

# CeSWIG

Centre for Study of Welfare  
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## Investing in the Future: Resourcing UK HE in the midst of Financial Challenges

Education and the Future of Labour Markets  
Research Programme

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# Foreword



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The higher education sector in the UK is facing multiple challenges. Despite a well-established international reputation in research and education and popularity among international students as a destination, it is struggling to keep up with costs.

Costs have increased steadily in line with inflation but home undergraduate tuition fees have remained largely static since 2012-13. It currently stands at £9,250, little more than its 2012-13 level of £9,000. This funding model has forced UK HEIs to expand international student recruitment where no fee cap applies. On average international students paid tuition fees 2-2.5 times higher than their local counterparts. The operating surplus from the international student tuition fee income cross-subsidised all other university activities including research and capital spend. Even though precarious, this funding model has offered a semblance of stability to the sector for almost a decade, but is now changing as the sector faces structural shifts both from demand and supply sides. For many providers in the sector, the international student market appears to be more volatile than the recent past. Geopolitical shifts, frequent changes in immigration policy, inflation, technology shock, and macroeconomic fragility are all contributing towards this volatility, posing significant challenges to the sector in resourcing its core activities in research, education, and engagement.

To discuss these challenges, leading experts in the field and University of Sussex academics met in Sussex in the format of a workshop, '[Investing in the Future: Resourcing UK Higher Education in the midst of Financial Challenges](#)'. Discussions were comprehensive and robust. This volume summarises the discussions. In particular, Professor Nicholas Barr of the London School of Economics and Political Science (LSE) focuses on the political economy of HE financing in the UK. His contribution focuses on the

tension between politics and economics in HE financing. Politics gravitates towards taxpayer finance whereas economics emphasises cost sharing, well-designed loans, and associated supporting policies.

Professor Christopher Millward of the University of Birmingham and Professor Gabriella Cagliesi of the University of Sussex focuses on the important issues of access, participation, attainment, and graduate outcomes under a challenging financial environment. Professor Millward offers an assessment of the effects of HE reforms on participation and equality of opportunity whereas Professor Cagliesi focuses on the effect of Foundation Year on access and academic performance.

Professor Baroness Alison Wolf of King's College London (KCL) addresses the vexed issues of research financing in the current climate. This is particularly important at a time when HE providers are facing growing criticism over cross-subsidisation of research from tuition fee income. Professor Chirantan Chatterjee of the University of Sussex addresses a related issue of Baumol Cost Disease (BCD) in UK HE. BCD is a phenomenon whereby a sector experiences productivity slowdown-driven wage compression relative to price and wage inflation in the rest of the economy.

Finally, Dr Wenchao Jin of the University of Sussex tackles the key issue of HE financing. Her essay assesses the merits and demerits of tuition fee increase and an increase in government grants to providers.

These are all relevant and topical issues for the sector's long-term future and I hope contributions in this volume will assist stakeholders in charting a pathway to ensure continued success.

# Executive Summary

The higher education sector in the UK is facing significant financing challenges. This volume summarises key issues related to UK HE financing, access, attainment, and graduate outcomes.

## Key Observations and Recommendations

1. Finance education institutions primarily through a mix of taxpayer finance and tuition fees (with some finance from employers an option).
2. Finance students mainly through well-designed loans that protect low earners.
3. Widen participation mainly through interventions earlier in the system.
4. Reform of the graduate repayment system is desirable which would partially pay for additional government funding.
5. It is important to preserve all three key mechanisms to ensure government support to research, i.e. grants to universities, grants to individuals and research teams, and grants to specialist research institutions.
6. Wage compression in UK HE may not be reflective of productivity stagnation but may represent a wider funding challenge. Multidimensional measures of academic productivity are needed, covering research, knowledge exchange, education, engagement, and scholarship to establish the extent to which HE is subject to the 'Baumol Cost Disease' (i.e. the tendency for the cost of labour-intensive services to rise faster than prices generally).
7. Universities should continue to open up access, not just in the cities where most universities are located, but also the towns and rural areas that are perceived to have been 'left behind'.
8. Empirical evidence indicates that Foundation Year courses promote access, reduce attainment gap, and improve graduate outcomes. Therefore, these courses should be preserved.

# Contributors



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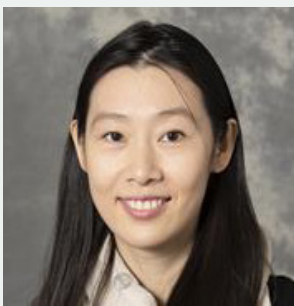


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**Wenchao Jin** is Lecturer in Economics at the University of Sussex Business School. She received her PhD from University College London (UCL). She was a research economist at the Institute for Fiscal Studies (IFS), where she published research related to UK HE funding policy.

**Christopher Millward** is Professor of Practice in Education Policy at the University of Birmingham. He is a Fellow of the Academy of Social Sciences, a Marshall Scholarship Commissioner, a Trustee of the Society for Research into Higher Education, a Commissioner for Tertiary Education in Wales and Chair of the Advisory Group for the Centre for Global Higher Education. He was Director for Fair Access and Participation on the board and executive of the Office for Students (OfS).



