaching can be placed at the heart of their learning experience.

12. Oxford emphasises the importance of its current system of delivering undergraduate teaching. Oxford's strategic plan explicitly lays out the intent to "sustain the tutorial system for undergraduate education" and aims to ensure that "the majority of an individual undergraduate's education across his or her course as a whole is delivered by senior academics"¹⁶. The tutorial system has also been lauded by both the current ¹⁷ and immediately past Vice-Chancellors of Oxford¹⁸. Given the emphasis which Oxford places on its teaching method which is, as shown above, expensive above and beyond the norm for Russell Group institutions it must have demonstrable benefits to justify its increased expense.
13. In addition to the challenges relating to future funding and undergraduate teaching above, Oxford faces a further set of challenges relating to attracting the best undergraduates from all backgrounds. These challenges have been well documented and researched in recent years. Studies show that composition of the undergraduate student body at Oxford and Cambridge is different to that found even at other leading Russell Group institutions. Oxford & Cambridge attract "a significant proportion of the highest-achieving students, which makes the profile of their undergraduate student body stand out against other comparable institutions"¹⁹.
14. Despite the large (and increasing) quantities of outreach work which Oxford has undertaken in recent years perceptions of Oxford as a socially elitist institution continue to persist. This makes the active outreach work which the university undertakes of fundamental importance as ensuring that no highly able student is put off applying to Oxford is essential to the continued success of the university. The development of a new funding system for higher education presents a different challenge to Oxford than for the rest of the higher education sector. The number of high quality applicants which Oxford interviews every year indicates that students will continue to apply to Oxford regardless of the 'headline fee', particularly if any higher rate of fee is matched by improved provision for student support. Approximately 30% of Oxford undergraduates pay tuition fees 'up-front' (as opposed to approximately 20% nationally), offering one indicator of the increased ability and willingness of some Oxford students to pay large sums of money for their education independent of student support arrangements. While a higher proportion of Oxford undergraduates pay tuition fees 'up-front' than students do nationally it is striking that 70% of Oxford undergraduates do not pay up-front fees. Although a fortunate minority of students come

¹⁶ University of Oxford Strategic Plan 2008/09-2012/13, paragraphs 33 & 34

¹⁷ Speech by Oxford Vice-Chancellor Andrew Hamilton, Oxford University Gazette, 7 October 2009

¹⁸ Speech by outgoing Oxford Vice-Chancellor John Hood, Oxford University Gazette, 7 October 2009

¹⁹ Chester & Bekhradnia, 'Oxford and Cambridge – how different are they?' (2009)

from families which are capable of paying up-front fees the majority do not. Under a truly variable fee system high-quality students will continue to apply to Oxford. The danger is that such students will become increasingly unrepresentative of the student body more generally.

15. Accepting this fact does not, however, lead to an argument in favour of variable fees being introduced. A truly variable fee system would require potential university applicants to consider the headline cost of attending a university, the 'real cost' of doing so - once student support arrangements are factored into their thinking - and comparing these facts across a range of universities. This decision-making process would take place at the same time as the student having to make calculations over the likely benefits of studying at different institutions and considering what subject they wished to study. Other costs (such as the opportunity cost of not being able to work in term while at universities such as Oxford and living costs) would also have to be factored into decisions which students would make. This manner of decision-making process is at odds both with how Oxford currently encourages students to make decisions about whether to apply, which is primarily based on course selection and academic interests.²⁰ Such a way of making decisions risks skewing the aspirations of potential applicants in ways which are both predictable (with regard to debt-averse students) and unpredictable (as to whether students will feel comfortable paying higher fees in order to study at universities which typically deliver higher graduate premiums). A set of incentives similar to those which would follow the introduction of truly variable fees would risk damaging fair access to Oxford and exacerbating existing tensions with regard to the courses which students would choose to study.
16. To summarise, Oxford faces two intersecting challenges with regards to undergraduate provision. The first of these relates to the cost of undergraduate teaching, which includes understanding the existing cost structure and determining how this might be altered. The current review of the university's teaching model permits this to take place and will take place in conjunction with an assessment of Oxford's educational objectives. This should involve consideration of what students believe they should be gaining from an education at Oxford. The second challenge relates to fair access to Oxford. Within the context of the current debate this particularly refers to how best to ensure that applicants are not put off applying to Oxford, especially if other universities cost less to attend.

Possible future funding systems

17. A range of options for funding higher education have been mooted in recent years. Along with the National Union of Students, Oxford University Student Union believes that the most appropriate funding system is a progressive graduate contribution to the costs of higher education. We believe that the crucial tests which any funding system must meet are as follows:
 - a) It must recognise the nature of the benefits arising from higher education, including the variable nature of private benefit.

