Consultation Response:

"Higher education: teaching excellence, social mobility and student choice"

To: Department for Business, Innovation and Skills (BIS)

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:
The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy for higher education. The aspect of the government's proposals which concerns IF the most is the idea of linking attainment in the new Teaching Excellence Framework (TEF) assessment exercise to the level of tuition fees that universities will be allowed to charge. The government's goal is to create a market in which students would be encouraged to discriminate between alternative courses on cost, with higher fees supposedly being indicative of a better teaching experience. Although IF welcomes the government's increased focus on teaching quality – particularly the proposals to reward universities for giving teaching staff equal status to those who focus more on research – we are sceptical that these reforms will lead to the changes the government hopes to see, for the following reasons:

They won't encourage genuine competition
The last raising of the tuition fee cap, which allowed universities to charge tuition fees of up to £9,000 per year from 2012, was supposed to encourage universities to compete on cost, but this clearly hasn't taken place: during the current academic year, 112 of the 120 higher education institutions offering undergraduate qualifications in England and Wales will be charging the maximum level of fees for all their courses.[1] During the early years of the new TEF, the government is proposing to enable all institutions which have received a successful Quality Assessment Review to raise their fees in line with inflation, but this overlooks the fact that between 2011 and 2013 35 of the 39 institutions which were assessed by the Quality Assurance Agency met their expectations in respect of all four judgement areas that were included in the assessment.[2] As so many institutions receive a successful Quality Assessment Review, if this criterion remains part of the TEF process, it

[1] http://www.thecompleteuniversityguide.co.uk/university-tuition-fees/reddin-survey-of-university-tuition-fees/
[2] http://www.qaa.ac.uk/en/Publications/Documents/Findings-From-IRENI-2011-2013.pdf

seems likely that – as the system matures – virtually all universities will be allowed to increase their fees to some extent each time they are reassessed, which raises the question of how much competition on price will really occur.

Fee increases will have perverse impacts

The consultation document appears to be somewhat perverse, in that it presents evidence of students' current dissatisfaction with the value for money of their courses as evidence of poor teaching quality, but the proposed new system is predicated on expecting students to pay more than they do at present in return for good teaching. Notwithstanding the above paragraph, if genuine price competition does occur the new system would also rely upon students actually appreciating that the higher cost of certain courses is supposed to indicate that they deliver better teaching and their being willing to pay a premium for it, instead of being deterred in favour of cheaper options.

Another aspect of the government's proposals which seems particularly perverse is the suggestion that universities should be allowed to charge higher fees in return for successfully enrolling more students from under-represented groups. Although there is no doubt that more does need to be done to reduce social inequalities in access to higher education, there is a danger that this policy would result in students who attend more socially diverse universities – including students who are themselves from disadvantaged backgrounds – paying higher fees for equivalent courses than those who attend less socially diverse institutions.

IF is also sceptical about the proposed mechanism of setting fees at the institutional level, while assessing the quality of teaching at the subject (i.e. course) level, as surely this could result in students at one university having to pay higher fees than they would for an equivalent course at a different institution because the average quality of teaching at their university is judged to be better, even if the standard of teaching on their particular course is not.

Risk of institutional failure

In addition to these more specific criticisms, IF is sceptical of the whole system of marketization which the consultation document envisions because it would ultimately rely upon a certain degree of institutional failure in order to operate. As the consultation document says:

"Those providers that do well within the TEF will attract more student applications and will be able to raise fees in line with inflation. The additional income can be reinvested in the quality of teaching and allow providers to expand so that they can teach more students. We hope providers receiving a lower TEF assessment will choose to raise their teaching standards in order to maintain student numbers. Eventually, we anticipate some lower quality providers withdrawing from the sector, leaving space for new entrants, and raising quality overall."

The problem with taking such a Darwinian approach to higher education is that it effectively requires lower quality providers to endure a period of declining standards before they fail, throughout which they would presumably still be educating students who will receive a worse education as a result. Of course there will always be universities of lower quality under any system, but rather than supporting struggling institutions to try and raise their standards, it is a necessity under this policy for them to fail. This is deeply problematic, as choosing the "wrong" education provider is not usually a reversible decision in the way that, for example, choosing the wrong broadband provider is – and taxpayers will ultimately receive worse value-for-money if this choice results in either lower lifetime earnings or the student having to attend a different institution instead.

Increased taxpayer risk
The consultation document repeatedly emphasises that one of the government's key objectives is to achieve value-for-money for the taxpayers who underwrite the student loan system, as well as students. The consultation document contains the claim that *"with higher returns, more graduates will be able to pay back more of their loans, reducing the amount that needs to be subsidised by the taxpayer in the longer term,"* however, if achieving taxpayer value-for-money is the main objective then there is a danger that introducing higher fees will simply produce more debt that will have to be written-off in the future.

A 2014 report from London Economics estimated that 60% of students will have some part of their student debts written-off, which amounts to 45% of the loan book issued by value. [3] Unless the modelled future earnings profiles of graduates have improved considerably since this estimate was produced then the situation will only be exacerbated by raising tuition fees further, and this would be in addition to the impact of converting maintenance grants into loans and extending student finance to postgraduate students, both of which have happened since that estimate was produced. Given that the government is estimated to begin losing money (compared to the pre-2012 system) once the write-offs reach 48.6% of the loan book's value, it seems implausible to suggest that the proposed changes will result in improved value-for-money for taxpayers.

Conclusion
Although IF broadly welcomes the decision to try to realign the incentive framework surrounding higher education funding to compel universities to raise the standard of teaching, IF has a number of reservations about the proposed method of doing so which have been outlined in this submission. IF encourages policy-makers to acknowledge the OECD's assessment that students in England already pay the highest tuition fees of any publicly-funded university system in the world, [4] and it would be both unfair and uneconomic for government policy to seek to increase them further.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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[3] http://londoneconomics.co.uk/blog/publication/higher-education-fees-funding-reforms-england-breakeven-rab-charge-treasury/
[4] http://londoneconomics.co.uk/blog/publication/higher-education-fees-funding-reforms-england-breakeven-rab-charge-treasury/