**Alison Wolf**, The Baroness Wolf of Dulwich CBE, is the Sir Roy Griffiths Professor of Public Sector Management at King's College London (KCL), and she sits as a cross-bench peer in the House of Lords. She specialises in the relationship between education and the labour market.

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# The simple economics and troubling politics of financing higher education

Nicholas Barr

Everyone knows that the welfare state exists to relieve poverty (the “Robin Hood” element). Less well-known is that it exists also to enable people to redistribute over their life cycle (the “Piggy bank” element). Pensions, for example, redistribute from a person’s younger to their older self.

Student loans are a form of inverse pension, redistributing from a person’s earning years to their younger self to invest in skills, hence my long-ago proposal for a loan repaid through an addition to the student’s national insurance contribution.

A well-functioning and fair system draws on four principles:

1. Cost-sharing is necessary because mass tertiary education will lose out to other public services such as the NHS, and desirable because it is still mainly students from better-off backgrounds who go to university.
2. Risk-sharing. Tertiary education should be free to the student, with graduates contributing to the cost of their training. Since borrowing to finance a qualification is risky, the loan should protect the borrower from excessive risk.
3. Equitable participation. Powerful evidence shows that resources from pre-natal through primary and secondary school are the major determinants of participation.
4. A holistic approach to tertiary education. Policy should consider tertiary education as a whole, tearing down the wall between higher and further education.

## WHAT IS WRONG WITH CURRENT ARRANGEMENTS

A loan to cover living costs plus annual tuition

fees of £9,250 for three years for a student living away from home outside London can total £58,000. For loans started before this year, repayments are 9 per cent of income above £27,295 (£22,015 for students starting in September 2023). Any balance outstanding after 40 years is forgiven.

It’s natural to think of £58,000 in terms of credit card debt, which is seriously scary. But few people repay their loan in full. In the jargon, the RAB charge estimates how much will not be repaid, i.e., the leakiness of loans. In 2021-22 the RAB charge was 57 per cent, though reforms are projected to reduce it to 37 per cent. Moreover – a central design feature – repayments are income-contingent – a payroll deduction alongside income tax and national insurance contributions, so that a low earner makes low or no repayments. Unlike conventional debt, failure to repay does not lead to bankruptcy.

Thus we have a system with a high sticker price and leaky loans – but the subsidy goes unnoticed, a self-inflicted and heavily criticised wound. That leakiness matters because large loan subsidies, though intuitively appealing, are a blunt instrument. Making loans less leaky



frees resources for policies that do more for access.

### WHY NOT ABOLISH TUITION FEES?

The argument for financing higher education from taxation is beguiling but mistaken: the taxes of lower earners benefit mainly students from better-off backgrounds and, in doing so, harm participation by crowding out pro-access policies earlier in the system, which evidence overwhelmingly shows are the main drivers of participation.

### WHERE WE SHOULD BE: A LOWER STICKER PRICE AND SMALLER, LESS LEAKY LOANS

A strategy for financing tertiary education that follows the ground rules at the start has three mutually-supporting elements:

1. Finance education institutions primarily through a mix of taxpayer finance and tuition fees (with some finance from employers an option).
2. Finance students mainly through well-designed loans that protect low earners.
3. Widen participation mainly through interventions earlier in the system.

That, broadly, was the reform strategy in 2006, which increased tuition fee income for universities, grant and loan numbers, the number of students. In addition, largely because of policies earlier in the system started in earlier years, such as SureStart which boosted nursery education, there was a striking 53% increase in applicants from the most disadvantaged backgrounds.

### WHAT WOULD THE RESULTING SYSTEM LOOK LIKE?

The problem, in sum, is that taxpayer support for teaching is too low, fees too high, the interest

rate too high and the repayment threshold too high – right system, wrong parameters.

To finance universities, a system that addresses those problems would restore some teaching grant (T grant) and reduce (or at least not increase) tuition fees. Restoring some T grant is part of cost sharing, and also gives government a policy lever that allows it to give extra funding to areas it wishes to encourage.

Reforms to loans would reduce the interest rate from its current level (for most students 3 per cent above the rate of inflation) to a rate at or close to the government's cost of borrowing, giving students access to the government's risk-free interest rate. A second reform should lower the threshold at which repayments start, but with a repayment rate starting at (say) 3%, rising in steps to 9% at higher incomes. The underlying idea is that loans should be designed so that graduates with a good earnings record repay in full.

To enhance access, reforms should restore or improve the resourcing of policies earlier in the system (some of them abolished in 2012), including nursery education, the literacy and numeracy hours, and successor policies to education maintenance allowances (income-tested support between GCSEs and A level), and AimHigher (which sought to improve information and raise aspirations).

### BUT THE POLITICS ARE TROUBLING

The strategic problem is that the economics and politics of higher education finance are both fairly straightforward but go in opposite directions. Economics points to cost sharing, well-designed loans, and policies earlier in the system; politics points to taxpayer finance.

