Department of Quantitative Social Science

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DoQSS Working Paper No. 10-15
July 2010

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Abstract. The subject of how to finance Higher Education (HE) has been on the agenda of successive UK governments since the 1960s. The UK has moved from a situation where the taxpayer footed the entire bill for HE, to a system where graduates themselves must contribute part of the cost of their education. Further changes to the HE system are expected soon, as an independent review of the HE system, chaired by Lord Browne, makes its recommendations this year. This paper documents the entire time line of major policy events affecting UK higher education finance, starting from the 1960's and going up to the present day.

JEL classification: I22,I28, H52,N34 .

Keywords: higher education, education funding policy.

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1. Introduction

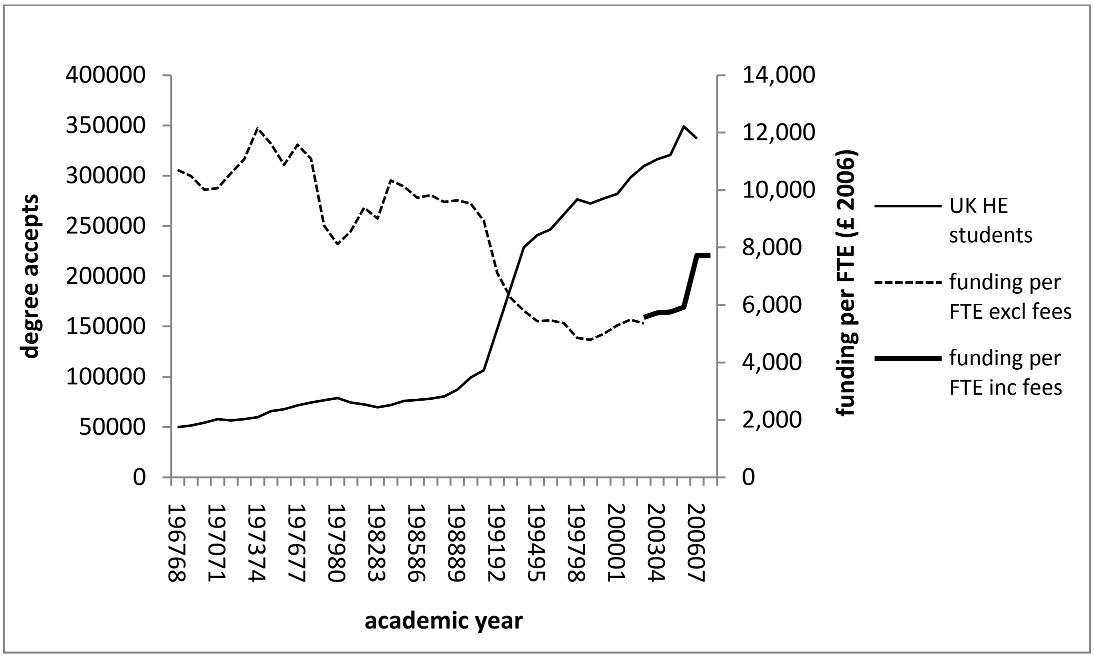
The UK Higher Education (HE) sector has undergone several major expansions over the past 50 years. Student volumes have more than quadrupled, rising from around 400,000 full time HE students at UK institutions in the 1960s to over 2 million by 2007[1]. This massive increase in university attendance occurred intermittently and for complex reasons, but has been invariably accompanied with heated debate surrounding the nature of HE finance – specifically, the two issues of how to finance HE and how many and which types of students should participate (Barr, 2004).

The former issue concerns university funding per head, which has tended to decrease during periods when student volumes are rising. This can be seen in Figure 1.3 which illustrates the growing volume of students, in terms of accepts per year, since the 1960s, along with university funding per full-time equivalent (FTE) student. As is clear, per head funding levels have tended to decline as quickly as volumes of students increased; for example there were noticeable dips in funding per head during the large rise in student volumes in the 1980s and 1990s (Barr and Crawford, 2005).

A further issue which has again emerged alongside increases in student volumes concerns the type of students enrolled in HE. Despite significant expansion in numbers, HE participation, in itself historically relatively low compared to other industrial countries, has consistently been dominated by youths from high socio-economic groups while those from poorer backgrounds tend to be under-represented (Blanden et al, 2003).

