



Completing the reform, Freeing the universities

By John Glen MP

Executive summary

(1) Challenges

- (A) There are four major challenges facing UK universities:
- Excessive bureaucracy
 - Infringement upon autonomy
 - Government influence over research
 - Long-term funding

(2) Solutions

- (A) Universities should be encouraged to develop endowments, the drawdown on and returns from which provide secure long-term funding for (a) tuition and (b) research which may not currently attract government funding; and government funding for undergraduate tuition, as a consequence of the income stream from endowments, should be significantly reduced.
- (B) Universities should have greater freedom to determine and follow their own research agendas.
- (C) Universities should have the freedom to develop innovative fee and support structures, and have more autonomy over access policy.

(3) Recommendations

Undergraduate tuition

1. That the government make clear its intention to give universities financial independence with respect to undergraduate tuition in the long term.
2. That a significant proportion of the total grant given to universities by

the Higher Education Funding Council for England is given on the condition that it is matched (either wholly or proportionally) by private fundraising by universities.

3. That the government reform the fees cap to reflect total costs over the life of a course, and allow fee differentials by subject group to promote innovative fee structures.
4. That government grants for undergraduate tuition are significantly reduced in the medium term.

Potential saving: £0.5bn per year

Administration

5. That the remit of the Office of Fair Access (OFFA) is restricted to monitoring and advising universities on outreach, and is directed to take a broader view of what measures count as 'student support'.
6. That the 44% increase in OFFA's budget is reversed to bring expenditure into line with 2010-11; and that the Office for Fair Access is abolished if universities are no longer in receipt of HEFCE undergraduate grants in the long term.

Potential saving: £700,000 per year

Research

7. That the government investigate simplifying the organisation and work of the seven UK Research Councils, including reducing the number of project-based funding streams in favour of general funding, and re-examining the methodology and criteria of the Research Excellence Framework (REF), to give universities more freedom to develop and follow their own research agendas.

Potential saving: £27m per year

Total potential savings: £527.7m per year.

Introduction

Universities in the UK are institutions of which we can be rightly very proud. They offer world-class tuition and contribute to cutting-edge, often globally-recognised research. They are a key driver of innovation and economic growth that are vital to remaining a thriving nation in a global economy. They also sit at the heart of British intellectual life and make an enormous contribution to an outward-looking, educated society.

Previous debates about university reform could be said to have generated more 'heat' than 'light'. This paper is an attempt to address the challenges facing the sector, taking account of the current context. It takes as a basic premise that the university sector should be enabled to flourish; that world-class tuition and research are good in themselves and not purely instrumental to economic growth; but is open to the consideration that government intervention and involvement in the sector may be more often part of the problem, than part of the solution.

This paper will examine the challenges faced by UK universities and seek to demonstrate how they can be tackled by completing the reform of the universities sector through giving universities enhanced financial and institutional independence.

When economic growth is at the top of the political agenda, and deficit reduction without harming frontline public services is the key challenge, reforming the universities sector presents an ideal opportunity to enable long-term growth whilst reducing the burden on the public purse.

The recommendations made in this paper could save over half a billion pounds per year in the long term. Some reforms could be put in place immediately that could save many millions of pounds each year.

Challenges facing universities

The universities sector in the UK currently faces four major challenges: excessive bureaucracy; infringement upon autonomy; unnecessary government influence over research; and insecure long-term funding. However, these challenges are the result of a broader context: the universities sector is in a stage of unfinished reform, where universities have been given greater independence in some respects (for example, the ability to charge fees), but not in many of the most important ways, such as freedom over determining admissions, discretion over their research agendas, and student support.

(A) Excessive bureaucracy

Allocation of money through grant-making bodies creates an additional layer of bureaucracy.

In addition to research funding provided by the seven Research Councils, universities currently rely upon the Higher Education Funding Councils for the allocation of grants. Allocating public money to grant-making bodies, who then distribute it to various universities based on a wide range of criteria and through a wide range of programmes creates significant and avoidable bureaucracy.

