

Treasury Committee

Oral evidence: Student Loans, HC 478

Wednesday 13 December 2017

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Members present: Nicky Morgan (Chair), Rushanara Ali, Mr Alister Jack, Catherine McKinnell, Kit Malthouse, John Mann, Wes Streeting.

Questions 92–187

Witnesses

[I]: The Rt Hon. the Lord Willetts; Lord Browne of Madingley; the Rt Hon. Professor John Denham.

[II]: Professor Janet Beer, President, Universities UK; Amatey Doku, Vice-President, Higher Education, National Union of Students; Professor Mark E Smith, Lancaster University, Chair of the Financial Sustainability Strategy Group, Higher Education Funding Council for England.

Written evidence from witnesses:

- [Rt Hon. Prof. John Denham](#)
- [Universities UK](#)
- [National Union of Students](#)

Examination of witnesses

Witnesses: The Rt Hon. the Lord Willetts, Lord Browne of Madingley and the Rt Hon. Professor John Denham.

Q92 **Chair:** Good afternoon, gentlemen. Thank you very much indeed for coming in. Just for the record—we also have an audience who are watching this on television, as well as those who are in the room—please briefly introduce yourselves.

Professor Denham: I am John Denham. I was the Secretary of State at DIUS from 2007 to 2009, and then I was the Shadow BIS Secretary after 2010, when the fees were introduced. I am now at Winchester University.

Lord Browne of Madingley: I am John Browne. I am a member of the House of Lords. I am a businessman, an engineer, and I spend a lot of time in not-for-profit activity, as well. I am Chairman of the Francis Crick Institute and the Courtauld Institute of Art, and I am the chairman of several businesses.

Lord Willetts: I am David Willetts, Executive Chair of the Resolution Foundation, member of the House of Lords, and Minister for Universities and Science, 2010 to 2014.

Q93 **Chair:** Lovely. Thank you very much indeed. I should just say, for the record, that I was Lord Willetts' PPS between 2010 and 2012, when many of the things we are discussing came into force. Lord Browne, I was going to start with you, because we will start with the report you wrote on fees. I particularly wanted to ask about Jo Johnson's announcement yesterday about the two-year accelerated degrees. Did you ever consider that as part of the report you wrote?

Lord Browne of Madingley: The report, which, of course, I signed and commissioned, was written by six of us about seven years ago, so it is a long time. I have re-read it. One of the aspects of it was to try to free up the university system—part-time, all sorts of different providers, and different schemes—and that is alluded to in the report. We made the point that all of these had to be subject to the same quality standards, the same participation standards, and the same financing standards.

Q94 **Chair:** I should just say that if any of the rest of you want to come in and answer questions, please do, but please also do not feel that you have to answer any of the questions. Obviously, you have a very distinguished business career. From a business perspective, are graduates with two-year degrees more or less attractive to employers? Does it make any difference?

Lord Browne of Madingley: I do not think it makes a difference if you get the right standard of person coming out the other end. A graduate is always tested nowadays on the job as well as on the degree certificate. That is quite important. People are interviewed; they are tested; they



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are given different assignments, and that is correct. It is important to be obsessed not just with the qualification but with the person.

Q95 **Chair:** Do either of the other panellists have anything to say, particularly about yesterday's announcement about accelerated two-year degrees?

Professor Denham: Moving towards accelerated degrees is important. I tried to do it with something called the workforce development programme when we were in Government, which was quite successful, and these were learn-as-you-earn degrees. The combination of the ability to learn for two years with the opportunity to learn with employers is critical to the direction in which higher education should go, and in fact we have gone too far towards the three-year residential degree for the young school leaver as such a dominant model of higher education.

The question about this week's announcement is whether it creates sufficient incentive for universities to do the work that is necessary to offer two-year degrees, and I think that the Government will end up having to ring-fence funding for these types of degrees if they really want them to become a substantial part of the market.

Lord Browne of Madingley: I recall taking a lot of evidence on this before we wrote this report, and I think all of us were very impressed when we took evidence from people who were doing part-time degrees. They were doing part-time degrees under some extraordinary circumstances, in order to learn and use it, often, for further employment. They were really determined, and we should make sure that everything is done to make that a very important option for people to undertake. Many people kept saying, "It is just because people would learn something for fun". That may be the case, but the bulk of people were doing something very important for themselves.

Q96 **Chair:** Lord Willetts, do you have a view on the recent announcement?

Lord Willetts: It is really important that students have the widest possible range of options: two-year courses, three-year courses, and longer arrangements for part-time students. Four-year courses are proving very popular. The more choice, the better.

Q97 **John Mann:** I want to talk about the impact on the economy. Is there any significant risk, in macroeconomic terms, from the current system of student financing that we should be aware of?

Professor Denham: I am not sure that the biggest risk—although it is not my area of expertise—is the macro-economic effects on the economy. I do believe that we are funding a higher education system that is poorly performing in national terms, because I believe that the growth in the number of graduates has not been reflected in productivity or skills utilisation in the economy. My biggest concern would be that we have one of the highest graduate populations in the OECD and very poor productivity in OECD terms and a very bad skills mismatch. That is



reflected in badly skewed graduate earnings and large numbers of graduates not working in graduate jobs.