Figure 1: UK domiciled students accepted at UK institutions, 1963-Present

[1] Total UK/EU HE part-time and full-time students (HESA, 2007)



Pre 1998 funding figures compiled from HESA data by Carpentier (Institute of Education)
All other funding figures compiled from DfES/BIS estimates
Student volume figures obtained from UCAS

In response to these issues, numerous changes to the UK's funding policy have occurred since the 1960s. These policies have had at their root the aim to increase university funding per head, but also to increase absolute volumes of students, and to improve equity in the higher education sector in terms of the socio-economic status of participants. Most recently, in 2009, an independent review of the current HE finance system, chaired by Lord Browne, began. This review is expected to report in 2010 and will almost certainly deliver more changes to the HE finance system.

This paper provides an entire time line of major policy events affecting HE finance, starting from the 1960's and going up to the present day. Section 2 contains the main body of the paper, with details of each major policy change in the UK, including its four constituent countries. Section 3 concludes with a short discussion examining possible future scenarios for HE funding.

2. Policy changes in higher education, 1963 - 2009

Pre-1963

Participation Rate: 5%[2]

Funding per FTE: £6,115[3]

In the 1960's in the UK, the Government (and therefore, the taxpayer) footed the bill for the entire cost of higher education. This included teaching, tuition fees and generous maintenance grants, as well as the cost of maintaining buildings and the other numerous expenses associated with the HE sector. At this time, higher education was a privilege of only a small proportion of the adult population – the sector consisted of a small number of elite universities, mainly the 7 "ancients" (see Appendix 1). Funding per head was high, with a relatively small cost to the taxpayer given the low volume of students (Mayhew et al, 2004).

1963 – The Robbins Report

Participation Rate: 6%

Funding per FTE: £8,818

In the early 1960's the Government became concerned that the UK higher education sector was relatively small compared to the rest of the developed world – the UK's HE participation rate, at around 6%, was one of the lowest in the OECD (Barr and Crawford, 2005). The Government were particularly concerned that the lack of higher education in the workforce would stunt economic growth. As a response, the Committee on Higher Education was

[2] Represented as the IER (Initial Entry Rate) which measures the percentages of students entering higher education for the first time at each age between 18 and 30, expressed as a proportion of the total population for each of those ages.

[3] All figures represent funding from public sources excl fees, real 2006 prices (GDP deflator), source: IOE, IFS, DfES (note, upfront fees which began in 1998 and top-up fees which were implemented in 2006 are not included in this series since a series including these fees is not available for the UK as a whole – fees charged are dependent on country of domicile).

commissioned, and chaired by Lord Robbins from 1961 to 1964[4]. After the Robbins Report publication, its conclusions were accepted by the government on October 24, 1963.

The report recommended immediate expansion of universities, by two means. Firstly, all Colleges of Advanced Technology were to be given the status of universities, which would result in many students being reclassified as higher education students. Secondly, the report recommended expanding the sector by building more universities. This led to the establishment of 17 “plate glass” universities – so called because of their modern, glass fronted design.

1989 – The Government’s white paper on student loans

Participation Rate: 15%

Funding per FTE: £9,530

By the time of the late 1980’s, the Government felt the need to intervene in the sector once more, for several reasons. The rapid expansion brought about by the Robbins reforms had somewhat stalled, with participation at around 15% - still one of the lowest in any advanced industrial country. Furthermore, participation rates among the working class were extremely low (Greenaway and Haynes, 2003). The Government recognised the need to grow the higher education sector from an elite system to a mass system, partly in response to rapid technological change, which necessitated a highly skilled workforce, as well as recognising the equity problems associated with the sector.

However, expanding the sector even further was problematic. The real value of maintenance grants had fallen by nearly 20% between 1963 and 1982 as student numbers increased, while real wages for school leavers had risen substantially – tempting many to go straight from compulsory education into the workforce. In addition, the sector was still entirely state

[4] See also http://www.timeshighereducation.co.uk/story.asp?storyCode=92887&sectioncode=26 for an analysis of the evidence presented to Robbins

funded and costly – particularly as the Government paid maintenance grants for every student. The Government simply couldn't afford to increase the number of places available without cutting funding elsewhere, which it was unwilling to do (Barr, 1997).