The running costs alone of the Higher Education Funding Council for England – before they have given out any grants - were £17.243m in 2010-11, and are officially expected rise to £20.759m for 2011-12¹. They employ 247 full-time equivalent staff.² The total administration costs of the Research Councils (excluding grants) came to £138.8m for 2011-12; though this will fall to £134.9m for 2012-13.³

¹ Hansard HC Deb, 13 March 2012, Vol 542, Col 230W. In direct comparison to 2010-11, the costs will fall slightly to £16.733m as £4.026m of this new figure was previously classified as “programme costs”, rather than “running costs”. However, programme costs did still exist in 2011-12, so £20.759m is not an unrepresentative figure.

² Hansard HC Deb, 13 March 2012, Vol 542, Col 230W.

³ Hansard HC Deb, 25 April 2012, Vol 543, Col 953W.

Public bodies such as these do not have competition and so do not have the rigours of the market to give incentives to control their costs and look for efficiencies. There have been moves towards joint working, with the creation of the shared service centre, however costs remain high.⁴

Costs of compliance with standards and assessment exercises are high.

UK Universities have to comply with various exercises undertaken by the Quality Assurance Agency (QAA) and the Research Excellence Framework (REF). The cost to the universities sector of complying with the various quality control procedures – the QAA, Codes of Conduct, and so forth - is estimated to be £250m per year.⁵ This would be enough to fund the academic costs of 25,000 PhD students for a year.⁶

(B) Infringement upon autonomy

Recent trends in government policy towards access to higher education are an example of unnecessary encroachment upon academic judgement and institutional autonomy.

The expectation of greater activism on the part of the new Director of the Office of Fair Access⁷ is justifiably a concern for universities. The budget of the Office for Fair Access increased by 44%, from £484,000 in 2010-11 to over £700,000, in 2011-12.⁸

There are good reasons to have some oversight of university admissions. However, an activist access body has not taken into account that anyone responsible for university admissions will be seeking only to admit the best students – those who will be capable of benefiting from what their courses have to offer, regardless of background. If universities are doing all they

⁴ National Audit Office, 2011, *Shared services in the Research Councils*, London: HMSO, p8.

⁵ Dickson, T. in Tooley, J (ed.) 2001, *Buckingham at 25: Freeing the Universities from State Control*, London: IEA

⁶ The annual tuition fee for a doctoral student is around £10,000.

⁷ Baker, S. "Ebdon: I would not rule out the nuclear option as Offa head", *Times Higher Education Supplement*, 3 February 2012.

⁸ Hansard HC Deb, 12 March 2012, Vol 542, Col 95W.

can to encourage able applicants from low-income or under-represented backgrounds to apply, then it is difficult to see the point of effectively seeking to place the blame and impose penalties on them if they miss their access targets.⁹

Unnecessary infringement upon the access policies of universities will risk compromising standards, ultimately winning a Pyrrhic victory – widening access to universities but compromising the quality and value of outcomes. University admissions tutors will have a better grasp of potential amongst prospective students than a government quango.¹⁰

(C) Government influence over research

Provision of funding for particular research areas has compromised the autonomy of institutions to direct research funding.

Government funding of research has, in recent years, focussed upon areas where the public benefit is more easily defined in quantitative terms, and which most obviously impacts upon economic growth – areas such as technology and life sciences.¹¹

The subtler effect of the humanities – in promoting analytical rigour, powers of argumentation, a sense of history, and so forth – is not so easily quantified, but is clearly of value to employers and has a considerable effect on the personal and academic development of students. The traditional corollary to this argument has been that government should liberally fund the humanities in a comparable way to the sciences.¹² Whilst substantial block grants across all subjects are not economically viable, the current direction of research funding by the government compromises their ability to choose suitable avenues for research. It is also questionable that government should be in the business of arbitrating on where research is best placed – in the

⁹ C.f. <http://www.guardian.co.uk/education/2012/feb/08/vince-cable-university-access-tsar>.

¹⁰ See, for example, Rob Wilson MP writing in The Telegraph <http://www.telegraph.co.uk/education/universityeducation/9092034/Comment-interfering-in-university-access-is-heading-in-wrong-direction.html>.

¹¹ Kealey, T. in Tooley, J (ed.) *op. cit.*

¹² See, for example, Holmwood, J. (ed.) 2011, *Manifesto for the Public University*, London: Bloomsbury Academic.

same way that they should not be planning an economy and deciding where investment should go.