Now, when you are effectively creating a debt every year of £8 billion, which will have to be written off by the taxpayer in future, we should ask whether we are getting the best value for money out of that £8 billion. Personally, I do not think that we are, and one of the reasons for that is that the fees system has driven this concentration on a very young age of graduation—the youngest graduates anywhere in the OECD. Other economies have a much better mix of part-time study, study by mature students and study with employers, all of which the evidence suggests would produce a more productive economy, with a better match between graduate skills and what the economy needs.

Lord Browne of Madingley: When I wrote my report, one of the things we said was we should set a standard for entry qualifications every year that made it tougher and tougher to get into higher education provision. We did that because we thought that was one of the aspects of improving quality and one of the aspects of getting the right people with a graduate degree, as opposed to some other form of qualification.

There was some evidence to show that the tariff points that you got when you went into university bore a strong relationship to the quality of the degree you eventually achieved and your employment. There were exceptions, and we covered that under the participation activity to make sure that disadvantaged schools did not create disadvantaged people.

Lord Willetts: I think that John Denham was a bit pessimistic. Of course, there are individual courses that are not satisfactory, and there are individual students and graduates who have a bad experience. However, when we look at the long-term drivers of economic performance, more people accessing higher education is a really powerful, positive factor. Part of the background to the productivity story is that we had much more rapid growth in the number of graduates through the 1990s and the early part of this century, which appears to be associated with the improvements in productivity.

Although there has been a modest increase, the rate of increase in the number of graduates is flattening off at the same time as the improvements in productivity have flattened off. It is a more complex story than that; there are many other reasons for going to university, but when the OECD is trying to predict the long-term performance of an economy, one of the factors they look at is what proportion of the labour force have a higher education qualification, and they are right to do so.

Professor Denham: There is no doubt that you need to have more graduates in the economy. The question is whether you have the best economic impact by graduating people very young, as opposed to having a more mixed pattern where some people graduate later in life, when they are clearer about their career choices, and secondly where skills are very well integrated through employers' business models.



One of the things we have learned is that the supply-side view of graduates—just having more of them—has only a limited leverage on the economy. Graduates are most effectively used when they are part of the business strategy of the employer, which is why areas like degree apprenticeships and other new things that could come along, if we get them right, will, I think, produce much higher graduate earnings and much more successful careers for many graduates than some of the other models.

Q98 John Mann: You are all very comfortable talking about the education side, but I would like to come back to the macro-economic side. The student debt forecast from the OBR stands at £160 billion by 2022; 83% of graduates will not have fully paid off their loans 30 years from graduation. No private sector funder would lend money on that basis, so the impact on the economy and public finances is significant and would appear to be growing. How should we be contemplating that, in terms of the future of the economy?

Lord Browne of Madingley: When we set up our report, we proposed something entirely different: first of all, that universities should only charge the basic cost of educating someone on a desk-based or lecture-based subject, and that expensive subjects should be supported by subvention from the Government. That fee would be £6,000, not £9,000 and something.

Secondly, we said that we would make sure that things like the interest rate would be at the Government's cost of borrowing. We felt, therefore, it was appropriate that the Government should pick up bad debts, but of a different scale, because educating the population was a good thing to do. It did demonstrate higher general productivity, provided—and provided still today—that the quality of what is offered and delivered is maintained at a very high standard. The answer is that it is all about degree.

Lord Willetts: Of your two statistics, first, it is in the logic of the graduate fees and loans system that you can calculate the loans that graduates are due to repay, but you can just as well calculate the amount of income tax they are going to pay during their working lives. As the British economy is a going concern, the NHS functions on the basis that we are going to carry on funding it publicly. It is likely that the typical graduate will pay £500,000 of income tax, at least, during their working lives, so the way in which the graduate repayment system works means that you can identify the figure, but it is no different from many other continuing obligations.

On your second point—the 83% of students, on one estimate, that may not repay in full—that is a deliberate policy decision, and it is very important that it is a policy decision that is taken democratically and that you can make alterations either way. If people want graduates to pay back more, they can lower repayment thresholds or put up rates of repayment. If people want graduates to repay less, they can raise



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repayment thresholds and lower other charges. The crucial feature is it is absolutely not a private system. It is crucial that it is not a private system: it is a general resource available to all people going to university, with a political, public, democratic decision about how much we expect graduates to repay afterwards.

Q99 John Mann: The OBR describes the accrued interest on student loans as a fiscal illusion.

Lord Willetts: The interest rate is a specific, and highly controversial, feature of the system. If we want to focus on the interest rate, it is not a crucial, core feature. The interest rate was introduced at that rate for two reasons: first, partly because there had been a lot of media coverage in the old system of affluent students borrowing money at zero interest, putting it in an ISA, and making a profit. As always, in politics, you find yourself responding to the previous problem and creating a new one. Secondly, it was to make it more progressive. The aim was to collect more money from affluent graduates, but it is a very good example of my wider point. If people think that the interest rate is too high, it is absolutely possible to adjust it within the framework of a graduate repayment system.