In response, the Government began to examine student loan systems to cover part of the grants and thus enable further expansion of the sector.

1990 – The First Student Loan Scheme

Participation Rate: 17%

Funding per FTE: £8,928

In 1990, the first UK student loan scheme was implemented. Student maintenance was initially made up of 50% grant and 50% loan. The loan was means-tested against parental income, so for better-off students a parental contribution was still expected (though not enforced). Repayments were to be made once the student was in the workforce and earning over 85% of average earnings, and were 'mortgage style' – students repaid a flat rate every month, regardless of income (Barr and Crawford, 1998). To enable the giant task of administration and collection of repayments, the Student Loans Company (SLC) was founded – initially this was to be co-owned by the high street banks but the agreement quickly collapsed when the banks balked at the idea of their prospective best customers suddenly becoming indebted to them through an unpopular loans scheme. Instead, the Treasury itself took over the running of the SLC. This brought with it a major funding problem. Government accounting rules stipulate that when the treasury issues a loan, it must be accounted for as expenditure (Barr and Crawford, 1998). This meant that in the short term, the savings made on maintenance grants would all be taken up by the expenditure on loans. Money would only start coming in when the first students graduated and started to repay their loans in three years time. Furthermore, the loans were indexed to the rate of inflation, but otherwise interest free. This meant the Government had to cover the students' cost of borrowing – a substantial subsidy (Barr, 2004).

1992 – Further Education and Higher Education Act

Participation Rate: 23%

Funding per FTE: £6,245

The 1992 Further and Higher Education Act granted university status to 48 polytechnics, including 44 in England, 4 in Scotland and 1 in Wales (see Appendix 1). While this act did not increase actual numbers of students, the re-classification brought about a sharp increase in students counted as being in Higher Education (Greenaway and Haynes, 2003). In addition the Act created bodies to fund higher education in England — the Higher Education Funding Council for England (HEFCE) — and the Further Education Funding Council (FEFC). Similarly, the act led to the creation of the Scottish Funding Council and the Welsh Funding Council (HEFCW).

1997 – Dearing report

Participation Rate: 33%

Funding per FTE: £4,850

Dampened by growing participation rates, funding per head had fallen to a historical low in 1997. Furthermore, it was widely accepted that the combination of loans and grants available to students was not enough, and many of them were living below the poverty line (Barr and Crawford, 1998). In response to the major funding crisis, the UK Government commissioned the Dearing report, formally known as the "National Enquiry of Inquiry into Higher Education", actually a series of reports, the principal author of which was Sir Ronald Dearing.

1998 – First Tuition Fees

Participation Rate: 33%

Funding per FTE: £4,787

Dearing's report made 93 recommendations; one of the main recommendations being that students start contributing to the cost of their education. To that end an up-front fee of £1,000 in 1998 prices, or £1200 in 2006 prices (25% of average tuition costs)[5] was introduced to be paid by all home and EU students at UK universities starting their courses in 1998 (Greenaway and Haynes, 2003). Dearing's main aim was to bring more money into the sector, and was aware that issuing more loans would not achieve this since the Treasury classified student debt in the national accounts. To get round this it was decided that there would be no loans for fees. The richest students (or their parents) would have to pay their fees themselves, while the poorer students would be exempt. Against Dearing's recommendations, grants were also cut, before being abolished the following year, and maintenance loans were extended to all students. However, the main difference was that these loans were to be income contingent as opposed to mortgage style – students would only begin repaying after they earned £10,000 (nominal prices) a year – and their repayments would be automatically collected from their monthly wages in a similar way to National Insurance Repayments. Maintenance loans continued to be subsidised at a zero real rate (Barr and Crawford, 1998; Dearden et al, 2004).