A key rationale for a graduate contribution to higher education is a recognition that there are both private and public benefits arising from attendance at university. This fact is widely recognised - the

²⁰ This is emphasised in all material produced by the University for prospective applicants and their parents. See the 'Parent's and Carer's Guide', retrieved at http://www.ox.ac.uk/admissions/undergraduate_courses/finding_out_more/online_resources.html

current funding system involves both private (via tuition fees) and public (via funding through HEFCE) contributions to the costs of Britain's university system. It is disappointing that in spite of it being clearly apparent that employers benefit from a suitably funded university sector that there has been little discussion in recent years of how employers can contribute to the costs of higher education. We note with interest the recent suggestion by Charles Clarke MP, the former Secretary of State for Education, that there could be a higher rate of National Insurance charged to employers for graduates²¹. Employers benefit greatly from having well-trained graduates and a funding mechanism should be devised which recognises this fact (even if it did not work through the National Insurance system itself). In keeping with the principals behind our funding proposals any rate of national insurance charged to employers as part of a graduate contribution system would need to be hypothecated explicitly to the funding of universities in order to avoid a scenario where it operated as a 'stealth tax' funding other areas of government activity.

b) It must not deter able students from seeking to enter higher education.

All respondents to phase I of this Review who addressed this point noted the importance of ensuring that any proposed funding system did not deter students from entering higher education. In practice key characteristics of any funding system which meets this criterion must include:

i) That higher education continues to be free at the point of entry.

ii) A recognition of the financial risks of entering university, with debts arising from higher education being written off after a period of years.

c) It must not deter students from applying to leading universities.

An unintended consequence of the 2006 reforms was the outcome of virtually all UK universities charging the same level of fee (the maximum permitted under the 2004 Higher Education Act). While this failed to create a truly variable fee-based system we see this as an unintentionally positive outcome. As the representative body of students at the University of Oxford we are particularly concerned with fair access to leading universities. Charging students a large sum to attend Britain's leading universities risks deterring them from applying to these universities, even if student support arrangements are comparatively better.

d) It should reward those universities that deliver exceptional outcomes for its graduates, particularly in the eyes of those graduates.

As higher education has become more popular it has become increasingly important that individual students are satisfied with the provision that they receive from their universities. Although students making decisions on the basis of financial considerations is not desirable, it is important that universities have incentives to provide a high-quality experience for their students. We suggest ways in which this could be assessed later in this submission, but it should be noted here that 'input' variables in measuring the quality of the student experience (such as staff:student ratios) are less important than 'output' variables focusing on what students are gaining and believe themselves to be gaining.

²¹ Charles Clarke MP's submission to the phase I call for evidence from the Independent Review of Higher Education Funding and Student Finance (2010)

Graduate Contribution

As stated above OUSU's preferred option for a future funding system involves a progressive graduate contribution along the lines of that proposed by the National Union of Students. Such a contribution would recognise the benefit to individual graduates that university attendance provides and - crucially - would ensure that the sum that they pay for their education is proportionate to the benefit they enjoy.

18. The crucial features of any effective graduate contribution scheme would meet the criteria outlined in paragraph 17 above and include:

- An earnings threshold below which repayments would not be taken from individuals. This is in keeping with the current income-contingent system of repayment which recognises that individuals on low salaries should not repay the costs associated with their study at university if they are not receiving the economic benefits which could have been anticipated from it.
- A limited period during which contributions would be made. This could be 25 years from the point of completion of study, meaning that people would not continue paying towards the costs of higher education for an indefinite period. It would also mean that people would not continue paying as they were nearing retirement, not deterring saving as they grew older.
- A progressive system of payment, with people contributing a proportion of their total earnings on an annual basis. This proportion would be dependent on which income quantile they found themselves in for the year in question. The progressive repayment system would recognise the significant variation in incomes which exists in Britain - it would seem to be most appropriate to divide the various repayment bands in terms of quintiles until you reached the top 20% of income-earners in the graduate population at which stage having repayment rates based around vigintiles would become a viable option. This repayment system - which would become more progressive at higher graduate income levels - would reflect the income stratification which takes place once you enter the top 20% (and particularly the top 10%) of taxpayers²². The crucial tenet of the graduate contribution system which we advocate is that there are vast disparities in the private benefits arising from higher education which graduates receive. These benefits can partially be predicted by which subject individuals study at university, but the fairest feasible way of assessing how much individuals should pay for their education is on the basis of the private benefit which they receive. A progressive repayment system should recognise this variation in benefit and be designed in a manner which is both administratively feasible and progressive. As the most recent figures from HMRC demonstrate the threshold for the highest 5% of income earners in the UK is £61,500 while that for the highest 10% of earners is £44,900. The increasing magnitude of the variations in earnings as you reach the highest income quantiles of UK society means that there is a compelling argument for a specific taxation rate for the highest 1 or 2% of earners which should be considered by the Independent Review.