Q100 John Mann: This is my final question, but by all means comment on that one as well, Professor Denham. Sorry—I will squeeze in my final one in time before I am cut off arbitrarily by the Chair, which we would never want. Is there any economic reason why this huge private sector debt should not be shifted to be entirely a public-sector debt, in terms of the real workings of the economy?

Professor Denham: My view would be no, and it is a good time to revisit the question. One of the reasons for the heavy emphasis on a loan-driven system, as I recall at the time—being an opponent of these proposals—was that it took the debt off the public sector balance sheet. In 2010, the overriding aim was to get rid of the deficit within five years, and so every penny that was on the deficit mattered politically in a massive way—possibly with the financial system as well; I do not know.

Now that we know that 2010 children will be graduates before the deficit is eliminated, it is not so obvious that the politics of the deficit are the same, and there are distinct policy advantages in shifting some of that back on to the public sector, because the Government can then decide how to use that money to shape the higher education system. At the moment, £8 billion worth of debt that will not be repaid is built up every year, purely by the aggregate choices of 17 year-olds deciding which university to go to. The sorts of things that I could do as a Minister, such as to decide to open new universities in areas that did not have them or to fund employer-sponsored degrees, the Government have lost some of the ability to do, because they have lost direct control over large parts of public spending. There is a balance here, but as to your basic question—“Could we move it back in the other direction?”—I believe now we could.



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Lord Browne of Madingley: Definitely. The system was designed to keep it off the Government's balance sheet, and it also was designed to allow for, originally, 40% of the debt to be written off. Thirdly, there was no consideration given in the design of the loan to make it saleable as a loan package. They were to be kept to maturity or write-off, but not to be sold.

Lord Willetts: On public spending, this debate goes back to 1997 and an increasing frustration among universities that, when higher education funding was part of public spending, they were always at the bottom of the list of priorities. It could be the NHS; within education, the focus—and there were pros and cons to this—was on early years and primary education. The long-term trend, therefore—and if I may say so, I have the statistics in my book on universities, as I did the research on this—for about 20 years had been for unit of resource per student in universities to decline, even whilst it was growing in primary and secondary education.

Universities said to Gillian Shephard, "Unless you can show you are doing something to get us properly funded, we will just levy a fee for students going to our universities", which was the origin of Gillian Shephard—in conversation with David Blunkett—setting up Dearing. Dearing was the first attempt to find ways of financing higher education that did not require it to be always public spending. There have been lots of different models since, but the view in the sector and the view in the Treasury—and I think rightly—was that public-expenditure-financed higher education lost out, with lower unit of resource, and also led to the rationing of places.

The way that you control public spending in those circumstances is that you control the number of students going, and I always thought that this was barbarism. You had prospective students knocking on the door of a university who wished to go and who the university wished to recruit, but they were not able to go because there was a limit on the number of places allocated, university by university. The shift away from public spending was a shared agenda to try to boost resources for university students and to get more people in. I think it has succeeded in that.

On the point that was made about Governments shaping the system, there are still ways in which Governments can shape the system, and one obvious way is higher cost subjects. The structure of different bands for high-cost subjects remains there, and equally, if Governments take a view on how they want to fund the system by not expecting less affluent graduates to pay back, as I said earlier, that is also under government control. That is a political decision.

Chair: Thank you. That was a good plug for your book as evidence to the Select Committee.

Lord Willetts: I will restrain myself.



Q101 **Rushanara Ali:** I just want to start with a question about the £9,000 fees. Do you think that has led to a windfall for higher education institutions?

Lord Browne of Madingley: I will say what I said in the report, which is that at the time we looked at the sector, there was an average standard cost of a degree in a subject that did not involve large lab work or clinical work, and that was £6,000. The cost at the time went up to £14,000, I think, for some very advanced subjects like veterinary medicine.

We said that the Government should pay into universities the difference between the normal subject and these expensive subjects, on the basis of which were the best universities to do this activity, because it takes a critical mass. It cannot be done in penny packets; it needs to be done only in certain places. The £9,000 was more, at the time, than many universities needed to cover the cost of teaching.

Lord Willetts: It depends on what you mean by “need”. The trajectory of resource per student had been decline through the 1980s and 1990s. The decline had been arrested by the £3,000 fees, and it was then about flat, but it was flat at a historically low level. My view was that we could only seriously enter the debate about the quality of teaching in higher education if universities did not have the compelling alibi, “If you keep on reducing unit of resource, what do you expect?” I personally thought that the unit of resource per student did need to go up.

On the exact figures, there is a view—you can pick it up from the Treasury today—that universities are awash with cash.

Q102 **Rushanara Ali:** Just on that point, is the implication that the students who are paying these higher fees, in effect, are making up for historic gaps? Is that what you are inferring?

Lord Willetts: I think that being a student in the new system is actually a better deal than being a student in the old system, because the resource behind your teaching is improving. There is no perfect story, but if you look at pupil/staff ratios, the story of schools is a steady decline in the number of school students per teacher. If you look at higher education, you find exactly the opposite trend: a steady increase in the number of students per academic, so I wanted students to have a better deal, which involved them having a better resourced higher education.

