

Higher Education: Progress, challenges and a new scheme to promote voluntary giving

February 2007

Discussion document, not a
statement of government policy



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Progress in higher education since 1997

Challenges facing the higher education sector

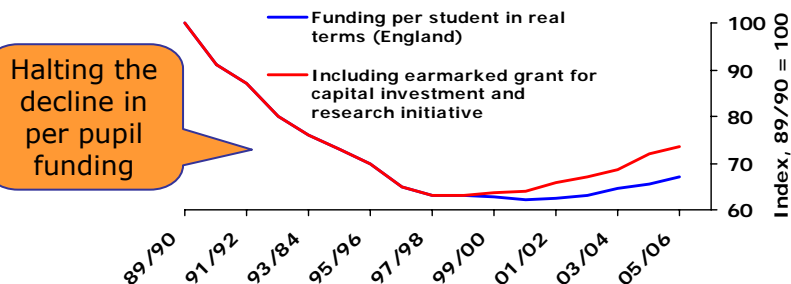
The new matched-funding scheme for voluntary giving

Since 1997, the government has increased funding and competition to support the HE sector in addressing three key challenges

The government has **facilitated sector-led improvements** through:

In order to **help the sector address three challenges** that existed in 1997:

Increased funding:



Increased competition and transparency:

- Strengthening market forces in the sector, most notably through tuition fees
- Ensuring accountability for teaching and research
- Providing students with information to make informed choices, for example through the National Students Survey

1. **A need to increase and widen participation** to ensure the sector produced enough graduates and was accessible for all
2. **Under-funding for teaching** and a lack of frame-work to support its quality
3. **Lack of investment in research** compared to other countries

The most significant reform has been the introduction of tuition fees. As well as increasing funding and competition, this should bring other benefits

Time-line of reform

97
98
99
00
01
02
03
04
05
06

1998:

- £1000 per annum, up-front tuition fees introduced, with subsidies for the poorest students
- Income contingent, low interest maintenance loans introduced

2006:

- Variable fees introduced, capped at £3000 p.a., paid back after earning £15000 p.a.
- Increase in student loans for fees and increased maintenance
- Reintroduction of maintenance grants up to £2700 p.a.

Potential benefits of differential tuition fees

Reducing a regressive government subsidy:

- Reducing tax payers' subsidy for qualifications that, on average, bring large financial returns¹
- Allowing government funds to be redirected towards poorer students

Promoting a market in higher education:

- Encouraging institutions to improve standards to attract students and demand more from their students to protect their brand
- Encouraging institutions to play to their strengths, creating a diverse system that provides greater choice

The Leeds University partnership agreement, devised by students and staff after the introduction of fees, sets out what each can expect from the other

Promoting students as customers not users:

- Students have a greater stake in their education so may become more committed (less likely to drop out) and demand higher standards²

Encouraging students to consider the needs of the labour market:

- Facing more of the true cost of their degrees, students pay more attention to the financial returns that different subjects bring

(1) Machin and Vignoles *Education Policy in the UK*, Centre for the Economics of Education, 2006 (2) For example see interviews with students at <http://education.guardian.co.uk/egweekly/story/0,,1974594,00.html>

Fears that fees would damage attempts to widen participation were addressed in the design of the policy

Concern

Tuition fees form a **financial barrier to prospective students**

Tuition fees **exacerbate existing cultural barriers to higher education**

Policies to mitigate

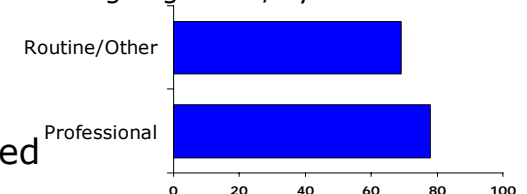
- Fees are **paid back out of graduate earnings over £15,000**, with the interest rate charged equal to inflation
- **Maintenance grants** have been reintroduced. **Half of new students are eligible¹**
- High fee charging institutions must sign an '**Access Agreement**' and offer bursaries for low income groups. **By 2010-11, 26% of the additional income that universities receive from fees will fund bursaries²**