19. Various arguments have been raised against the idea of a system revolving around the principles outlined above. We aim to address and counter these in the following paragraphs. At all stages it should be kept in mind that no funding system is perfect and that there are flaws in any 'best

²² UK income distribution statistics retrieved from http://www.hmrc.gov.uk/stats/income_distribution/3-1table-jan2010.pdf

solution' to a serious question of public policy. Our aim is not to demonstrate that a graduate contribution system is a perfect solution to funding higher education but rather than that it is better than some of the most frequently mooted alternatives that are outlined below.

20. The first argument raised against a graduate contribution system (particularly at the University of Oxford) is that it reduces institutional autonomy and perpetuates an undesirable level of dependence on government decisions around funding universities. This argument is accurate, to an extent. Under a true system of variable fees where institutions could charge whatever fee they liked to their students universities would enjoy more autonomy than they would under a graduate contribution scheme. It is, however, possible to design a scheme based around a graduate contribution which rewards those universities that help graduates achieve positive outcomes (defined here as leading to high graduate premia and a high level of satisfaction for graduates). Such outcomes are of inherent reputational benefit to universities, in that they will lead to universities performing well in comparative metrics between institutions, such as league tables. They are also of future financial benefit to the universities in question - with philanthropy becoming increasingly important to the long-term planning of Britain's leading universities there is a likely link between university graduates earning more over the course of their careers and then contributing to the university which they attended.
21. Concerns have been expressed that a graduate contribution scheme would damage philanthropy as alumni and other donors would be unwilling to fund universities to which they had already given substantial sums of money through the tax system. These fears are overblown and would continue to exist under fee-based proposals. Under a fee-based system alumni would typically repay substantial sums of money to universities, with those who did not as a result of failing to pay of tuition fee loans being unlikely to make donations to universities as a result of low income levels. Little evidence has been produced in support of the contention that philanthropy would decrease if graduates were paying into a national contribution scheme in line with the private benefit which they had received from their education. While philanthropy will play an increasingly important role in financing research-intensive universities in the coming years, there does not appear to be an inherent reason as to why it should not be compatible with this manner of funding system. We also note that the current emphasis on philanthropy as a means of funding universities stems at least in part from the underfunding of higher education. While institutions should be encouraged to independently fundraise, much of the urgency in this area would be reduced if universities were funded in a sustainable manner.
22. Although the income accrued through a graduate contribution scheme would be dispersed via a body independent of government, the mechanism for distributing funding could also be linked to the benefits which graduates from specific institutions enjoy. An argument which has been mooted in support of variable fees is that such a funding mechanism would encourage institutional excellence as students would not be prepared to pay more to attend a university which was not demonstrating tangible benefits for its graduates. We reject this analysis for the reasons given in paragraph 38. It is, however, desirable for universities which are committed to achieving the best for their students to be rewarded for doing so. One way of doing this is for the body distributing money collected through the graduate contribution scheme to factor in metrics such as student completion rates, student satisfaction rates, innovation in teaching methods and proportion of students continuing in higher education when distributing funding to universities. The linking of

such metrics to the distribution of funding would encourage universities to deliver the best teaching possible to their students and to deliver an outstanding student experience. As noted above, achieving such positive outcomes for students would also improve the likelihood that graduates would donate to their *alma mater*, improving the funding streams directly from graduates to universities.

23. The points made above demonstrate the ways in which a graduate contribution scheme can support institutional excellence. It should also be remembered that there is a compelling national interest in a strong higher education sector. While individual universities must be free to set their own academic direction, no university operates in a vacuum. Universities have the opportunity to take advantage of multiple funding streams including philanthropy, research income, business contributions and government funding. It is reasonable for the public to wish to incentivise excellence in higher education and this can be done through the mechanism of an independent body distributing money raised through a graduate contribution scheme.
24. The second argument made against a graduate contribution scheme relates to the point made in paragraph 22 - a scepticism that such a program is not politically possible owing to government reluctance to ringfence money from taxation for specific programs. While this was an argument made against a graduate contribution being introduced in 2004 it is nevertheless a flawed one. We have shown that universities have significant benefit to the public in economic, intellectual and social terms. It is also the case that throughout the 1980s - the last time when there was a sustained period of reduced public spending within higher education - approximately 15% was cut from public contributions to university budgets²³. While government has historically been reluctant to divert funding streams towards specified programs to allow themselves maximum priority in setting budgets the experience of funding cuts to universities in times of restrained public spending indicates that there is a compelling argument for hypothecating funding to universities. Higher education lacks the lobbying power of other recipients of public funding in the UK but should nevertheless be properly funded. Given the broad-ranging nature of the Independent Review it is in a strong position to argue for such a hypothecation of funding which would place UK universities on a stable financial footing.
25. A third argument against the system which we advocate is that it does not lead to money entering the system as a matter of urgency. As we note above any funding system involves tradeoffs between sustainability and money entering the system immediately - in an extreme set of circumstances the quickest way to get money entering the higher education system from its private beneficiaries would be to allow universities to charge up-front variable fees. This, however, is not advocated by anyone outside of an extreme fringe as it would make fair access to universities impossible. It is, however, desirable for universities to receive more income as a matter of urgency. Under a variable fee based system one way of enabling this is to encourage up-front payment of fees. This is not possible under our proposals as students will not know how much they will pay for their education prior to starting at university. One method of immediately improving funding streams to universities would be to impose an hypothecated tax on those graduates who benefited from higher education while not paying for it directly. It is an oddity of the higher education funding debates over the last 15 years that those advocating increasing roles