1999 – Scottish devolution

Participation Rate: 39%

Funding per FTE: £4,994

[5] R79 of the report recommended that '..... graduates in work make a flat rate contribution of around 25 per cent of the average cost of higher education, through an income contingent mechanism.....';

As a result of the 1997 referendum, Scotland was granted powers to make primary legislation in certain 'devolved' areas of policy – notably education. The Scottish parliament first opened in 1999 and decided that the up-front tuition fee would be abolished for Scottish and EU students with the Scottish Executive to pay it on their behalf (Cubie et al, 1999). Maintenance loans were kept, but grants were re-introduced for the poorest students and renamed as the Young Students Bursary. The Graduate Endowment was also introduced. This was a deferred, one-off fee of £2289 to be paid in the final year of study, which would go towards the funding of future Scottish students. Students could take out an income-contingent loan to cover the Endowment, with the money to be ring-fenced to allow payment of tuition fees and the Young Student's Bursary as well as other grants and bursaries.

2001 – Divergence of policy between UK constituent countries

Participation Rate: 40%[6]

Funding per FTE: £5,485

The new legislation on tuition fees and graduate endowment in Scotland was agreed and by 2001 they had a completely different system from that of the rest of the UK, with tuition fees abolished in 2000, and grants re-implemented and the graduate endowment put in place in 2001.

2004 – Higher Education Act

Participation Rate: 40%

Funding per FTE: £5,489

[6] Note series break from 2001 due to discontinuation of IER, which was replaced by the Higher Education Initial Participation Rate (HEIPR). This measures the percentages of students between 18 and 30 who have started a higher education course for the first time and are still there after six months , expressed as a proportion of the total population for each of those ages.

By 2004 participation had risen to around 40%. Even though overall participation had increased significantly, the Government became again concerned that participation from the working class had not risen. It was also widely agreed that the student support package was still too small (Barr, 2004). A further concern was that UK universities were still under funded compared with the rest of the OECD, and hence lacking in quality (Greenaway and Haynes, 2003). The Government looked at ways to improve on the post-Dearing reforms.

As a result of the 2004 Higher Education Act, upfront fees were abolished and replaced with a deferred fee, to be implemented in the 2006/07 academic year. In contrast with the set £1,200 fee, the new fee was to be variable up to £3,000 with the universities themselves to decide how much to charge each student (Dearden et al, 2004; 2008). There was no exemption from this new fee (as opposed to the upfront fee where low income students were exempt). Repayment was to be made in the same way as the maintenance loans, but in both cases repayment was deferred until earnings were above £15,000 (nominal prices). Grants were also re-introduced for the poorest students, with immediate (2004) effect.

The 2004 Act also granted decision making on tuition fee policy to the Welsh Assembly.

2005 – The Rees Review

Participation Rate: 42%

Funding per FTE: £5,661[7]

In 2005 the Welsh Assembly commissioned the Rees Review[8] to examine the implications for Wales. Rees was concerned that abolishing top-up fees in Wales would result in a large influx of students from England to escape the fees. It was therefore concluded that tuition fees would remain at £1,200 in 2006/07 and that the £3,000 deferred fee would be adopted

[7] Funding per FTE figures that follow are based on DfES estimates, again excluding fees

[8] Officially known as: ”Fair and flexible funding: A Welsh model to promote quality and access in Higher Education. Final report of an independent study into the devolution of the student support system and tuition fee regime in Wales (The Rees Review)”

from 2007/08 – but that all Welsh domiciled students would be exempt from top-up fees, instead receiving a grant to cover the additional £1,800.

2006 – First implementation of top-up fees in England and Northern Ireland

Funding per FTE: £5,921

Participation Rate: 40%

In 2006/07 the £3,000 top-up fees of the 2004 Act were first implemented in England and Northern Ireland. Despite being a variable fee, almost all UK institutions chose to charge the full £3,000 fee. Scotland also raised their tuition fees to £2,700 for medical students, and £1,700 for all other students, again paid for by the Scottish Executive[9]. Tuition fees in Wales remained upfront, and at £1,200.

2007 – First top up fees introduced in Wales; Graduate Endowment abolished in Scotland; Amendments to English system.