Example student with household income of £15000 p.a.:

- In 1999, received £4300 p.a loan (2006 prices³)
- In 2006, received £3205 p.a. loan and £2700 grant. In addition, high-fee charging institutions had to offer a bursary of at least £300

- **Raising standards in schools-** students from all backgrounds have similar likelihoods of attending HE, *if they gain a level 3 qualification⁴* →
- The **Aimhigher** programme aims to increase participation by helping members of under-represented groups meet existing students and academics
- In 2005/06 £386m was allocated to widen participation and raise retention⁵
- The **National Student Survey** helps overcome informational barriers for those with little knowledge of the sector, by providing information on student satisfaction and graduate labour market prospects

% with level three qualification going to HE, by social class



(1) www.dfes.gov.uk/pns/DisplayPN.cgi?pn_id=2005_0078, DfES, 2005 (2) OFFA, 2006 (3) Adjusted using RPI

(4) Youth Cohort Study 2005, DfES, 2006 (5) *Widening participation: a review*, HEFCE, 2006

Policies to increase the size and diversity of supply have helped to ensure **participation** continues to rise, albeit slowly

Policies

- **Investment to increase participation** and maintain unit costs has allowed institutions to expand, and new ones to open, to meet demand
- **Part-time study has been encouraged**- there are now 38% more part-time students than in 1997/98¹
- **The Higher Education Credit Framework** allows periods of learning to be recognised

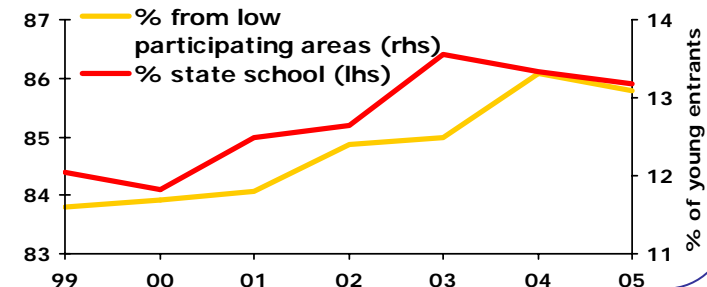
Evidence of impact

Participation has continued to rise:

- Between 1997/98 and 2005/06 HE enrolment has increased by 23% at undergraduate level and 28% at post-graduate level². There was a dip in 2006, as some students brought forward their study to 2005 to avoid paying higher fees
- 42% of 18-30 year-olds participated in HE in 2004/05, up from 40.5% in 1999/2000²
- 28% of the UK population aged 25-64 had attained tertiary education in 2003, up from 21% in 1994³
- Applications to begin HE courses in 2007 were 6.4% higher than a year earlier, more than offsetting the 3% fall in 2006⁴

Participation has widened a bit:

- HEFCE have found “real progress in embedding widening participation as part of the core mission of all HE institutions”⁵
- Institutions have become slightly more representative⁶
- 13% more state school students now attend Oxford and Cambridge, compared to 1997⁶



The strengthening of competition in higher education and extra funding have helped improve the **quality of teaching**

Policies

- **Market-based reforms** encourage institutions to raise standards to attract students
- **Increased investment** has helped institutions raise spending on ICT and library support services by 25% since 1997¹
- **Initiatives** to raise standards:
 - The Quality Assurance Agency ensures institutions are more accountable for teaching quality
 - The Higher Education Academy and Centres for Excellence in Teaching and Learning help institutions improve students' learning experiences
 - The Higher Education Credit Framework enables students to choose to change institution if they are dissatisfied

Evidence of impact

Student retention and satisfaction has risen:

- The UK drop-out rate is one of lowest in the OECD²
- Non-completion rates in England are lower than they were in 1998, despite increased participation¹
- 81% of students are satisfied with the quality of their university course³

Returns to degrees and employer satisfaction remain high:

- The rate of return to UK degrees is higher than the OECD average¹
- The economic benefits to attaining a degree amount to £160,000 over a working lifetime⁴
- 81% of graduate employers think that graduates are well prepared for work⁵

Share of the international market is high:

- The UK is second only to the US as a destination for overseas students¹, with the number increasing from 201,000 in 1997/98 to 296,000 in 2005/06⁶

Increased funding and other measures have helped maintain the quality of UK **research** and encourage institutions to work more closely with business

Policies

Research:

- **Continued support for research excellence**, a competitive system of funding that rewards excellent research wherever it is found
- **Research spending increased** by over 70% in real terms between 1996/97 and 2006/07¹. This has allowed academic employment to increase by 29% since 1997/98²

Links with business:

- The establishment of the **Higher Education Innovation Fund** to facilitate knowledge transfer
- **Knowledge exchanges** link less research-intensive institutions and business

Evidence of impact

Research:

- Although the UK has only 1% of the world's population, it carries out 5% of world research³, produces over 12% of all cited papers (up from under 10% in the late 1980s³) and receives around 10% of internationally recognised science prizes³
- 55% of research staff work in departments containing work of international excellence, up from 31% in 1996⁴

Links with business:

- Between 00/01 and 03/04 **the total value of HE consultancy income increased by 80%** and the total value of collaborative research income increased by 21%⁵

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The higher education sector is critical to Britain in the 21st century. Three global trends pose five challenges for the sector

The HE sector is **vital to Britain** in the 21st century

...

...three trends are **putting pressure** on the UK HE sector to perform even better...

...resulting in **five challenges** facing the sector

- Training future workers
- Non-economic benefits of more highly skilled individuals
- Exploring frontiers of knowledge & retaining expertise
- Conducting new research to develop our economy and improve our quality of life
- Addressing many of the local and increasingly global challenges of the twenty first century including global warming and poverty

Increasing standards of world-class universities

- OECD HE spend has risen by 44%, but by only 20% in the UK¹
- An increasing number of specialised world-class universities exist, including in China & India

Increasingly global market in talent & research

- 20% of new professors in the US are foreign⁵
- The number of students studying abroad increased 40% since 2000⁶
- Industrial R&D is increasingly being globally sourced

Increasingly knowledge-based UK economy

- Job growth has been 16x faster in knowledge-based industries²
- 'Innovatively active enterprises' have twice as many degree-level employees.³ These are in high growth sectors (e.g. IT & media)
- Universities increasingly contribute to the UK economy: £45bn output and 2.5% of jobs⁴

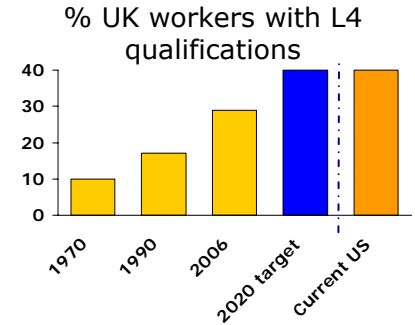
1. **Developing skilled workers** for the knowledge economy
2. **Innovating with industry** to produce business-relevant research
3. **Competing globally** in research and talent
4. **Enhancing internal governance & management** to lead effective responses
5. **Developing a wider resource-base** to fund excellence

1. The increasing demand for skilled workers requires wider participation in higher education and greater collaboration between business and HEIs

Challenge

Demand for graduates will exceed projected supply

- Leitch has made the case for over 40% of workforce to have higher-level skills by 2020
- 70% of the 2020 workforce is already in work, so enabling current workers to up-skill is a high priority
- In fast-growing service-based sectors, innovation/R&D occurs within companies by graduate employees



Response

New forms of collaboration needed between HEIs and industry, supported by government