However, secondly, there are a lot of add-ons—some visible, some less visible. Even if you take the extreme case of the £6,000, one use of the £9,000 was that £1,000 per student goes on access spend. That is access activity aimed at boosting resource. I can remember the conversations with the Treasury. There used to be public expenditure on higher education capital. Pretty much all public expenditure on capital at universities went, and I can remember that the argument was, “They will



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now be expected to borrow commercially, and they can use the income from the fees to finance the loans, so that they can invest in capital”.

The opportunities fund, which I always rather liked because it reflected the fact that there were special costs associated with disadvantaged students, was reduced in scale. We used to have a fund for universities to meet the costs of disabled students. We said to universities, “You have the same legal obligations as every other institution under the Disability Discrimination Act to make arrangements for disabled people. We do not fund it in department stores and we do not fund it in cinemas; why should we fund it in universities? You must pay for it”.

Again, from memory, when you added all that stuff up, my recollection of the papers I saw as a Minister was that you needed about £8,250 to stand still. If you then allow for inflation since, my view is that we may be still slightly ahead in real terms per student, but not significantly.

Q103 Rushanara Ali: Therefore, when you, Lord Willetts, introduced the increase in fees, your expectation was that it would be at the higher end, not closer to £6,000.

Lord Willetts: We certainly thought—and I made statements in the Commons, which have subsequently been proven to be incorrect—that the £9,000 would be exceptional. We were thinking in terms of about £7,500, and the £7,500 is not quite the same as the £8,250, because things like the opportunities fund and the disability fund happened over time. However, when you have a graduate repayment system that is as generous as it is, any student who said, “I am going to Leeds because it is £7,500, and I want to save money on York, which is £8,250”, would not really be understanding the basics of the system. It is 9% on your earnings above £21,000.

Q104 Rushanara Ali: A lot of people do not understand it. A lot of people find it very confusing, and there are lots of drivers for making that decision when they are choosing to go to university regarding how they perceive a loan.

Lord Willetts: The reason why my party changed its view on this, and the argument we deployed in Opposition when the £3,000 fees came in, was: “Poor students are going to be put off; it is all going to be terrible for access”. The good news is it was not, and just as with some other Labour policies, such as the minimum wage, we changed our view in the light of the evidence.

My view was that, therefore, it was understandable that you went to £9,000. Although, indeed, some of the background mechanics of this system are complex, my personal view is that the basics are incredibly simple. The basics are that, for most people, there is a fee that is now about £9,250, and you will repay 9% of your earnings through income tax above a certain threshold, which used to be £21,000 and is now £25,000. Those are the key parameters. Now, there are a lot of other



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complications around it, but we know that by and large for people, if they can get to university, it is a great thing to do.

Professor Denham: If I may, there is no doubt that it was originally a windfall. It is less so because of time and inflation, and in the debates at the time, the Government were expecting a real market to develop with different levels of fees.

Chair: We are going to come on to that issue in a moment.

Professor Denham: The point that I want to make about the introduction of the system is that it showed very clearly that universities, as institutions, will always look to maximise their income, and they did on this occasion.

Rushanara Ali: Yes—which they did on your watch, as well.

Professor Denham: There were no particular reasons not to charge £9,000, and those that did not very quickly came to adjust, so that they could maximise their own income.

Q105 **Rushanara Ali:** I suppose, perhaps, Lord Willetts, the experience of your predecessor clamouring for the £3,000 should have been the warning sign that that was what universities would do. There was a public expectation against what was said by the Government—that universities would not be charging the highest amount. There are also a set of issues about whether that is legitimate, given that rates of return will be different between universities—the Russell Group versus the post-1992 universities, and so on. Do you have any reflections on the fact that universities have tended to choose to go for the higher fee?

Lord Willetts: I personally think that this picture of the “good university”, with high graduate earnings and a higher fee, and the “less good university”, with lower graduate earnings and charging a lower fee, is very dangerous indeed. The crucial evidence was not available at the time; in fact, we are slightly approaching the issue the other way round. It was Lord Browne’s excellent report that led us to commission the evidence. We needed to understand the extent to which graduate earnings differed between different universities, and why.

Excellent research was done by Anna Vignoles and Neil Shephard, which did indeed show big variations in graduate earnings between different universities, and they were almost entirely accounted for by three factors. The first was the prior attainment of the student. The second was the social background of the parents, and the third was the geographical location of the university, because there is some stickiness and graduates hang around in places where they have studied, so if you are in the South East you do slightly better.

Once you have seen that, the argument that a university should be able to charge more because it takes students with higher prior attainment from higher social backgrounds and it is in the South East is, I think, very



poor. Indeed, it is a striking contrast with the pupil premium argument in primary and secondary education. You essentially end up with a negative pupil premium. Looking at academically and socially selective universities in the South East and thinking of an identical secondary school, we would say that it should be able to educate students for less than a tough comprehensive in the East End of London. However, the argument seemed to be that in higher education this was exactly reversed, and London Met should have lower unit of resource per student than a university in Oxfordshire. I never thought that was a good argument.