The current structure of research council funding tends to be in overarching initiatives, with individual grants made for particular projects, or in research studentships or scholarships. These structures can prevent universities from developing and following their own research priorities or programmes, which may be better aligned to their peer group outside the UK.

The REF (Research Excellence Framework) system for allocating research funding is an attempt to give more responsibility to academics, by submitting the judgement of “excellent research” to peer review, but the experience of academics interviewed during the course of research for this paper suggested that there are frequently two unintended consequences. First, academics face unhappy incentives to produce a high quantity of research, which can then take priority over providing excellent teaching or supervision for students, which does not attract funding so easily. Second, REF encourages research in particularly ‘fashionable’ research areas, or can take a dim view of research which is not aligned with the dominant consensus of top academics at one point in time, sometimes hampering the promotion of innovation and excellence.

(D) Long-term funding

A new approach is needed to secure the future of the universities sector for the long term.

The increased need for private funding for teaching, via higher tuition fees, has been accepted, though even fees at their current level do not cover the full economic cost of undergraduate education at elite UK universities. In addition, universities do not exist merely to teach. In order to maintain, and increase, the vital research role of universities (across all subjects), long term, substantial funding must be found. Funding is needed to secure the future of the universities sector, and to protect its most important aspects: wide-ranging research that competes favourably in a global context, and high-quality teaching.

One response to this challenge is to look to the state for more substantial grants as well as substantive intervention into the universities sector¹³. However, the current challenges outlined above seem to suggest that state intervention is too often part of the problem, rather than part of the solution.

The solution is to free the universities.

¹³ See, for example: Holmwood, J. (ed.) 2011, *Manifesto for the Public University*, London: Bloomsbury Academic. Wyness, G. 2009, *Degrees of quality: how to deliver the courses we need at prices we can afford*, London: CentreForum.

Solutions

This paper now sets out three long-term solutions for the problems analysed in section 1. These are long-term aims for government universities policy. Section 3 outlines a gradual approach for how we can bring about this greater financial and institutional independence for universities.

(A) Financial independence

Universities should be encouraged to develop endowments, the drawdown on and returns from which provide secure long-term funding for (a) tuition and (b) research which may not currently attract government funding; and government funding for undergraduate tuition, as a consequence of the income stream from endowments, should be significantly reduced.

(a) Tuition

As it stands, the contribution by HEFCE per student to undergraduate tuition is no longer a significant proportion of the cost of teaching undergraduates.¹⁴ Given that fees at most UK universities are set at the cap of £9,000, individual students and their families are providing the most substantial proportion of the cost of undergraduate education. For some courses, and courses at elite institutions, even the fee combined with HEFCE grant per-student does not cover the full economic cost of that individual's education:

Full Economic Cost of Undergraduate Education = Fee + HEFCE Grant [+ 'Funding gap']¹⁵

¹⁴ HEFCE contributes 0% of the cost of non-laboratory and non-clinical subjects; 77% of the mean cost of a clinical medicine degree; and 15% of the mean cost of a high-cost laboratory subjects such as a physics degree (Higher Education Funding Council for England, 2012, *Recurrent grants and student number controls for 2012-13*, London: HEFCE).

¹⁵ The funding gap is relatively difficult to assess as course costs are cross-subsidised: from 2012-13 HEFCE now provides no funding for humanities and social science courses, and fee plus funding for science subjects does not always cover the full economic cost of provision. Many science and clinical courses are in effect cross-subsidised by higher fees for humanities and social science courses. However, at some institutions these subjects can cost up to £9700 and £11000 respectively. (Higher Education Funding Council for England, 2010, *Review of the subject price groups using TRAC(T) data: detailed commentary*, London: HEFCE).

Examples¹⁶:

High cost clinical subject (per year): £25,000 = £9,000 + £9,804 [+ £6,196 funding gap]

High cost laboratory subject (per year): £12,000 = £9,000 + £1,483 [+ £1,517 funding gap]

Average arts subject (per year): £6,000 = £9,000 + £0 [- £3,000 positive funding gap]

The development of endowments would create a funding source in perpetuity through income generated on investment, or drawdown of capital growth in the endowment sum (as widely seen in the USA, for example¹⁷). Universities could manage a wide range of assets to suit these needs, including traditional investment vehicles such as equities but additionally bonds or property. The income or drawdown from endowments is, at elite institutions, already covering the gap left after the tuition fee and HEFCE grant; boosted endowments could also allow universities to cover the HEFCE grant such that the full economic cost of undergraduate education is covered by fees plus university endowment.