Aggravating matters, and a major reason loans are so leaky, are reforms in 2012, which abolished most taxpayer support for teaching, increased the rate of interest, and raised the

level of income at which graduates start to repay. Those changes dramatically increased the size of student loans and the extent of non-repayment. Why those changes? Largely to exploit a loophole in the way student loans enter the public accounts which flatter figures on public spending, a practice for which a leading supermarket was fined £235 million.

## BEYOND HIGHER EDUCATION

The government is rightly moving towards a strategy embracing both higher and further education. That policy direction, however, requires careful planning to provide a flexible system in which people can build skills in different ways, in different combinations, at different speeds. Doing so requires granular delivery supported by granular finance, equitable across all tertiary education. Current debate tends to focus on distributional effects for students in higher education, ignoring the fact that the subsidies for the 50 per cent who go to university are much larger than those for the 50 per cent who don't. They should not be forgotten.

**Note:** This article is abbreviated from [A fairer way to finance tertiary education](#) | British Politics and Policy at LSE.

# Financial challenges and hard choices for UK universities

Wenchao Jin

**Higher education in England faces a precarious financial future. With capped tuition fees on home students, teaching income is not keeping pace with expenditures. Simultaneously, reliance on international student fees is deepening, carrying financial risks. This essay will lay out the latest numbers on the financial challenges faced by the sector and discuss a range of policy solutions.**

Universities and other HE providers must submit financial data to the Office for Students (OfS) to demonstrate their financial sustainability. According to the 2023 OfS report on financial sustainability (OfS 2023), the aggregate financial position of the sector ‘remains sound’, but there is significant variation between providers. 96 providers of HE in England (out of around 250) are forecasting deficits in 2022-23, with 35 predicting continued shortfalls for three straight years (2020-2023). However, such projections are based on two assumptions about the future that may turn out to be too optimistic.

Firstly, universities are forecasting significant increases in student numbers, including 16% increase for UK students and 35% increase among non-EU students between 2021-22 and 2025-26. While these growth rates are not unrealistic given what the sector has achieved in recent years, they are exposed to risk factors such as declining household incomes in the UK and potential changes to visa policies or geopolitical risks. Note that by 2025-2026, international students are projected to comprise 43% of teaching income. As this dependence on international students varies hugely across institutions, some will be extremely vulnerable to visa policy shifts or global disruptions.

Secondly, HE providers have already pencilled in significant efficiency savings, challenging to deliver without compromising the quality of education. For example, total expenditure on

staff is forecast to increase by 26% from 2021-22 to 2025-26 (OfS 2023). If staff numbers rise in proportion to total student numbers (17.5%), then there’s only 8.5% left for average nominal pay increase. However, CPI in 2023Q3 is already 15% higher than in 2021Q4. Thus, we are going to see either rising class sizes, or further cuts to real pay in the HE sector. For context, the real median annual gross pay for full-time HE teaching professionals has already fallen by 30% from 2010 to 2023.

One obvious solution is allowing higher tuition fees. However, this will be very unpopular. Currently, England already has the highest tuition fee for domestic undergraduate students in public universities. Only private universities in the US have higher average fees than in England. Another solution is for the government to give more funding to universities. This could be in the form of direct teaching grants (which had been slashed in the 2012 reform for most non-STEM subjects). Across all OECD countries, the UK is ranked at the very bottom in terms of the share of spending on tertiary education that is funded by government (see figure below).

Given the current economic and fiscal outlook, realistically speaking, an increase in government funding to the HE sector will need to be accompanied by a sizable increase in student loan repayments. One simple way to raise more from graduates is to reduce the repayment threshold.