- New forms of life-long learning needed to raise HE participation for 30+ year olds in work (6% currently in HE)
- Cooperation is needed between employers & HEIs, including on new curricula (e.g. generic employability skills), structures (e.g. on the job training), co-funding, and increasing the HE presence in the £4bn market for continuous professional development^{1,2}
- HEIs need to increase links with local & regional communities to understand skills needs
- Government needs to improve secondary education further to ensure more 18 year olds are ready for HE
- High performing FE institutions will have the right to award their own foundation degrees

Brunel University has been a pioneer in working with industry and developing innovative course structures:

- Pioneered sandwich courses
- Understood the needs of local employers
- Developed courses tailored to student needs

2. The need for business-relevant research to drive innovation requires greater collaboration between industry and HEIs

Challenge

University research is key to UK competitive advantage,¹ but **UK innovation performance** remains too low

- The UK is only 10th in innovation in the EU³ & historically weak in exploiting science. Our ability to develop entirely new-to-market products is low³
- HE commercialisation activities are still in their infancy (30% of HEIs started commercialisation post-2000), though improving: HEI consultancies & licenses have increased⁷ and 20 HEI spin-outs have floated for a total of £1bn+⁴
- The challenge is to increase business-university collaboration⁸ around the applicability, dissemination, & relevance of research

Response

Policies need to encourage **university-business co-production of knowledge**

- The reformed RAE will part-allocate research funding on the basis of industrial funding & encourage joint working
- Further reform to research funding is needed to ensure new subjects receive sufficient funding, e.g. creative and new media sectors
- Higher Education Innovation Fund projects are successful.⁵ However, good industrial exploitation remains dependent on the attitude of companies⁹ & generating strategic engagement
- There is a case for more funding for IP protection & seed-funding that help create 'investment ready' ventures⁴

The **University of East Anglia** provides research for industry (e.g. biomedical and environmental sciences) and has strong links to the financial services sector and Norwich Research Park. The Park has excellent research results and the number of graduates who stay in the local area is very high²

3. Increasing global competition for talent and research requires new forms of collaboration, specialisation and reduced barriers to fair competition

Challenge

Universities have to succeed in a **global market** for research & talent

- There is global competition for talent in top students, researchers & lecturers
- Institutions need to compete at a world class level in teaching & research
- A fully global HE market does not exist. Barriers to competition inhibit the mobility of staff, students & qualified individuals across borders
- HEIs are finding that international & local collaboration with other HEIs, industry, communities & government is necessary to exploit the opportunities offered by globalisation. 30% of top UK research is collaborative¹
- Universities need to prepare students for a more global future

Response

Government and HEIs are working to promote **international competition & collaboration** - much remains to be done

- HEIs will need to attract excellent lecturers & researchers. In order to keep excellent UK students & to attract international ones, HEIs need to identify & play to their strengths
- Concentration may occur in some research & teaching
- The UK government is currently leading the Bologna process to improve the recognition & comparability of qualifications within the EU
- HE leadership & cross-border funding is needed to stimulate collaboration in research, exchanges, partnerships & enterprise

The Prime Minister's Initiative for International Education
The UK HE sector's international links are important for the UK's **trade & international influence**, **global peace and security** and **solidarity**. The Prime Minister's leadership and support of UK HEIs abroad has been welcomed by Vice-Chancellors

Networks like the **Worldwide Universities Network** help HEIs & academics lever the advantages of international collaboration, including **developing solutions to global problems**. It is brokering pioneering research by US & European academics on a **soil life-cycle**, critical for building a model like the climate change model

4. The greater pressure to perform requires HEIs to continue to improve their governance & management

Challenge

Competition drives HE **accountability**, but **good governance & management capacity** need to be developed

- An increasingly dynamic & competitive HE system will drive accountability and rewards excellence, but HEIs will need to have developed the internal management and governance systems to enable them to compete
- HEIs need expertise in identifying and developing their mission, strategic focus and offer around curriculum, facilities, research priorities, target stakeholders & funding

Response

Substantial progress has been made because of the sector's autonomy & diversity. The government **trusts HEIs** to develop its own responses