In order fully to replace the HEFCE tuition grants, the universities sector would need to increase total endowments by around £12bn¹⁸.

This change would address a number of the problems outlined in section 1. First, it addresses the *long-term funding* problem. Giving universities financial independence reduces the economic burden on government and therefore on taxpayers, and if this can be done in a way which does not harm universities or undergraduate education, it clearly the preferable funding option. Second, it addresses the *excessive bureaucracy* problem. Deciding

¹⁶ The total economic costs are not actual figures, but are within the range of inflation-adjusted figures taken from Higher Education Funding Council for England, 2010, *Review of the subject price groups using TRAC(T) data: detailed commentary, op. cit.* and can therefore be taken as representative of elite and high-cost courses.

¹⁷ The Sutton Trust, 2003, *University Endowments – A UK/US Comparison – Discussion Paper*, London: The Sutton Trust.

¹⁸ Based on the calculation detailed in footnote 28, which gives a figure for total grants of around £487m per year under new regime funding, and assuming that 4% average annual interest could be gained on an endowment.

student number controls and then financing undergraduate tuition through HEFCE grants comes with an additional bureaucratic price tag, as explained in section 1. Reducing the number of layers in financing undergraduate tuition will reduce these additional costs. Third, it addresses the *autonomy* problem. Financial and institutional independence are closely linked. Universities are sacrificing their autonomy – with respect, for example, to access as well as to fee and bursary structures – in order to continue to draw a grant which is still insufficient in many cases.

(b) *Research*

In the light of substantial international competition, reducing research funding would not be beneficial to the universities sector, even if financial independence with respect to research would be a worthwhile long-term goal. However, the development of endowments would allow universities to undertake research (through offering scholarships or endowing posts) that does not attract government funding or generate revenue streams, whether through the REF or the Research Councils. Continuing research into the humanities would also be incentivised by the need for universities to maintain high-quality tuition on taught courses: universities have long realised that teaching from academics actively engaged in research adds significantly to the experience of taught students.

This would therefore go some way to addressing the *government influence over research* problem.

(B) Universities determine research priorities

Universities should have more freedom to determine and follow their own research agendas.

Government provision of research funding should be simplified. The current separation of the research councils, in addition to the research component of HEFCE grants, has led to high administration and running costs for these bodies, and it is realistic to expect that savings could be made in the administration costs through simplification of grant structures.

The government could still maintain projects to target funding of national importance (such as, for example, the life sciences strategy, alternative energy programmes and the global uncertainties programme). However, it is difficult to believe existing research councils' initiatives are all of strategic national importance in this way. The justification for allocating such a large amount of funding centrally according to fixed, predetermined interests and inflexible research streams - with the associated cost of bureaucracy - is lacking.

So too, the REF should encourage excellence and innovation in research in the broadest terms, beyond "fashionable" research areas and often-esoteric peer-reviewed journals. It should also provide some recognition that research is to be balanced alongside excellence in teaching so as not to favour 'quantity' over 'quality'.

This would address the problems of *excessive bureaucracy* and *government influence over research*, giving universities the freedom to develop and maintain research agendas which will assure their place as world-class institutions.

(C) Freedom in fee structures, support, and access

Universities should have the freedom to develop innovative fee and support structures, and have more autonomy over access policy.

In order to address the problem of *long-term funding* whilst maintaining international standards of quality, universities should be given greater freedom to innovate in the areas of fee structures and student support.

The University of Buckingham, for example, offers two-year degrees at higher tuition fees per year, but at a lower cost overall given the lack of living costs for the third year. Alternatively, some students may wish to study for their degree over a longer period, alongside paid work or "sandwiched" with relevant work experience. However, as it stands, the government places a standard per-year fee cap on courses. Universities therefore face perverse incentives to provide longer rather than shorter courses, regardless of

teaching content.