²³ David Eastwood, 'Higher education spending cuts - achievable, perhaps, but hardly desirable', *The Guardian*, September 29, 2009

for private contributions received a publicly funded education from UK universities. Such a proposal would not be introduced in normal circumstances - graduates of universities may not have attended in previous decades had they known that they would have been compelled to pay for their education through the tax system at a later date. We nevertheless believe, given the current importance of providing financial support to universities and lack of contribution made by past graduates, that such an option should be entertained. Graduates of UK universities under previous funding systems enjoyed a generous system of maintenance grants and a lack of private contributions. Given these facts, we believe that a tax applied to those graduates who had the costs of their time at university paid for by public funding is appropriate. Our proposals would make higher education sustainable in the long term and remove the need for recurrent reviews determining at what level the cap on undergraduate fees should be set. The short-term 'gap' in funding could be filled by a recognition that previous generations of graduates have not had to pay for their education in the way in which future generations of students will have to. This intergenerational inequality should be rectified under the logic being used to justify fees today, with those who benefited from previous systems of higher education funding contributing directly to support universities today.

Variable Fees

26. As noted above, the 2006 reforms failed in one of their central objectives - to create a genuinely variable fee-based system. One possible response to this is to argue for the removal of a cap on tuition fees, leaving individual universities free to set an undergraduate fee at whatever level they choose. Arguments mooted for such an option include the promotion of institutional autonomy, the creation of competition between universities and the fact that it would recognise that universities differ and should therefore be charging different levels of fee depending on the benefits which graduates accrue and the costs of delivering education.
27. There are two crucial flaws in the variable fee models which have been mooted so far. The first is the interaction with student understanding, the second is the effect on student behaviour. Regardless of how carefully-designed individual models in support of genuinely variable fees are, they frequently fail to fully factor in possible unintended consequences arising from their proposals. A central tenet of a funding system involving variable fees is that institutions will need to demonstrate tangible benefits arising from students attending them. This fails to take into account how students make decisions about applying to universities. The evidence gathered post-2006 suggests that many students are confused about the details of the higher education funding system. The following paragraphs provide further details on this, focusing on student understanding of arrangements regarding financial support and student uncertainty about the nature of higher education. In the absence of a fee-based market between universities since 2006 the true market has been between levels of financial support provided by individual institutions. This makes these arrangements particularly important to look at in detail.

Case Study: The Market in Bursary Provision

28. The hypothesis that a system of truly variable fees is an appropriate way of funding UK universities is predicated on the idea that a market-based system is appropriate to the sector. The argument for variable fees is that they will drive up standards with students being willing to pay more to institutions which deliver high-quality outcomes for their graduates. This system would thus

depend on graduates making informed choices about course and university choice at the point of application. In the absence of these choices a true market would not exist as students would be making choices on the basis of factors other than institutional and course variation.

29. While Oxford places a large emphasis on the quality of its bursary provision, evidence collated indicates that there is widespread ignorance among recipients of bursaries as to what support is available. A survey in April 2007 found that 59% of recipients of the Oxford Opportunity Bursary - Oxford's flagship bursary scheme for UK undergraduates - "only knew of the OOB after applying to Oxford, and 51% only knew about it after being offered a place"²⁴. The Oxford Opportunity Bursary currently has a value of up to £3,225 per year with a first-year 'start-up' of £875 for students with a residual household income of under £18,000 per year²⁵.
30. Nationally there is similar confusion about arrangements for student support. In the largest research project done on bursary arrangements since 2006 Claire Callender found that 55% of parents, 59% of Higher Education advisors and 40% of students believed that 'bursaries are too complex'²⁶. Callender's other findings included:
- 41% of HE advisors, and around 20% of students believed bursaries were given to students on the basis of exam results.
 - Around two thirds of parents and HE advisors and 47% of students believed 'it is difficult to understand the difference between bursaries and scholarships'.
 - Only 88% of universities surveyed by Callender produced material focusing exclusively on bursaries and scholarships which was targeted at potential applicants.
31. This information about bursary provision is particularly germane, given the current debate about whether to introduce truly variable fees. Callender's previously cited research project found that "The HEIs surveyed for OFFA were using their bursaries and scholarships as part of a competitive strategy to widen participation and to assist their institutional repositioning in an increasingly competitive HE marketplace."²⁷ If predictions regarding students being 'intelligent consumers' of higher education were accurate, we would expect there to be clear evidence of students making well-informed decisions about where to study, on the basis of universities' different student support packages. As the above evidence demonstrates, while this has happened in some areas, the overall picture is one where students are not well-informed about bursary arrangements between universities. It is additionally striking that students who are accurately informed about bursary arrangements are more likely to have university-educated parents, indicating the important role which having family with experience in higher education can have in promoting universities.