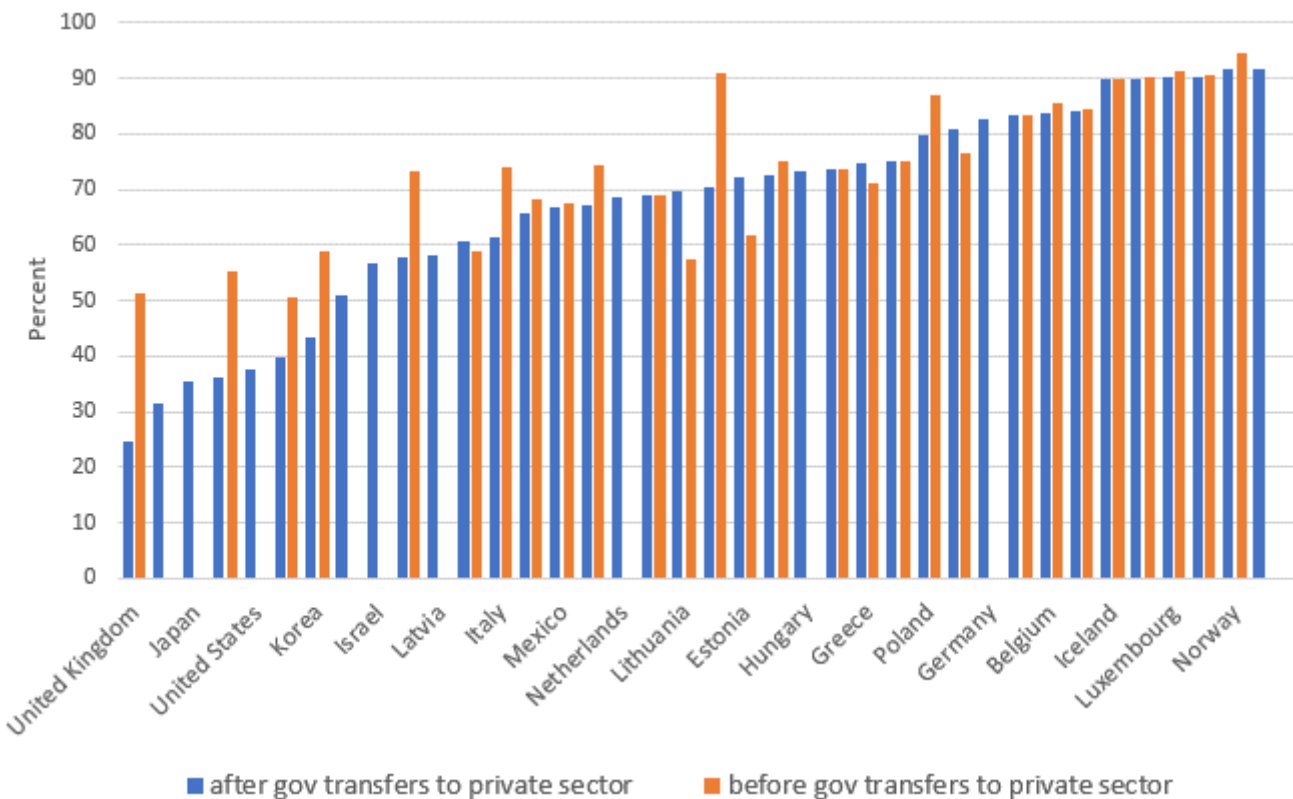
Currently, graduates will need to repay 9% of their income above £25,000 for the newest cohorts. Coincidentally, £25,000 is also the threshold of household income above which student loan entitlement is tapered. Thus, the government is assuming that parents who have a combined gross income above £25,000 are rich enough to provide some financial support to their adult children in HE, yet a young graduate earning £25,000 is not earning enough to start repaying student loans. This makes no sense. A stepped repayment system starting at a lower threshold will address the problem.

In summary, the HE sector is in need of more government funding, which could be partially paid for through some reform to the graduate repayment system.

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**Figure: percentage of government spending on tertiary education**



Note: loans and grants from government to students are treated as ‘private’ under the blue bars and as government’s contribution under the red bars. Source: [OECD Education at a Glance 2022 Table C3.2](#).

# How should we fund university research and scholarship?

**Alison Wolf**

For most of their history, universities existed to teach and train, and that remains their primary function. But in the nineteenth century, in a small number of German cities, the modern research university took shape, notably through the development of doctoral science training (Turner 1975). American university reformers, impressed, exported the model to the USA, from where it spread.

Substantial government funding for medical research was well established before World War II, but it was only later that nationally organised funding for science became central to government economic policy. America's National Science Foundation was established in 1950. In Britain, various funding programmes developed, alongside the opening of centrally funded research laboratories (eg the Rutherford High Energy Laboratory, now the Rutherford Appleton Laboratory at Harwell) but it was only in 1965 that clearly delineated and arms-length research councils were created, consolidating most funding streams.

Today, research funding is a central part of higher education policy and funding in all developed countries. In the UK, for example, HESA figures show that in 2022 it accounted for 15% of university incomes and totalled over £7bn. This was a somewhat lower percentage than in 2015 (18%): the period between saw a growth in the importance of fees and teaching income, and also, of course a huge growth in high-fee overseas recruitment. But on average, across the last decade, almost one pound in five of the sector's income was for research, and in many institutions, a good deal more. Most of this came from government.

The most important mechanisms which governments use to support research are:

1. Grants to universities
2. Grants to individuals and research teams
3. Grants to specialist research institutions

## GRANTS TO UNIVERSITIES

Grants which are made directly to universities allow them a significant degree of freedom in how they use the funds (and any sort of block grant tends to be fairly fungible, whatever the formal restrictions). They can be subdivided into standardised block; formula-driven; and competitive. The first of these simply earmarks a sum of money, as a way of declaring and hopefully ensuring that all, or most, academic staff receive time to carry out research and scholarship. A good number of public (i.e. state-funded) European systems control academics' terms and conditions quite tightly, and so can mandate time allocations as part of their basic grant either to every university, or to every university of a certain type – eg those allowed to award research degrees. Formula-driven block grants (used by eg Australia) typically involve some degree of targeting, and may be designed to foster the development of centres of excellence. They also tend to become politically controversial, with politicians pushing for funding to be spread more evenly. This has been the case in Canada in recent years.