Q106 Rushanara Ali: That is not what I was driving at. What I was driving at was the fact that, for instance, certain professions are harder to get into if you do not have a degree from a Russell Group university. We may not like that, but that is the reality of people's experience. Therefore, if universities are going to charge the higher fees, as well as quantifying the earnings potential should we not be looking much more closely at what they get in return for getting a degree from a given university—whether it is the University of East London, London Met or others? There are a whole set of barriers that remain if you do not go to the Russell Group universities. Are there, in your view, ways in which some of those barriers can be addressed?

You mentioned access. There are some universities, like Oxbridge, that benefit significantly from access funds, and others do too. Do you feel that they are doing enough to deal with the wider social mobility challenge that we face as a country, and can we do more, using the way we finance our universities, to address that?

Chair: Can we keep answers brief? Who are you asking that of?

Rushanara Ali: I would appreciate a response from everyone quickly, if possible—maybe rapid-fire answers.

Professor Denham: The underlying idea that it is possible to reflect the value of the university education through a charging system is flawed, and I very much agree with what David has said. The initial idea that this should be a real market with differently priced courses because of the predictability of the outcome is flawed. That has driven this system, where we somehow expect student choice to design the higher education system that the country needs. I am in favour of student choice and informed choice, but the aggregate decisions of these entrants to university will never be sufficient to design our higher education system, so we should not be pretending that we want it to work as a market, in the way that you would normally do.

Lord Browne of Madingley: When I looked at this a little while ago, the thing that was really concerning to us was maintaining and expanding quality. A lot of what we looked at was doing just that transparency but in a much more detailed way: suggesting that we qualified lecturers much as we would qualify teachers. It was the same idea: that we would look at tariff points—ie prior attainment—and make sure that that was



rigorously applied across the system and made better every year. We are in a competitive world, and we have to improve the quality of our output every year. This was the most important thing that was driving the report.

Lord Willetts: You would end up in a system of really detailed micro-management by some quango, having to pronounce, "That is a £6,000 course, that is a £6,500 course, and that is a £7,000 course". I completely agree with John; that would be very hard to operate.

Secondly, we do have competition, in a better form than price competition: we have competition to recruit students. As part of these reforms, we were able to get rid of number controls, which were allocated numbers of places per university. Since the removal of numbers control, universities compete very actively for students, and some have grown a lot, and others have shrunk. It is competition, driven by student choice.

Wes Streeting: Good afternoon. I should probably just say from the outset that I lobbied each of you in your various roles when I was President of the NUS, so it is nice to be on this side of the table.

Chair: It is nice for them to be on that side of the table.

Q107 **Wes Streeting:** Lord Willetts alluded to the fact that political parties change their views on higher education funding, depending on whether they are in Government or in Opposition. My views have not changed in all of these years: it is right and fair to ask graduates to make a contribution to the cost of their higher education. The question is how it is done, and I argued for a graduate tax. A graduate tax was not pursued. Lord Browne and Lord Willetts, I wonder if you could explain why you chose to go down this particular route? John Denham, I am guessing from our previous conversations that you would have been far more minded to go down a graduate tax route. I wonder if you might address the pros and cons.

Lord Browne of Madingley: I would make three points, very simply. First, there was no evidence that the Treasury would permit hypothecation of a tax to a specific activity. We asked them; they said, "We have no statement to make on this"—ie they would not do it. Secondly, there is the amount of time it would take to build up revenue, because the taxation is for students, and we would have a lot of time to build up the needed revenue.

The third thing was that it went against the question of, "Can you use the mechanisms involved with students paying to make sure that quality is maintained and improved?" It would just be a tax, and everyone could get away with whatever they wanted to do as long as they paid the tax. We felt that on balance, while it did many of the similar things to do with finances, it was not quite the right thing to do at the time, and I still think it is not the right thing.



Q108 **Wes Streeting:** Lord Willetts?

Lord Willetts: I very much agree with John Browne's list, and I would add two other points. First, it does create perverse incentives for students who are going to do a course that is strongly associated with higher pay to go and study abroad, because you have removed the link between the amount you repay and your specific higher education. Being a graduate of an English university means that you are saying, "I am going to have a lifetime of income tax at whatever rate is higher", massively more than the actual cost, so it suddenly becomes a bargain to pay to go and study abroad, and that would be very unfair on our universities.

Secondly, it does not solve the original Dearing conundrum. As John said, because none of this can be hypothecated, it all clearly counts as public spending, and that is where the problem starts.

Q109 **Wes Streeting:** I will come to you in just a moment, John Denham, but given that the amount that a student pays as a graduate will not necessarily bear any resemblance to the price attached to the course, and given that you have used higher interest rates as a redistributive element of the repayment system, did you not think that presentationally this was an option to re-badge the whole system as a graduate-tax-like system?

Lord Willetts: It is tax-like, and it is collected through PAYE at 9% above a high threshold. It is like a tax; it has many of the good features of a tax. It is income-contingent. However, it is important that there is a limit to what you will pay back. It is absolutely correct that the interest rates were brought in to make the system a bit more progressive—collect rather more from high-paid graduates—but I am afraid that the lesson, surely, from interest rates is that progressive policies are not always politically popular. Going for a policy that is even more progressive might be even more politically unpopular.