²⁴ University of Oxford's submission to the phase I call for evidence from the Independent Review of Higher Education Funding & Student Finance (2010)

²⁵ http://www.ox.ac.uk/admissions/undergraduate_courses/student_funding/oxford_opportunity_bursaries/index.html

²⁶ Callender, 'The impact of institutional bursaries and scholarships on higher education participation and fair access in England since 2006' (2009)

²⁷ Callender, 'The impact of institutional bursaries and scholarships on higher education participation and fair access in England since 2006' (2009)

32. Under a truly variable fee model it is likely that this problem will be exacerbated. Given pressure on public finances it is likely that the removal of the cap on fees will lead to greater institutional responsibility for arrangements around student financial support. It would be in keeping with the philosophy associated with support for increased competition between universities for there then to be further variation in student support arrangements. Writing on this issue, Callender argues that a “policy issue is that HEIs have created a highly complex system of bursaries and scholarships in their desire to target their provision at very specific student groups. This has resulted in a proliferation of different bursary and scholarships schemes, each with their unique eligibility criteria and value. This complexity of bursaries and the resulting confusion means that although HEIs use bursaries and scholarships as a signal aimed to attract applicants, such signals may not be understood by students or students may be unaware of them. Thus, the way bursaries are designed and promoted act to counter the notion of ‘fair access.’”
33. Callender’s research is further supported by evidence collated for the Sutton Trust. In spite of the variability in bursary provision across institutions, a 2008 research project found that “the majority of students (89%) did not take bursaries into account in their decisions about where to study”²⁸. To emphasise the point, the evidence suggests that the market in bursaries which has existed for the last several years in UK higher education, has not been used as a ‘signal’ to applicants in the way that a functioning market would do. Instead it has been largely ignored and - where it has been used - it has often been misunderstood.
34. The overriding point of the above paragraphs is to provide a counter to the idea that the introduction of a variable fee system would lead to increased discrimination between universities by informed applicants. Under the arrangements which have been in place from 2006/07 to 2009/10 there has been competition between universities regarding financial support. This has led to misunderstanding and the development of a system so complex that it is not adequately understood by the people whom it should be benefitting. This has serious consequences in terms of informed decision-making and demonstrates that the idealised hypothetical of school-age students carefully choosing where they go to university on the basis of financial arrangements is a myth.
35. There are other significant problems with a model based around variable fees. Placing the responsibility for setting fee levels on individual institutions could risk the creation of an unacceptable level of risk within the higher education sector (assuming the likely outcome that institutions will take on greater responsibility for student support arrangements under such a scenario). The “deferred fee” model proposed by Professor Neil Shephard²⁹ is predicated on the idea that the state will charge a capped “funded fee” which will flow directly to universities, with the cap preventing the state developing unlimited liabilities. Universities are then permitted to charge “deferred fees” at a level which they determine with the university also assuming responsibility for student support arrangements. These deferred fees would be repaid by students once they graduate over a period of years, or they could be paid up-front if the student (or their family) so wished. Deferred fees would be repaid only subsequent to the state being repaid by

²⁸ Davies, Slack et al, ‘Knowing Where to Study? Fees, Bursaries and Fair Access’ (2008)

²⁹ Neil Shephard, Phase II submission to the Independent Review of Higher Education and Student Finance (2010)

the graduate in a similar fashion to that which currently takes place (albeit at a higher rate of interest than currently exists).

36. Although this model recognises that the right of universities to charge what they wish for undergraduate education comes with responsibilities, it should be questioned whether universities are in a position to take on these responsibilities. In the event that the university is unable to recoup the cost of educating students as their graduates fail to gain the anticipated private benefits then there are serious financial risks to universities which would not - in reality - solely be left to the university to resolve. As was recently seen in the case of a university which suffered a systematic failure of governance there is a completely correct reluctance to simply let universities stop operating if they have failed to meet their financial obligations. If universities are to take on responsibilities in the manner advocated by Shephard then it is highly doubtful that most universities are currently in a position to engage in this sort of complex financial modelling in a reliable manner. There is a danger that permitting institutions to charge deferred fees will enable them to raise fees to a level which will then pose an excessive liability to individual universities (particularly given the current financial pressures which universities are under). The likelihood that such a scenario would result in state intervention as a result of a 'too big to fail' problem is high, meaning that it should not be entertained without greater guarantees about the internal processes of universities in setting fees. Although ratings agencies have assessed various UK universities which have issued bonds in the past as highly credit-worthy, these same agencies are currently under intense scrutiny themselves and care should be taken when determining how reliable their assessments may be³⁰.
37. The internal logic of variable fees is worth unpicking in order to accurately assess problems with the variable fees among institutions. The core rationale for variable fees rests upon two key facts. The first is that costs of teaching vary across universities, the second is that private benefits to graduates varies depending from where they graduate. Both of these facts are broadly accurate. As outlined above, the costs of teaching undergraduates at universities such as Oxford far exceed the mean costs across the sector. While information about career paths for graduates is comparatively sparse, that data supports the idea that students who attend elite universities are likely to be better paid and more satisfied than students who attend other institutions³¹. Such logic, if accepted, can also be applied in other areas. Costs of teaching vary not just between universities, but also within them. HEFCE recognises this in its teaching funding method, which contains four major price groups³², with resource rates being approximately £4,000 for price group D (classroom-based teaching) to approximately £16,000 for price group A (teaching in clinical medicine and similar subjects). This funding mechanism is broadly replicated at Oxford, reflecting the fact that certain subjects cost more to teach at undergraduate level than others.
38. There are additionally substantial variations in the 'graduate premia' which university graduates receive based on a range of factors. These variations occur when variables such as gender, region