Competitive block grants to institutions are designed to foster and reward strengths, with the UK's Research Excellence Framework (REF) a well-established example. QR (Quality-related Research) funding in England, which is allocated on the basis of universities' REF performance, totalled £1.974 billion in 2022-3: this is over a quarter of the research funding total reported by the sector. The huge impact that research reputation has on university income, via fee levels that can be charged (Wolf and Jenkins 2018), further increases the importance of the REF to university incomes.

'QR funding' was designed, from the start, to generate unequal allocations (and increase competition). Its administration by an arms length body, and heavy use of peer reviews, has somewhat insulated it from political pressures. But there is now growing pressure to ensure less geographical concentration of research funding in the South East and the 'golden triangle' of Cambridge-London-Oxford, and also to reduce the importance of outputs (demonstrated excellence) in determining allocations. Other countries which operate competitive grants of this type include Sweden.

## RESEARCH GRANTS TO INDIVIDUALS AND TEAMS

Competitive research grants, open to all university-based researchers, are favoured by a very large proportion of developed country governments, and dominate US Federal funding in particular. This is also the model preferred by charities. The most important single awarder in the UK is UKRI – UK Research and Innovation, which brings the previously-autonomous research councils, the administration of the REF and innovation funding together in a single organisation. In 2022-3 it made competitive awards worth £3.1 billion.

Competitive funding in principle in principle rewards quality, encourages innovative, blue-

skies thinking, and gives access to researchers anywhere. However, as research publications have come to dominate academic careers, major drawbacks have emerged. Academics spend an enormous amount of time and effort writing proposals and bids only a small proportion of which get funded. (27% for UKRI in 2022.) The average age at which US researchers obtain their first NSF grant (as Principal Investigator) is now over 40.

## SPECIALIST RESEARCH ORGANISATIONS

Many countries fund specialist research institutes and centres, separate from universities. This has not been the dominant UK approach, although the country does have a number of such centres. Canada, which funded a great deal of its public research through such centres in the mid 20th century, reduced their importance but is now rethinking this approach. The most distinctive pattern is that of France, where CNRS (Centre national de la recherche scientifique) was and is a huge national research organisation, funded and organised quite separately from universities, although many of its researchers worked on university campuses. In recent years, There have been recurring discussions in the UK about the value of specialist centres, and the desirability of opening more. But given funding pressures, and likely strong support for maintaining funding streams which offer sector-wide access, it is unlikely that there will be a major shift in this direction.

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# Is there a Baumol Cost Disease in UK Higher Education?

**Chirantan Chatterjee**

Let me state it as I see it. Post-pandemic higher education worldwide, more so in the UK, is in non-trivial trouble. For educators, there is an explosion of technology-induced disruptions from the rise of generative AI (Cao & Dede 2023). This has deep implications for the post-Cold War learning environment that has been prevalent in the liberal democracies of the West.

For learners, it has already started to manifest at various margins, impacting how households trust and choose education, also ponder on enrolling in costly degrees (like MBA education especially post-pandemic). Modes of education delivery have also moved online or hybrid, impacting learner choices and learning environment with lecture attendance and student-lecturer engagement evolving as a result (Xu et al. 2020).

In addition, it is now much discussed that a cap on the ability to charge market rate tuition fees on home students in the UK means that universities are pivoted strategically (yet riskily) towards international students. City ecosystems in across the UK are also challenged with large influx of international students.

Let's also remember that 2024 is an election year in the UK with the issue of international student visas getting entangled into wider debate on immigration. A recent report by FT using Enrolly web platform data points out that actual deposit payments from international students are down 37% year-on-year, likely due to new visa restrictions on families of international students. Some universities are seeing the proverbial writing on the wall and reducing entry tariff for international students to stay competitive. Needless to say, that this would ultimately impact quality of education and learning.

Overall, saying it is a perfect storm is an understatement. Universities are also dealing

at the same time with rising wage costs, debates on within university wage inequality, voluntary severance strategies, introspecting on infrastructural upgrading concerns (scientific or otherwise) and are bogged down with contractual tensions given industrial action and marking boycotts all pervasive in the last couple of years. In a nutshell, the supply and demand side issues in higher education are in the midst of a triangle of sadness but this is also causing bad behaviour and a triangle of viciousness between the learners and their educators, educators and their peers, and in some cases even with the learning environment; impacting critically the professional staff service employees of universities.

How do we resolve this situation and safeguard the future of UK higher education ecosystem? While the canvas is broad and complex, a bit of blunt economic analysis would not do us any harm. This appears to be classic market failure whereby end costs have increased and prices have risen over time in a segmented fashion for international students. Traditionally strong origin locations such as China, India, and Nigeria are slowing down due to a complex set of factors. As a consequence, the ability of universities to recoup even a semblance of mark-ups is diminishing over time as costs continue to grow faster than price.

Usage of AI or other technology-based solutions might offer some efficiency gains in the short run but they may not do enough to bridge the

gap. They could have unintended consequences in aggravating the trust deficit in HE and derailing long term objectives of human capital accumulation & economic growth (Hanushek & Woessmann 2010).