Q110 **Wes Streeting:** You were quite critical of the Government, were you not, for freezing the repayment threshold when that was the policy, rather than adjusting the taper on the interest rates?

Lord Willetts: Not quite. For a student, the repayment threshold and the percentage rate are what matters: the £21,000, now £25,000, and the 9%. One of the reasons for raising the threshold was that I was worried—going back to something else I have written, about fairness between the generations—about people in their 20s and 30s paying back at 9% above £15,000, which was the original Labour government formula. The repayments were front-end-loaded at a time when I thought people were under maximum pressure.

It was a deliberate feature of the system for repayments not to be front-end-loaded: to extend further over people's working lives, so that you were not paying back, in your 20s and 30s, such a high proportion of the amount. That was a deliberate design feature. There are issues about



exactly how high the threshold should be, but that was the argument for raising it, compared with the £15,000.

Professor Denham: For context, it is worth remembering that the Labour top-up fee was introduced on top of record higher education spending, in order to be able to expand higher education further without reducing the unit of resource. The question of whether universities are properly funded is a political decision that is open to Government, and the unit of resource was maintained over a very long period of time.

Part of the problem we have at the moment is the depth of cuts in higher education funding that had to be met by the new funding scheme, because that has made the sums all much bigger. There are some difficulties with a graduate tax, but, as I said earlier, the argument about the absolute primacy of getting things off the public sector borrowing requirement no longer applies in the way that it did back in 2010, and although there are tax-like features in the loans repayment, there are some real oddities. Arguably, wealthier graduates pay back too little under the current system.

From an ethical point of view, I do not like the fact that so many students do not pay anything back after they have graduated until they get to the threshold. A properly graduated contribution system would enable people to be paying something at a lower income level, which shows that I am not in front-line politics anymore. However, in terms of the principle behind this, that would be better.

There are now so many artificial elements that have been built into this system, bit by bit, that it would be better to take a step back and, first, get the balance between public and individual funding right, because I still think it has shifted far too much towards the individual having to do it, and then the public comes back in a very incoherent way through loan write-off. Nobody sensibly would design a system like that. Secondly, let us have a properly transparent tax system.

Lord Willetts: Can I just challenge you a tiny bit, John? There is a little bit missing, which is 2009/10. Lord Browne was commissioned by Peter Mandelson, and I do not think I am betraying any confidences if I say that the conversations I had with Peter Mandelson when he invited me, as a Shadow Secretary of State, to talk to him about this exercise were very similar to the ones that Gillian Shephard had with David Blunkett.

The view was, "We have had the financial crash. We have fiscal pressures. There is going to be pressure for saving public spending. It is going to be very hard to exempt higher education from those pressures; in fact, if you look at the history books, higher education is one of the most vulnerable features that is going to be affected by these public spending pressures. We need to find a way of going a step further beyond the £3,000 to ease the pressures that higher education is going to be under. We need a review that makes this possible". Two parties



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recognised the logic of that, and two parties therefore did not, by and large, as candidates, sign up to the NUS pledge.

Wes Streeting: No. We accidentally destroyed the Lib Dems instead.

Lord Willetts: One party did not, and made a pledge, but I remember writing to Tory candidates, saying, “Do not sign up to this pledge, because things may be necessary given the public pressures and the inquiry that has been established by Lord Browne”.

Wes Streeting: May I just interrupt you? I want to bring you back to the present for a moment, and it is so tempting for me, particularly, to revisit the events of the time.

Chair: You have to give a minute.

Wes Streeting: I just want you to say something about the regrets that you have had about how things have panned out since. You may have your own reflections and things that you regret have happened, but there are a couple of issues that I would like you to just reflect on in conclusion, in particular.

First, although there is flexibility in terms of ministerial judgments built into the system, there have been a number of examples where Ministers have retrospectively changed the repayment terms and conditions for existing students and graduates after they have signed up to the system. That was not the policy intention, was it? That is not a good thing for governments to do. The second thing is, whilst participation in general terms has improved, and numbers from the most disadvantaged backgrounds continue to rise—which is a good thing—there is a real shock, is there not, in part-time applications? You might reflect on those things in particular, but if you have any other regrets, we will be happy to hear them. Who is most remorseful?

Chair: Lord Willetts, let us start with you.

Lord Willetts: On those two, first, yes, I plead guilty on part-time students. I was surprised at the time, and remain shocked, by what happened. It is interesting, because I reread John Browne’s excellent report, and of course what we thought we were doing was what John had said, and I am reading out from the summary of his report: “Part-time students should be treated the same as full-time students for the cost of learning”. We had this extension of fee loans to part-time students.

We hoped and expected—it did not turn out like this—that the extension of the fee loans would help the part-time students. It clearly did not work out that way. The lesson I learned from this is a very important one for education policy, incidentally, which is that there is not a single model that works for all students. There is a conventional wisdom around now: “Give every 18 year-old the same pot, and then they can all decide what they do with it”. The evidence is that repayable loans work



for some, like 18 year-olds going to university for three years, and do not work for others, like part-time students. You need a different model for part-time students.

On your first point, I do not agree with you. It is inherent in the system—because this is a democratically framed public policy—that you can adjust the repayment terms. It was made absolutely clear to students that the terms could be adjusted. You shake your head.