³⁰ 'Time to rein in the rating agencies', Financial Times, April 28, 2010

³¹ Oxford University Careers Service, 'Destinations of Leavers from Higher Education' (2008)

³² HEFCE 2008/33, 'Funding Higher Education in England' (2008)

of employment and degree course studied are taken into account³³. Research conducted for Universities UK found that the lifetime earnings premium for medicine and dentistry qualifications was a total of £340,000 versus £51,549 for humanities subjects and £34,949 for the arts³⁴. Given the comparatively low graduate premiums which come with certain subjects there is a real risk that increases in fees will effectively eradicate these premiums altogether as students pay more for their education. Proponents of variable fees may support this, arguing that institutions should have set fees lower or achieved better outcomes for their graduates who would then receive larger graduate premiums. There remains, however, the danger that charging increased levels of fee for subjects within the Humanities will reduce the true graduate premium associated with these subjects and continue to exacerbate the trend of government funding decisions steering students away from studying such subjects. The arguments made in favour of variable fees can - and should if consistently applied - be used to support variable fees by subject within an institution. Conventionally such arguments have not been made for two reasons; first that such a fee structure would skew student decision-making, with students applying to courses on the basis of financial rather than academic considerations (this argument has been recognised by organisations such as the British Medical Association which notes that the large graduate premium for medical students does not fully mitigate against the deterrent effect arising from the high costs of studying medicine at university)³⁵. The second argument made against such a funding system is that it would be administratively difficult to manage within a university. Given the increasing complexity of funding mechanisms within universities the second of these arguments is highly unpersuasive. The first argument (that it is undesirable for students to make decisions about their education on the basis of financial concerns) is entirely correct and, if accepted, is therefore an argument against variable fees across the higher education sector. It should be further noted that it is inherently undesirable for students to be conducting detailed cost-benefit analyses of different courses and universities when weighing up where they wish to be educated. While value for money is important universities are first and foremost centres of academic learning and students should be making choices between institutions on the basis of this criteria.

39. The final problem we will highlight with a truly variable fee system is that it assumes a level of understanding from applicants which can - by definition - only accrue over time. Even with the assumption that students are in a position to compare universities in detail in terms of how much they charge, what student support arrangements exist, and what likely comparative graduate premiums will be, it is only possible for students to make informed choices after seeing what the benefits of different universities are in reality. Under any new funding arrangements these will only become apparent over time. Since many submissions to phase I of the Independent Review noted the lack of comparative data between universities which exists within the higher education sector, it is clear that work will need to be done to develop these metrics over the coming years. The introduction of variable fees before such work takes place will lead to the information which is recognised as being necessary for informed decision-making being unavailable to applicants. We

³³ Department for Employment & Learning, 'Graduate Earnings: An Econometric Analysis of Returns, Inequality and Deprivation across the UK' (2008)

³⁴ Universities UK, 'The economic benefits of a degree' (2007)

³⁵ The British Medical Association's submission to the phase I call for evidence from the Independent Review of Higher Education Funding & Student Finance (2010)

also note that existing survey data sheds light on why students apply to specific universities. Results from the most recent wave of the 'Student Barometer' survey in which the University of Oxford participated in 2009 show that three of the four most important reasons as to why both domestic and international undergraduates applied to Oxford are 'institutional reputation', 'reputation' and 'department reputation'³⁶. Reputations shift and develop over long periods of time, with Oxford's being particularly established as a result of the long history of the university. Any true internal market in higher education will not be responsive to student needs but will instead build on the accrued legacy which certain universities have developed over time.