Participation Rate: *not available at time of print*

Funding per FTE: *not available at time of print*

In 2007, the £3,000 deferred top-up fee for non-Welsh students was introduced in Wales, with Welsh domiciled students also moving to the deferred fee loan system, but still only liable for £1,200 per year with the remainder covered by a grant. The Scottish National Party (SNP) was elected was elected in Scotland, and one of their first acts was to abolish the Graduate Endowment for all Scottish domiciled students studying in Scotland[10].

2008 – Changes to grant system in England and Northern Ireland

Participation Rate: *not available at time of print*

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[9] See http://www.guardian.co.uk/education/2005/jul/20/tuitionfees.students for more details
[10] This was covered by the Graduate Endowment Abolition (Scotland) Act, 2008

Funding per FTE: *not available at time of print*

In England and Northern Ireland, the Secretary of State for Innovation, Universities and Skills, John Denham, announced a number of minor changes to the English and Northern Irish systems. These included increasing grants for those with parental incomes between £25,000 and £60,000 (at 2008 prices), decreasing loan entitlements for students of with parental incomes between £27,000 and £50,000, again in current 2008 prices (with the result that no students were worse off due to the increase in grants), and offering a repayment holiday of up to five years for those graduates repaying their loans (Dearden et al, 2008). This repayment holiday was cut to two years in 2009[11].

2009 – The Browne Review begins

Participation Rate: *not available at time of print*

Funding per FTE: *not available at time of print*

A key promise made by the Labour government as part of the 2006 reform package, was to run a comprehensive review of the system in 2009 - at which point all students in the system would be subject to the £3000 fee cap. The review was announced on 9th November 2009 and is currently underway, chaired by Lord Browne, the former head of BP[12].

Lord Browne has been asked to examine three issues: widening university participation, affordability of higher education for students and the taxpayer, and how to simplify the current system of support, which includes means-tested maintenance grants and loans and universal fee loans which cover the full value of the £3000 fee. Given the current economic circumstances, perhaps the most important issue arising from the review will be how to expand the HE system while cutting costs to the exchequer.

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[11] See “Education (Student Support) Regulations, House of Commons, 29 October 2008

[12] See http://hereview.independent.gov.uk/hereview/

Thus, the next major changes to the HE system are expected after the Browne Review reports, in 2010.

3. Conclusions

Higher Education provision in the UK has been subject to a number of changes since the 1960s, and the system has moved from one where the entire sector was financed by the taxpayer, to one where graduates themselves now contribute to the cost of their education.

At the time of writing, the subject of financing HE is still very much on the public agenda. The challenging economic climate of 2009 has made funding freezes and spending cuts in the sector more likely, and this is coupled with further increases in demand for HE, perhaps in response to increases in unemployment.[13]

This, coupled with a recent change of government (to a Conservative-Liberal Democrat coalition) has generated much speculation as to the outcome of the Browne Review. While the outcome of the review remains unclear, the agenda has shifted even more towards finding ways to reduce expenditure on HE while meeting the demand for extra university places that has been generated by the recession and other reasons such as rising A' level results.

Speculation tends to focus on reducing expenditure through adjusting the current student loan system – for example by charging real interest rates on fee and maintenance loans (CBI, 2009), or by offering early repayment bonuses to students and graduates,[14] as well as reducing the maintenance grant entitlement or threshold (CBI, 2009) again to lower costs to the exchequer.

The Conservatives were once strongly opposed to tuition fees (Dearden et al, 2005), as were their Lib-Dem partners. While the Conservatives have not indicated a willingness to reverse

[13] See for example "http://news.bbc.co.uk/1/hi/education/8503921.stm"
[14] See "Willetts: Conservatives will provide an extra 10,000 university places next year" Conservative Party press release October 2009

the Labour Party's introduction of top-up fees, the Liberal Democrat manifesto proposed to abolish tuition fees for both full-time and part-time students over a six-year period, with an eventual cost of £1.8 billion[15]. Under the coalition agreement, if the response of the Government to Lord Browne's report is one that Liberal Democrats cannot accept, then arrangements will be made to enable Liberal Democrat MPs to abstain in any vote. Despite this, it would seem unlikely that tuition fee policy is to be reversed in the near future. Any HE finance reform is more likely to involve more adjustments to the current system, which will perhaps inevitably result in a greater financial contribution from future graduates.

[15] See Chowdry et al (2009)

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