The full economic cost of courses also varies. HEFCE's own figures from 2010 suggest a mean cost of £12,680 per full-time equivalent student (FTE) per year for clinical medicine; but a mean of cost of just £5,820 for humanities courses and £5,730 for social studies courses. The economic cost of clinical subjects can be up to or over £20,000 per year.¹⁹ Yet the HEFCE new regime fee + grant gives total funding of £18,804 for clinical subjects, £10,483 for laboratory-based subjects and £9,000 for all other subjects²⁰, which means that in effect arts and humanities students are frequently cross-subsidising the cost of clinical courses and high-cost science subjects.

If fee differentials were permitted, then the higher cost of subjects such as laboratory-based science and clinical medicine or dentistry – which often give the highest future earnings potential – could be reflected through comparatively higher fees, whilst lower cost subjects such as arts and humanities could see fees reduced.

Whilst it is reasonable to maintain a cap on tuition fees over the life of a course²¹, universities should have the ability to innovate with respect to fee structures in order to compete and to provide real choice to students.

The same can be said for student support. Universities should be free to provide innovative support mechanisms – rather than be expected to provide certain amounts of money in bursaries, why could universities not invest in property as part of an endowment, and rent it out to students at below-market price?²² Such useful support would not be classed as a 'bursary' but would be a mechanism by which universities could offer practical 'in kind' financial support to students.

One significant issue for academics, as well as for maintenance of a world-class university system, is that of access. The government should not, either

¹⁹ Higher Education Funding Council for England, 2010, *Review of the subject price groups using TRAC(T) data: detailed commentary*, London: HEFCE. It would be reasonable to suppose that these costs have increased by at least the rate of inflation since 2010.

²⁰ Higher Education Funding Council for England, 2012, *Recurrent grants and student number controls for 2012-13*, London: HEFCE, p14.

²¹ This is discussed in more detail in section 3 – Policy Recommendations.

²² As happens, for example, in collegiate universities such as Durham, Oxford, and Cambridge.

implicitly or explicitly, set targets or quotas for university access, and should always allow universities to develop their own admissions policies, so that the central principle of admission on academic merit is not compromised. This extends both to formal quotas or targets and to implicit policies such as demanding “contextual admissions” where the educational background of a candidate compensates for a lower putative level of academic achievement.²³ Social mobility is not most usefully advanced with interventions at this stage in the education system – but this lies outside the scope of this paper.

Conclusion

Together, these three proposals seek to address the challenges of excessive bureaucracy, government influence over research, infringement upon autonomy, and long-term funding. The aim is to create institutions which are financially independent with respect to tuition, for which they can create innovative fee structures; have endowments which allow them to provide innovative support mechanisms, provide high-quality tuition, and engage in research which may not currently attract government funding; and have streams of public research funding which allows them to set and follow their own research agendas.

²³ Firstly, “contextual” standards second-guess the academic and professional judgement of admissions tutors. Secondly, “contextual” standards are essentially guesswork – they say in effect that the applicant would have been an excellent candidate had they been from a better educational background. Thirdly, this policy ignores that good independent schools are improving access – some applicants from top independent schools may well be from deprived social or economic backgrounds.

Policy Recommendations

In researching this paper, it became clear that universities wanted clarity around the government's intentions for the universities sector. From an early stage, the government should set out its reform intentions in order to make clear what its role is with respect to universities, and should commit to not introducing any measures that further impinge upon the autonomy of universities so as not to undermine the direction of reform.

The proposals put forward should be considered in the light of the criterion that at least one university is made better off, and no university is made worse off. No doubt some universities, particularly research-intensive universities with large existing endowments, would have much to gain from these policies. Nevertheless, it is important *that no university is ultimately left worse off as a result of these proposals*. However, for some universities financial independence from government may entail a change in the composition of student numbers, a greater specialisation in a smaller number of subjects to save costs²⁴, or some other internal restructuring.

Undergraduate Tuition

Proposal 1: that the government make clear its intention to give universities financial independence with respect to undergraduate tuition in the long term.

This is a bold and controversial proposal. However, a settled intention by the government to change the funding settlement for undergraduate tuition gives a firm and unequivocal incentive to build up endowment funds. A specified timeframe for significant reduction of HEFCE grants in the medium term gives the opportunity for carefully planned investment and fundraising campaigns, as well as the opportunity to undertake restructuring, for example, with respect to student numbers, specialisation, and fee structures.