- Good progress on governance over the past few years shows that HEIs respond dynamically to the challenges facing them and have developed their governance and internal management capacity to suit their own context, arrangements, mission & history
- We should recognise & praise the efforts of the lay volunteer council members who bring in expertise & promote standards
- Government trusts HEIs to develop the independent internal management & governance arrangements that can help them meet future challenges
- Government has acknowledged HEIs' progress by reducing administrative burden using the single conversation

5. Cementing the excellence of the UK HE system will mean continuing to address questions about resources

Challenges

Meeting these challenges will require substantial **investment** from a range of sources

The level of funding and its source:

- The sector will need to increase participation, meet the increasing skills needs of employers and remain globally competitive. But overall public and private funding levels are still lower than leading competitors, particularly in the US
- It will be critical to ensure institutions continue to develop relationships with alumni and business, that might yield revenue in the future
- Despite the introduction of tuition fees, government continues to heavily subsidise teaching

The allocation of government funds:

- A substantial subsidy is provided by cheap student loans

Ensuring the system delivers the optimal outcome:

- As institutions become more financially autonomous, the government will want to ensure that the system delivers overall outputs that are in the wider public interest, e.g. sufficient students studying STEM subjects and languages

Response

Potential responses need to be considered

- Steps are already being taken to encourage institutions to develop relationships with alumni and business
- The 2009 review of fees is an opportunity to consider many of these wider issues

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Our vision is for an autonomous, specialised and excellent HE sector. We should encourage private contributions to this public good

The **challenges** facing the HE sector...

- Developing skilled workers
- Innovating with industry
- Competing and collaborating globally
- Continuing to enhance its own internal governance & management
- Developing a wider resource-base fit for purpose

...can be addressed by an **autonomous, specialised & excellent** set of HE institutions...

- **Autonomy:** HEIs with increased financial autonomy who are accountable by their performance
- **Specialisation:** HEIs who have identified their own mission and play to their strengths
- **Excellence:** institutions that can compete globally, lead regionally, or provide the vocational skills local communities require in the areas of research and teaching – all excellently

...possessing **endowments** built up through **private donation**

- Multiple revenue sources and endowments drive **financial autonomy**
 - Funding links between community, alumni, the private sector and HEIs will build relationships and a focus on **stakeholder needs**
 - Increases in funding for non-core costs will help raise HEI's standard **from good to excellent**
- ...supporting voluntary-giving was a 2005 Labour manifesto commitment*

We want to **reawaken the old strong philanthropic spirit of support** for the UK HE sector that existed for centuries until relatively recently

But philanthropic giving to the UK HE sector has been historically very low because of systemic reasons

UK spend on HE is lower because **other countries raise more private income**

Private fundraising is underdeveloped in UK HE compared to the US

Three factors have contributed to low UK levels of HE philanthropy

- **Public HE investment is comparable** across countries. The significant differences in total spend comes from differences in private funding. The UK is relatively in line with Europe but not other OECD countries

- 31% of Harvard's income comes from its £13bn+ endowment; the average UK HEI receives only 1.4%. Harvard is a private & elite college, however:
- More than 200 US HEIs have endowments £100m+, only 7 UK universities do
- The average top 500 US HEI has an endowment 14 times the average top 100 UK HEI
- World class UK HEIs like Imperial or LSE have endowments of less than £50m

Attitudes:

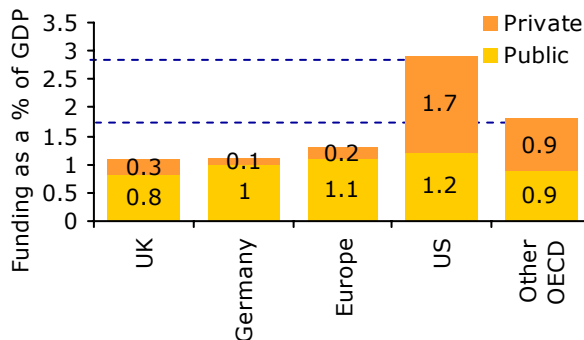
- Historic reliance on public funds: a deep feeling that only the state can be a proper funder of HE
- Legitimacy of fundraising in academia: concern that a culture of fundraising is incompatible with the proper culture of an HEI