Variable Fees with an Upper Cap

40. Paragraphs 26-39 address the flaws which exist of a model dependent on truly variable fees (those without an upper cap above which institutions cannot charge). There are additional problems relating to raising the cap on tuition fees above the current figure of £3,225.
41. One of the most obvious shortcomings of an increase in the cap on tuition fees is that any such increase is unlikely to address the problems relating to the underfunding of higher education in the UK. As identified above, there are particular problems with the funding of leading Russell Group institutions which would go beyond the raising of the fee cap to - for example - £7,000 per student per year. An increase in the fee cap along these lines would not satisfy the request by the Review Panel that funding proposals be "durable in the long term". Instead it would make it inevitable that future reviews would be compelled to repeatedly consider to what figure fees should be raised, whilst embedding the current funding system.
42. A further flaw in a continuation of the existing system would be uncertainty about what fee-levels institutions would set. Although research done by the Higher Education Policy Institute³⁷ estimate that an increase in the maximum legally permitted fee to £5,000 would lead to an average fee of £3,900, and a maximum fee of £7,000 leading to an average of £4,300, these figures are only projections. There is the possibility that leading universities would all charge the maximum possible fee, preventing the emergence of true variability. While we would see this as an unintentionally positive outcome in a manner similar to the development of the 2006 reforms, such an outcome would not be in keeping with the rationale for any such legislation.
43. It is commonly recognised that raising the cap on fees while continuing the current arrangements around student support would result in an increased cost to the state. This is because raising the fee cap while providing fee loans for the maximum possible amount would mean that more graduates would reach the 25 year limit on repayments without paying off the full value of their loan. In spite of the consensus which now seems to be developing within the higher education sector about charging increased rates of interest on loans to students it should be remembered that this proposal entails risks. Recent analysis by the Institute of Fiscal Studies found that take-up of maintenance and fee loans "could be reduced even further if the loans were made more expensive by charging real interest rates, although we do not know to what extent"³⁸. The same

³⁶ International Student Barometer Entry Wave 2009, University of Oxford

³⁷ Chester & Bekhradnia, 'Some Implications of a Rise in the Fee Cap' (2008)

³⁸ IFS, 'Future arrangements for funding higher education' (2010)

piece of research also noted that “No existing research...tells us how responsive participation is to changes in deferred costs, assuming that up-front costs remain unchanged”. Although the IFS has conducted extensive financial modelling demonstrating the possible effects of charging varying rates of interest on student loans, altering repayment thresholds and lengthening the period for which students are eligible to repay loans, it is striking that a key conclusion of their work is that “increasing the cost of attending university may result in behavioural changes by both students and graduates, which may be difficult to predict”. While the worst of the consequences feared by opponents of the introduction of the 2006 reforms have not come to pass, this is largely because the system has not worked as intended. This fact should be kept in mind in the context of considering whether the cap on tuition fees should be raised or removed altogether.

44. One final idea which has been mooted to increase the quantity of private contributions to university funding on an expedited basis is that compulsory upfront payments could be introduced on the basis of the income of the families of students. While this would replicate funding systems which can be found in the United States, such a system should be avoided. Compulsory upfront payments would require a family to make upfront payments as a result of their residual household income. In the event that the family then refused to make such payments for any reason it is not clear that the student would be able to attend university - any upfront fee waiver from the institution would effectively remove the necessity of paying upfront, removing the intended impact of the policy. Any introduction of such a program would conflate the interests of students with the interests of their families who may not wish to pay upfront or who may not feel that they are in a financial position to be able to afford to pay upfront. It would also entirely ignore the needs of mature students who make up nearly 50% of the student population³⁹. This would be antithetical to the idea of fair access to universities and could exclude students who would otherwise be capable of entering higher education. Our funding proposals focus on the future earnings of individual students and returning to a family-based contribution model is not in keeping with the principles in this submission.

Conclusion

45. Having looked in detail at options for various funding systems we believe that a graduate contribution is sustainable and promotes fair access to higher education, both in general and to leading universities. The other options which have been mooted do not meet these objectives. In keeping with the Review’s wish to create a sustainable framework for higher education we have not offered detailed costings of all aspects of a graduate contribution (such as taxation rates and thresholds) as these will partially depend upon external aspects of the funding environment such as the HEFCE grant and arrangements around student support.
46. Our proposal would be in keeping with the research undertaken by HSBC and the NUS which found “that students attend university in order to enhance their future prospects, gaining qualifications that will help them in their future careers”⁴⁰. This report found that the 4 most popular reasons why students wished to attend university were ‘to gain qualifications’ (44% of respondents), ‘it being necessary to have a degree for the career I want to follow’ (36% of

³⁹ Higher Education Statistics Agency, Performance Indicators (2009)

⁴⁰ NUS/HSBC Student Experience Report: Choosing a university and course (2009)

respondents), 'to improve my earning potential' (29% of respondents), 'to improve my chances of getting a specific job I have in mind' (25% of respondents).

47. Evidence from this research heavily suggests that students are focused on tangible outcomes of attending university, being particularly interested in what benefits they will receive as a result of entering higher education. The system used to fund higher education should match what students gain from higher education. This means that it should be based around the benefits that individuals receive, rather than on the institution that they attend.