Too often politicians lament the proliferation of low quality degrees which do

²⁴ Those opposed to specialisation in universities ought to consider the success of, for example, the LSE, SOAS, and Imperial College, London.

little more than burden a generation of students with false hopes of enhanced credentials for employability when in fact all that is left is an increased burden of debt and no 'lift' in their skills or suitability for future careers. By facing up to this reality and forcing all higher education institutions to examine what their *raison d'être* is and establishing a strategy to achieve future goals then we will enable a university sector that is fit for purpose and likely to last into future generations.

Proposal 2: that a significant proportion of the total grant given to individual institutions by the Higher Education Funding Council for England is given on the condition that it is matched (either wholly or proportionally) by private fundraising by universities.

The HEFCE matched funding scheme enjoyed success in promoting philanthropy and formed the basis of a number of university fundraising campaigns.²⁵ It resulted in around £580m of gifts that were matched by the scheme. It was also particularly successful in attracting new donors – there was a 24% increase in donors in 2010-11 compared with 2007-08. 55 institutions reached their cap for matched funding, suggesting that there is additional capacity able to be utilised.²⁶ The 2010-11 Ross-CASE survey provides similarly encouraging observations: cash income received by universities is consistently above £0.5bn, and new funds received in 2010-11 showed an increase of 13.7% on the previous year, and this at a time when finances were strained.²⁷

This scheme could therefore be extended to operate on a larger scale in order to incentivise the building up of endowments. Some institutions have been very successful in undertaking investment to grow endowment funds, such as Trinity Hall, Cambridge.²⁸ Whilst Oxford and Cambridge by

²⁵ Private conversations with university officials. See also, Ireland, E., Coutinho, S., and Anderson, T.2012, *Giving to Excellence: generating philanthropic support for UK Higher Education 2010-11 - Ross CASE Survey Report*, London: National Centre for Social Research and Higher Education Funding Council for England, 2012, *Matched funding scheme for voluntary giving: 2008-2011 outcomes (Circular letter 14/2012)*.

²⁶ Higher Education Funding Council for England, 2012, *Matched funding scheme for voluntary giving: 2008-2011 outcomes (Circular letter 14/2012)*.

²⁷ Ireland, E., Coutinho, S., and Anderson, T.2012, *Giving to Excellence: generating philanthropic support for UK Higher Education 2010-11 - Ross CASE Survey Report*, London: National Centre for Social Research.

²⁸ <http://www.trinhall.cam.ac.uk/uploads/Trinity%20Hall%20Accounts%2030%20June%202011.pdf>.

far have the largest endowments in the UK, a number of other universities have also developed significant sums – endowments are certainly not the preserve of only a handful of elite institutions.²⁹ Whilst shrewd investment of endowments can help to increase the capital sum, this may still require initial government provision by active policies to help to build up endowments. It was suggested by a university official during the research of this paper that in order for investment to be successful in significantly building up an existing endowment, an institution would need around £30-35m.

Part of this project would involve creating a genuine culture of alumni giving, such as exists among universities in the USA. The joint incentive to give through a matched funding scheme, along with a clear signal of the reduction in undergraduate tuition grants, could provide the catalyst for increased alumni involvement and financial support.

Proposal 3: that the government reform the fees cap to reflect total costs over the life of a course, and allow fee differentials by subject group to promote innovative fee structures.

In order to reduce the perverse incentives to have longer courses, the government should introduce a ‘total course costs’ cap rather than a per-year fees cap. This would enable universities to charge a similar level of fees but have the flexibility to vary course length.

The government should also allow fee differentials by subject type, such as the current subject groups used by HEFCE³⁰, to create incentives for innovation and competition with respect to fee structures. Any change in fee structures should be phased in year-by-year.

Proposal 4: that government grants for undergraduate tuition are significantly reduced.

Government should confirm that universities had sufficient endowment

²⁹ See for example, the universities of Glasgow, Liverpool, and Surrey in The Sutton Trust, 2003, *University Endowments – A UK/US Comparison – Discussion Paper*, London: The Sutton Trust.

³⁰ Higher Education Funding Council for England, 2012, *Recurrent grants and student number controls for 2012-13*, London: HEFCE, p14 (Table B).

funds to be able reasonably to cover tuition costs at a comparable level to new-regime HEFCE funding. This may, however, require some diversion of funds from projects for which endowment funds were previously used, a reorganisation and possible simplification of courses, and potentially a reduction in student numbers. These conditions are explained in more detail under Proposal 1.