Q111 Wes Streeting: It is really in the tiny small print, though, is it not?

Lord Willetts: You said a moment earlier that you were a believer in the graduate tax. The one thing that we know about taxes is that tax allowances and tax rates are changed. For most advocates of the graduate tax, when I say, “Does that mean that you define the rate and the threshold, and even as all other features of income tax change over 30 years, for that cohort that is the graduate tax rate?” that is not what they envisage. They envisage a graduate tax that roughly finances higher education, so they are envisaging a graduate tax where the rate in the allowance changes.

I personally think that is absolutely reasonable. My view is that there should be a five-year review, in which these parameters of the system—“What is the right threshold? What is the right rate? Should there be an interest rate charge; if so, what?”—are openly discussed so as to avoid ad hocery, but they clearly have to be adjustable, and there should be a framework by which we can see how they are going to be adjustable.

Q112 Wes Streeting: You have regrets on part-time, but not retrospective changes. Lord Browne?

Lord Browne of Madingley: I have four points. First, our proposal was a system, and strangely I regret that we did that, because the system only works if you have bought the whole thing. If you kept changing bits, it started not working, and so the lesson learned is that we got an A for policy and D for politics. We were not commissioned for politics; we were commissioned for policy.

Secondly, I really do regret what we have done to part-time students. To my mind, that was one of the most important things that we were doing, facing—re-training, re-education—a different population in this country that needed something. I felt very strongly about that. I also felt very strongly that the Government eliminated maintenance grants, which still feel too expensive for so many people in this country. That was, in my mind, a bad thing.

Finally, we missed an opportunity—although I do not follow the sector in detail now—to make quality much more transparent. I worry that with incentives to fill places, all sorts of things happen, and that should not happen. Today, we need people who are top-class everywhere, and I mean everywhere: not just from Oxford, Cambridge, Imperial and UCL, but from everywhere. The students, as far as I gather, are saying, “We



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do not know whether this is good or bad”, and maybe some employers are beginning to say the same thing. There is a lot of re-testing taking place as graduates enter the workforce.

Professor Denham: I am not sure if you are asking me to regret what they did.

Q113 **Wes Streeting:** I expect that you will, but particularly in the context of the review that Jo Johnson said he is going to look at, what are the most urgent tasks, do you think? What are the correctional things?

Professor Denham: The most urgent task—and this is where I disagree with David—is that we have constructed a system where all of the financial incentives are for institutions to recruit more and more 18 year-olds. We need a more balanced system.

If I could share a bit of a regret, in a sense, from when I was Secretary of State, I was part of that period of time where the original vision of 50% participation was based on the assumption that you would have far more part-time study, far more work-based learning and far more diverse routes to education. We let it drift into a school-leaver target, and understood it in those terms. We needed to create a funding system for students that supported a more diverse system.

I say to Jo Johnson, if you want to have two-year degrees, that is great: design a system that will encourage universities to offer them. Do not just put it there on the table in the hope that somebody takes it up. Do not think that everything has to relate back to the funding model for an 18 year-old. If you want to have employers offering degree apprenticeships, take some of the money and design it for that purpose, and then you will get the diversity that we need and there will be more choice within the overall system”.

Q114 **Kit Malthouse:** Some of my questions have already been covered, but I just wanted to get some clarity from you on this notion of functioning markets. It is undoubtedly the case that there was the start of some kind of competitive environment, and I think your report, Lord Browne, was about creating a competitive environment where universities would improve, or funds would naturally be allocated to those who could then shoot the lights out.

However, was it not a bit bonkers to think that in, effectively, a seller’s market where there was no marginal cost for not having a sale, a price cap would produce anything other than a levelling-up to the maximum price? On that basis, is there no functioning market in that sense, as was originally envisaged?

Lord Browne of Madingley: We did not propose a price cap. We proposed a base fee, and then something fairly primitive—because we did not have the data—which was that if you wanted to charge more, you could, but then some would be recovered back into the government coffers. That was a way of mitigating the impact.



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Q115 **Kit Malthouse:** That is the same thing, is it not? I could charge more, but you are going to limit me—put a cap on me, if not a price cap.

Lord Browne of Madingley: No, you would get a marginal contribution. It is just a weaker marginal contribution than 100% gross.

We were faced with two things: first, obviously, to get quality up; and secondly, to get participation up, and that meant numbers too, so freeing up numbers as well as the quality and nature of students who were applying, and indeed the different ways they could go in. We were trying to find ways of getting a natural equilibrium without having an all-seeing, all-wise department centrally planning this. I recall so many times we had people give us evidence and say, "This is the last remaining vestige of Gosplan in the United Kingdom". People were planning too many things.

Q116 **Kit Malthouse:** As it currently stands, on the basis of—as you said earlier—limited information and transparency, and no price variation, or hardly any price variation, there can be no functioning market.

Lord Browne of Madingley: Absolutely. Without information and with caps, constraints and boundaries, many markets fail, and this is no exception.

Kit Malthouse: This is less of a price, and more of a charge—a toll, effectively.

Lord Browne of Madingley: It is a tariff.

Kit Malthouse: Yes, a tariff.