Appendix: Addressing specific questions posed by the Review Panel

- 1. In light of short term pressures and longer term trends, how do your proposals for reform ensure the sustainability of the higher education system as a whole?*

Our proposals are designed to ensure that the higher education system is adequately funded for the future without falling prey to short-term thinking about desirable objectives. Although the need for short-term funding for universities is of critical importance, we believe this can be accomplished by avoiding further dramatic cuts to the higher education sector; accepting that graduates who contributed little or nothing directly to the cost of their education should now be taxed specifically to support universities in the short term and by careful management of current arrangements for national student support.

The longer term funding of higher education must recognise that as the sector has expanded there is a need to ensure both that people are not deterred from entering higher education and that they are not deterred from any individual institution due to financial considerations. Universities should continue to be encouraged to develop their own programs for student support, with greater clarification on provision of bursaries and loans at an institutional level. Our proposals are progressive, ensure adequate future funding for universities, and provide a framework that can be modified (e.g. through rates of taxation) without a future wholesale review of the system. It is explicitly designed to lead to greater contributions from private beneficiaries of higher education but should not replace the public funding which already supports the sector.

- 2. What type of mechanism should be used to drive up quality, efficiency and innovation in the UK HE system, and what metrics should be used to assess quality improvements?*

Under our proposals, metrics relating to the student experience would be central in assessing quality. Such metrics could include areas such as student completion rates, student satisfaction as measured through surveys such as the National Student Survey, progression of students onto graduate study and both immediate and long-term career progression. Linking national metrics to the procedure for allocating funding from graduate contributions would drive up standards within higher education and reward those universities that were meeting student demand and achieving desirable outcomes for their graduates.

Such a process would necessarily involve students and universities collaborating to improve the student experience for mutually beneficial ends. It would be important to ensure that the metrics used to assess quality and allocate funding were output-focused rather than input-focused. Metrics such as student:staff ratios and contact hours with lecturers do not necessarily indicate quality within the sector although they can be used as proxies for true indicators of quality. The diversity of provision

within higher education would mean that any such metrics would need to be carefully designed in order to ensure that quality was being properly assessed and therefore should be weighted whenever possible to the actual satisfaction of the student with their institution.

3. *What type/s of participation will be important to incentivise in future, and how should this be achieved without compromising quality and sustainability?*

This question is inextricably related to the diverse nature of the British higher education sector. The range of research-intensive, specialist and other sorts of institution means that while no university will excel in providing for all sorts of student, each higher education institution has a role to play within the system. With this fact being kept in mind, a key goal should be to avoid unintentionally disincentivising students from applying to particular universities. Students should be encouraged to enter higher education, for intellectual reasons and for the proven benefits to graduates that universities typically offer. This initial incentive can be provided (in part) by a carefully designed funding system. Once this has been established, the goal is to ensure that students are not discouraged from attending specific universities, in the manner that a high 'headline fee' would risk doing to students from debt-averse and risk-averse backgrounds who were considering applying to research-intensive universities such as Oxford.

A related point is that of access to postgraduate education. The recent review of postgraduate provision in the UK conducted by Adrian Smith noted that "There is very limited data available on which to base an assessment of the issues around access to postgraduate study"⁴¹. While this is true it should nevertheless be carefully considered whether raising undergraduate fees would deter students from continuing in higher education. This fact is particularly germane for the University of Oxford, given the high percentage of Oxford undergraduates who go onto postgraduate study immediately or shortly after their first degree. It is telling that so little work has been done on this issue that the Smith Review was unable to conclude anything significant on this issue. Given the growing importance of postgraduate education, the Review should be certain of its position on financial barriers to postgraduate study before making a decision which could create further barriers to access to this form of education.

4. *How would fair access be promoted and enforced in the higher education system you propose?*

The funding system we propose would not enforce fair access directly. There would be a continued role for OFFA or a similar body, ongoing HEFCE funding and work by individual institutions in order to ensure that fair access to universities became a reality. Our proposed funding system would, however, promote fair access by removing the direct incentive to make decisions about where to go to university and what course to study on the basis of financial considerations. A progressive graduate contribution of the sort that we propose would work in a very similar way to progressive taxation, with the obvious caveats that it would only apply to graduates and be hypothecated solely for universities. The fact that graduates typically enjoy higher earnings than non-graduates (and thus pay more in tax) does not deter students from entering university and the same would be true under our proposals.

⁴¹ Department of Business, Innovation & Skills, 'One Step Beyond: Making the most of postgraduate education' (2010)

It should be noted that Oxford will continue to need to work to ensure fair access to the University regardless of what funding system is introduced. While financial considerations are one barrier which could prevent people from applying there are also many other concerns which could prevent students from applying here. These, however, exist independently of the funding system which is in place and will continue to be addressed regardless of the funding system for higher education by both Oxford University and its students. Such work will include continuing to develop the university's use of contextual data in its admissions process, outreach to students and particularly to teachers and Higher Education Advisors.