What we are witnessing could also be symptoms of the Baumol Cost Disease (BCD). BCD is a phenomenon whereby the broader economy witnesses price and wage inflation, but in certain services sector, the wages remain relatively compressed due to lack of innovation or productivity growth. As wages stagnate, workers switch jobs and thereby reduce bargaining power of the existing workers. William Baumol described this phenomenon using the example of a string quartet.

Is the BCD example appropriate for UK HE? It is difficult to ascertain without rigorous empirical analysis. Assessing productivity of educators is not an easy task. Outputs of HE is multidimensional and classroom teaching is only one dimension of that matrix.

Areas of investigation relating to BCD should be across degree programmes (UG or PG), type of universities (Russell Group and non-Russell Group), and subjects (STEM and non-STEM). This analysis should also be linked to broader macro-shifts such as the 2010 home student price cap, 2016 Brexit, and Covid-19. Furthermore, its should be linked to the role of technology as a mitigating mechanism. Unfortunately, these questions remain unanswered and unnoticed.

Higher education contributes approximately GBP 70 billion annually to the UK economy. It also carries significant soft-power implication for the UK. Evidence-based thinking should thus be pushed now rather than later for this critical sector to secure its long-term future.

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# Fair access to higher education in England: Can equality of opportunity advance alongside student choice and competition, or do we need a new settlement?

**Christopher Millward**

The approach to financing undergraduate education in England has its origins in reforms implemented from 2006, which introduced income contingent loans for tuition fees up to £3,000.

Fees have since increased to £9,000 from 2012 and £9,250 from 2017, and re-payment terms and maintenance support have been subject to successive changes aiming to balance affordability to students, graduates and the exchequer. There have also been reforms to the regulatory landscape, including an access regulator from 2006, student information requirements from 2012, removal of entry controls from 2015 and a consumer-focused regulator, incorporating the access function, from 2018.

The objective for these reforms has been to increase higher education participation, whilst sustaining the financial health of universities and minimising public expenditure. Governments have forecast that more graduates will drive productivity and economic growth. They have also expected increasing higher education participation to improve equality of opportunity, making qualifications rather than origins more likely to determine destinations. Other essays in this collection explore the first two objectives, so this essay focuses on the third.

Two principal tools have been deployed to deliver the equality of opportunity objective: system reforms, which have sought to both increase and diversify the availability of places

by promoting choice and competition; and regulation, which has required universities to implement measures to promote equality of opportunity for under-represented groups in return for charging higher fees. Since 2006, the scope of access regulation has extended from bursaries to mitigate the impact of higher fees on the poorest students to a wider range of measures intended to raise the ambitions, preparedness and attainment of students in schools.

For equality of opportunity demonstrably to improve, there should be a reduction in the gap between the most and least represented groups gaining entry to higher education, particularly to the universities with the highest academic entry requirements, which are more likely to lead to the most influential and well-paid jobs. In England, however, increasing higher education participation has been associated with improving rather than equalising opportunity, with lower increases to the number of students from the least advantaged backgrounds entering higher education during the 21st century to date than those from the most, and the gap remaining widest in the most selective universities.

Why has this happened? Family ambitions drive increasing higher education participation

worldwide. In unequal societies and competitive hierarchical higher education systems, this causes stratification. Families seek advantage within examinations through private education, tutoring and proximity to high performing schools. Universities focus on selecting students with the highest entry grades, which figure positively within league tables. England has been particularly vulnerable to stratification due to the extent to which family background, resources and location influence school results, and the primacy given to student choice and competition within recent higher education reforms.

Does it matter if the opportunities to access higher education, particularly in the most selective universities, are improving but not becoming more equal? Recent analysis suggests that England's universities are stimulating educational progression in their surrounding communities and attracting young people from other areas, then both retaining and attracting graduates and investment. This is leading to concentration of highly skilled jobs and wages, and polarisation between people and places, reflected in the different attitudes of graduates and non-graduates to Brexit and their votes in the 2019 general election.

Universities rely on the global movement of people and knowledge, particularly in England where we recruit around a quarter of staff and students from outside UK. Departure from the European Union has, therefore, proved strategically, practically and ideologically uncomfortable. This is, though, just one ingredient within a broader set of challenges to universities arising from the current government's scepticism about the benefits to young people, society and the economy from increasing higher education participation.

This positioning could change following the 2024 general election. It may also be accompanied by measures to balance choice and competition with stronger incentives for collaboration and coherence across all forms of tertiary education,

as the governments of neighbouring countries have been proposing. Whatever happens, the lesson for universities from the last two decades is to take responsibility for improving equality of opportunity themselves. That means balancing the competitive pursuit of national and international hierarchies with the partnerships needed to open up access, not just in the cities where most universities are located, but also the towns and rural areas that they are perceived to have 'left behind'.