Capacity:

- Lack of a professional fundraising operation: a small number of UK HEIs have adopted a professional approach to fundraising; lack of well-trained professional fundraisers

Financial Systems:

- Lack of precise information
- Lack of transparency of financial accounting
- No clear definition of philanthropic gifts



(1) Figures as a % of GDP, 2003 data from OECD, 2006

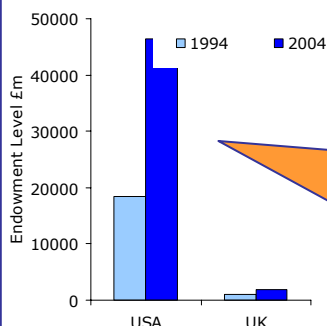
Overseas experience suggests that a matched funding schemes could sustainably increase voluntary giving, if tailored to the English context

Rapid growth in the private endowments of US state universities is partly due to matched funding schemes

Small schemes have worked in the UK and large schemes in countries similar to the UK

A matched funding scheme needs to be **tailored to the English HE sector**

US/UK growth in endowment levels, 1994/2004³



These enormous endowments have generally been created in the last 20 years, with substantial growth occurring over the last decade

- The matched-funding scheme in **Ontario, Canada** was a major success, although Canada started out with very similar cultural attitudes to the UK of private giving to HEIs.⁴
- **St John's College, Cambridge** has recently run a successful £1m scheme

- **Large number** of HE providers
- Very different levels of **fundraising capacity**
- **Highly stratified** set of institutions
- **Dominance** of two universities in fundraising

Schemes have driven successful alumni networks and effective financial systems, but required upfront investment, time to pay off and senior management involvement

Location	# HEIs	Yrs	Govt (\$m)	Private (\$m)	Matching ratio
Conn. US	15	6	62	150% ¹	1:1
Mass, US	5	2	25	150% ²	1:2
Ontario, Can	29	2	208	830	1:1
Hong Kong	8	1	128	167	1:1

(1) *Of target* (2) *increase in private funding* (3) Report, Task Force on Voluntary Giving to HE, 2004 (4) This was an income-only scheme

A £200m matched funding scheme accessible to all English HEIs would encourage private donations to the HE sector

A **new fundraising scheme** will help bring about a step change in voluntary giving

DfES will not finalise the details of the scheme until they have consulted the HE sector in the months ahead, but in broad terms:

- The scheme will run from 2007-2012
- Publicly-funded English institutions will qualify for one of three matched-funding schemes on the basis of how much they can raise
- There will be caps on grant contributions for individual institutions to ensure that the money is not concentrated in just a few institutions
- The majority (but not all) of HEIs will qualify for the first scheme which will match-fund donations on a 2:1 private to public basis
- The most successful of these institutions will qualify for more grant (with a higher cap) but will receive matched-funding on a 3:1 private to public basis
- All other English providers will qualify for a smaller-scale capacity building scheme (matched-funded on a 1:1 private to public basis)
- Institutions will have a three year window in which to raise funds up to the level of their cap
- If any institutions fail to reach their cap during this period, the resulting grant underspends will be carried forward into the following year, pooled and re-distributed between those institutions that have raised more than their cap over the previous round

The scheme is designed to be **inclusive & efficient**

- The scheme is **inclusive** - any HEI is allowed to participate
- The **diverse** nature of the HE system in England is reflected in the design
- **Success is rewarded** and weaker performers are assisted to get better
- There is an **incentive** to continue fund-raising once the capped figure has been reached, since this accesses further funds
- The design favours those who are not raising a lot at present, thereby ensuring that funding is mostly **additional**, but still allow the bigger performers to get the cash
- 'Light touch' **accountability**
- **Firm end-date**