This measure would save a significant sum of public money, up to £487m at today's prices³¹. If the government chose also to cease or reduce the provision of some additional targeted grants (related to widening participation, student success, and so on) further savings could be achieved. Areas apt for savings include: postgraduate taught allocation, introduced in 2012-13 (£39m); some of the student retention grant (currently £128m); part-time undergraduates (£52m). It would also be reasonable to suppose that the administration of HEFCE could be simplified a result, saving up to £12m a year.³²

In total, over half a billion pounds could be saved per year. The reduction in funding would be phased in year-by-year, as with the current transition from "old regime" to "new regime".³³

This is a workable policy given (a) the extent to which HEFCE funding has currently been reduced, (b) the current fees regime, particularly if combined with subject group differentials and a "total course costs" cap, and (c) the possibility of universities building significant endowments through the matched funding scheme.

In the long term, there is the possibility that undergraduate tuition grants may no longer be required.

³¹ Higher Education Funding Council for England, 2012, *Recurrent grants and student number controls for 2012-13*, London: HEFCE.

Table 2. This is a rough estimate, using figure for total new regime funding for 2012-13 (i.e. one year of students in high-cost subjects), and assuming that in the medium term, a university will have three cohorts of all such students, plus an average of an additional half-cohort of students (to account for students still on four- and five-year courses). HEFCE do not offer any estimates, as they rightly point out that it depends upon course length and retention rates at individual universities.

³² Assuming that administration costs continue to be in roughly the same proportion to grants given, administrative costs could also be cut by around £12m.

³³ Higher Education Funding Council for England, 2012, *op. cit.*, p14.

Administration

Proposal 5: That the remit of the Office of Fair Access (OFFA) is restricted to monitoring and advising universities on outreach, and is directed to take a broader view of what measures count as ‘student support’.

Proposal 6: that the 44% increase in the Office for Fair Access budget is reversed to bring expenditure into line with 2010-11; and that the Office for Fair Access is abolished if universities are no longer in receipt of HEFCE undergraduate grants in the long-term.

This would save over £216,000 per year in the intervening period, and an additional £484,000 per year after abolition. Given that the justification for and sanctions of the Office of Fair Access are based upon universities’ receipt of public funds for undergraduate tuition, the financial independence of universities would give little legal or political basis for OFFA to continue.

Research

Proposal 7: that the government investigate simplifying the organisation and work of the seven UK Research Councils, including reducing the number of project-based funding streams in favour of general funding, and re-examining the methodology and criteria of the REF, to allow universities more easily to develop and follow their own research agendas.

The NAO report on Shared Services was critical of the estimated savings on procurement by the Research Councils, but noted there was “significant scope” for savings by sharing processes³⁴. The simplification of grant structures in favour of general funding could also significantly reduce costs.

On this basis, if (for example) 20% efficiencies were made within the Research Councils, then running costs could be reduced by around £27m per year.

³⁴ National Audit Office, 2011, *Shared services in the Research Councils*, London: HMSO, p8.

Conclusion

The current challenges faced by universities are a result of unfinished reform. Universities have been given greater independence in some respects (for example, the ability to charge fees), but not in many of the most important ways, such as access, discretion over their research agendas, competitive fee structures and student support.

Giving universities enhanced financial and institutional independence, through the development of endowment funds, a significant reduction of undergraduate tuition funding, freedom over access, fee structures and student support, and the reshaping of higher education governance bodies, can complete the reform of UK universities and address the key challenges faced by the higher education sector.

There will inevitably be resistance to these proposals from both inside and outside academia, but what is needed is a clear vision of a thriving universities sector unburdened by government interference, combined with the political will to drive forward radical reforms.

Though the proposals in this paper are radical, the changes will not destroy or change the university sector beyond recognition. On the contrary, they are vital to the preservation of its unique character, and will ensure the UK system can deliver world-class teaching and research into the future.

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About the Free Enterprise Group

Objectives

- Encourage a competitive and free economic environment
- Raise the global economic standing of the United Kingdom
- Challenge monopolies and oligopolies
- Free individuals to create, innovate and take risks

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