# Foundation Year, Access to HE and Academic Performance: What do we know so far?

**Gabriella Cagliesi and Mark Clark**

Educational policymakers face the challenge of balancing access to education, quality assurance, and alignment with societal needs. A notable example of this tension is England's Higher Education (HE) policy, evolving significantly over the past three decades. The shift from direct government funding to increased reliance on student-paid tuition fees began in 2012, aiming to foster competition among diverse providers for quality of provision, improve value for money, and enhance the overall quality of higher education. In the government's view, removing the student cap and introducing a maximum fee would have led to higher-ranking universities charging higher fees than the lower-ranking ones to reflect their status. However, the fee-signalling "reputation" role failed to materialise, as no public university in England wanted to signal a lesser status. As a result, all charged the same maximum fee. With the failure of a "price mechanism" and the removal of a cap on student recruitment, the only mechanism left to allocate students was the institution's capacity to absorb students' demand. In retrospect, the well-intended policy to enhance the quality of education has produced unintended consequences to prompt providers to compete in recruitment efforts to fill expanded dorms and larger lecture theatres rather than in prices.

The evolution of this business model also affected the nature and provision of Foundation Years (FY) programmes that were initially designed as a pathway to promote equal opportunity inclusivity and broaden access to HE but that have become a warranty policy to secure numbers for the future. According to

the Department for Education (DfE) elaboration of Higher Education Statistics Agency (HESA) data, FY courses started in 2010/11, the overall entry into FY courses rose at a steady pace from 2010/11 until 2014/15. From 2015/16, onward FY courses showed a strong growth, which aligns with the removal of the student cap for the incumbents and with the entry of new participants into this particular segment of the higher education market. Back in 2011, there were 678 foundation year courses available at 52 institutions. By 2021/2022, the number of available courses had rocketed to 3,717 across 105 institutions (122 in 2023).

Following these developments, the government became concerned that the FY set up may incentivise HE providers to expand student numbers in cost-effective (less expensive to teach) courses with limited benefits for graduates and the economy. In response to these concerns, the government initiated the Post-18 Education and Funding review in 2018, led by the Independent Panel chaired by Sir Philip Augar. The recommendations from this review, coupled with the Department for Education's (DfE) Higher Education policy consultation in July 2023, prompted the government to introduce measures, including a 40% fee reduction from September 2025 (to the level of the Access to HE fee limit) for various FY courses, in subjects like business and social sciences with minimal subject-specific entry requirements.

To back up the decision, the government cited an IFF research report focusing on the costs of FY provision in comparison to the first year of undergraduate degrees. The study, qualitative in nature and limited to a small sample of publicly

funded English Higher Education Providers (HEPs), examined the expenses associated with running foundation year courses in comparison to traditional routes into HE. It is crucial to note that the research did not offer a comprehensive financial audit of FY costs, and the IFF advised caution in interpreting some findings due to limited available data.

Indeed, when investigating the critical topic of the experiences of FY students, there is surprisingly scarce available data. Only recently the government published new ad-hoc statistics on FY, highlighting various characteristics and outcomes associated with FY courses in comparison to traditional routes into HE. While this marks a positive step in data availability, using this level of aggregate data and basic statistical analysis, may result in incorrect inferences, as the accuracy of conclusions relies on the comparability of the groups. The limited size of the FY student cohort may hinder meaningful comparisons, and variations in group compositions regarding factors like socioeconomic status, ethnicity, prior academic achievement, and institutional variables can influence both student experiences and outcomes. To understand the genuine impact of FY courses, careful consideration and adjustment for these variables are necessary.

### **A MORE NUANCED APPROACH: ADMINISTRATIVE INSTITUTIONAL DATA**

We believe that the government's reliance on aggregate data and accounting cost-analysis may overlook the distinct individual gains and long-term advantages offered by FY courses, as well as the overall societal benefits of these programmes. Moreover, while aggregate statistics and simple single-dimension group comparisons (proportions, ratios, means, etc.) are easy to compute and interpret, they lack the depth needed to comprehensively assess the impact of diverse pathways into HE, neglecting distributional dimensions. To address these limitations and

provide a more robust comparisons one would need to consider outcomes of students with similar characteristics (sex, socio-economic background, entry qualification, etc.) across the various routes into and through higher education because aggregation of dissimilar students can lead to draw inaccurate conclusions.

Institutional data specific to the particular educational institution, can serve this purpose because they can provide a more accurate and tailored picture of the local context, student demographics, and academic programmes. Following this idea, we utilised longitudinal institutional data from the University of Sussex Business School (USBS) to investigate potential performance differences between FY and NFY students in the HESA Business and Management subject areas from 2015.16-2020.21, with the aim to discern whether FY courses offer advantages, particularly for students from disadvantaged backgrounds. The dataset, covering both UK-domiciled and overseas students, provided students' detailed information, including their biographical characteristics, prior learning, entry qualifications, FY course enrollment in Business, Management, and Economics (BME), learning needs, adjustments like extenuating circumstances claims, and degree outcomes. Our focus was specifically on UK-domiciled students (over 3000 students), who are those entitled to borrow from the government and are central to government's concerns about Value for Money in HE education.

We conducted simple mean difference tests, Propensity Matching Score (PMS) tests, and based on the PMS' insights, we applied a more nuanced multi-factor regression analysis to compare the performance of FY and NFY students. The government's simplistic approach of comparing group averages reveals a statistically significant performance gap that diminishes along progression stages. However, when using PMS methodology to compare averages of "comparable" samples, FY

students outperform matched NFY students, showcasing the beneficial effects of FY courses. Notably, in areas considered disadvantaged (using POLAR4 low quintiles as a proxy), FY courses demonstrate potential beneficial social mobility effects, with FY students outperforming comparable NFY students, especially in obtaining first-class degrees. While the advantage of FY diminishes along progression levels and disappears for final “good degrees,” but it remains pronounced when focusing on first-degree honour awards.

In our multi-factor analysis, we explored the intersectionality of FY with various factors, ethnicity and POLAR4 variables, revealing nuanced insights. In the first year of undergraduate courses, FY programs show a positive impact on BAME students in lower POLAR4 areas (Fig 1). Importantly, FY course, by not disadvantaging BAME students in the highest POLAR4 quintile compared to White students, may have a potential role in mitigating ethnic disparities in academic achievements.

To explore if this were the case, we considered the end of the academic journey and looked at final “good degree” classification. We found that within each POLAR4 group of interest, the ethnic attainment gaps between FY and NFY students diminished, contributing to an overall reduction in disparities, though less so for Black students (Fig. 2). However, because engaging in a placement program (or a study abroad period) is linked to positive outcomes, Black students participating in placement programmes, representing 99% of BAME students into these schemes, also exhibit the

Fig. 1: Marginal effect Average Stage 1: Polar 4 (Lower)

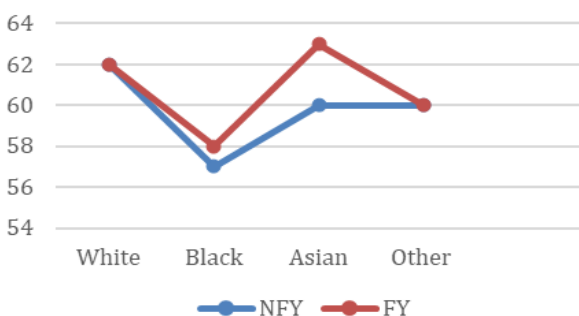


Fig. 2 Marginal effects Good degree Classification

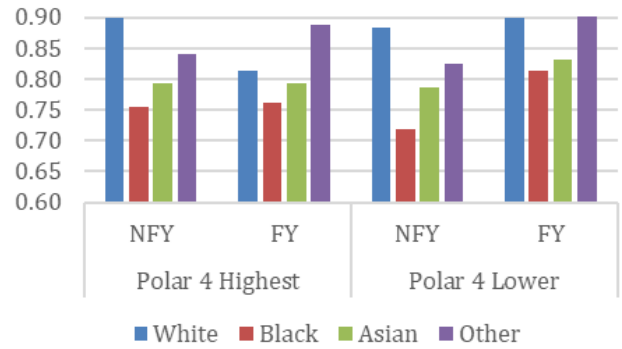
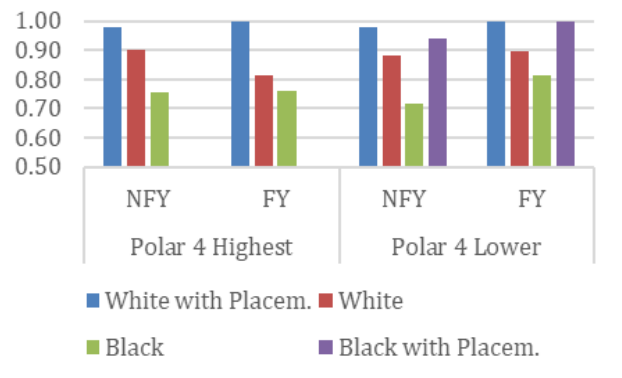


Fig 3 Marginal effect Good Degree and Placement



most substantial reduction in attainment gaps (Fig. 3).

In terms of first class degree classification, FY students underperform NFY counterparts in each ethnic group and exhibit the most significant attainment gaps with White students. The placement factor once again plays a crucial role, dramatically increasing the probability of obtaining a first-class degree, especially for FY students.

While acknowledging the caution required when dealing with small sample sizes, it appears that both placement programmes and FY schemes, when FY courses are specifically designed to widen participation in HE, contribute to a noteworthy reduction in the attainment gaps between BAME and White students.

By leveraging institutional data, our approach underscore the nuanced nature of the FY

courses, revealing the interplay of factors such as student placement and socio-economic and ethnic background on FY's impacts on academic outcomes. The main lessons to learn are that more empirical analysis and comprehensive institutional data are required to determine whether FY courses deliver value for money and that the government's reliance on aggregate data and the accounting cost-analysis approach needs to catch up in capturing the varied individual gains, long-term benefits for students entering higher education through different routes, and the broader societal advantages of these programs. As we strive for equity in education, understanding the interplay of all these factors becomes paramount in devising effective strategies and policies to address and further minimise disparities in academic achievement.

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