Lord Willetts: This is a very important stage in the argument. John Browne's report is the most ingenious attempt at getting price variation in higher education that I have come across, and his proposal—to avoid it just being university fees and loans going up and up and up—was that you should have £6,000, and then above that universities could charge higher and higher fees, but there would be a levy extracted from them, in the words of his report, "to cover the costs to Government of providing students with the upfront finance".

The argument was that every extra £1,000, the proportion that we pay back must get lower and lower and lower, so there would be a levy, and it was going to be 40% on the first £1,000 up to 75% if you are on £12,000 fees, which was a very ingenious model. I was lobbied very hard against that by the universities that thought their students had the highest earnings and, therefore, most of these higher loans would be repaid. Oxford and Cambridge said, "Hang on, Lord Browne is proposing that if we charge £12,000 fees, we have to pay a 75% levy on the last £1,000 to cover the risks of our graduates not being able to repay, but our graduates will be able to repay; they all go off into well-paid jobs. This levy is terribly unfair on us, and must not go ahead". I discussed this at the time with Lord Browne, and I must not put words in his



mouth, but he only had the data for a national average estimate, which is what this was. Sorry—this is turning into an oral history session, but it is relevant to the Committee’s deliberations.

I thought that, if we were to go down this route, we had to understand better what the divergence was in the earnings of graduates from different universities and what the reasons for that were. When I decided that we could not go ahead with this levy proposal, because for universities with high-paid graduates it was so unfair, that was the origin of the Vignoles-Shephard report. It took a long time to get permission from HMRC—we had to work incredibly hard—so we really could dig into the data, but it did show very significant diversity of earnings for graduates between different universities.

Therefore, if you really wanted now to implement the John Browne levy, you would have more information that would enable you to compare the likely RAB charge per institution. That is an empirical advance, compared with when his report was produced. However, as I said earlier, the evidence for the reasons of this divergence were prior pupil attainment, social background and geographical location. When the evidence came in, I did not think that it made this model of price competition a viable or sustainable one. There really is competition, but it is competition for students, and it is also competition for new entrants. The other thing we have not yet referred to—although it is controversial—is making it much easier for new entrants to come in as suppliers.

Q117 Kit Malthouse: Yes, okay. One of the other things that was in the Browne Report was the notion that competition would spur quality and the search for prestige, on the basis it would attract more students and more money and it would become self-reinforcing. However, the flipside of that is that obviously, in a normally functioning market at that level, rather than at the customer level, institutions would come and go, like in any business. They go bust and get out-innovated, and all the rest of it. We have not really seen any of that, have we?

Lord Browne of Madingley: Not to my knowledge. At the time we were writing the report, as I understand it, there were several universities that were on the edge of needing major intervention by the Government.

Lord Willetts: Yes, there were.

Lord Browne of Madingley: Again, we probably got a D for politics, but that is not what we were meant to be doing. However, in the end, some universities probably did need to merge or rationalise, or there was not sufficient critical mass—all this sort of thing—and that should happen. This cannot be a unique sector, in that every person acting in it is the same forever. It had to change.

Q118 Kit Malthouse: I understand. Essentially, in terms of the two competitive objectives—one, that institutions would compete on fees for



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students, and two, that that would therefore spur innovation—none of that has actually happened.

Lord Willetts: No, I do not accept that for one moment. I was trying to find the figures. The University of Birmingham has grown by 25% since this system came in. In the old days, the Treasury would have said to the University of Birmingham, “You can recruit 2,750 students, and if you recruit 2,751, we will fine you”. That was the old system. Now, if the University of Birmingham wishes to recruit and has the capacity to do so, and people want to join, they can recruit 4,000 or 5,000.

Q119 **Kit Malthouse:** No, that is a different question. If you are saying that the system has spurred expansion, then you are correct, but has it increased quality or produced competition on price?

Lord Willetts: Absolutely, there is competition. Although information for students is still not good enough, students can see—and there is now a lot of information available, on official and unofficial websites—what these websites say about the University of Birmingham, and what they say about some other universities.

Some universities have shrunk by 20%, which was previously impossible, and in addition, meanwhile, Aston University next door is creating a new private medical school, which would also not have been possible before. You have new entrants coming in; you have some universities growing; you have others shrinking. You have departments closing. That is why you read in the media, “Oh, they are announcing these redundancies”. Close-up, it is a very dynamic system with a lot of change, and a good thing too.

Professor Denham: There is a lot of change, and of course there is innovation—and there always has been—in the system. There may be some more there, but I am far from persuaded that the churn that we see reflects a real driving of the issues of quality and relevance of the courses that the expansion suggests. Yes, some people expand more successfully than others. It would be very difficult to show that that reflects an informed choice working its way through the system, and it would be even more difficult to show that the informed choice is properly informed and, thirdly, that you can even capture the information that the 16 or 17 year-old and their parents want.

I am fully in favour of students having as much information as possible about their choice—that is absolutely correct—but the underlying idea, which was originally that the market, by this accumulation of individual choices, would produce the higher education system that we need, is actually wrong. I do not believe that you can ever produce that level of market sensitivity among the institutions to enable that to happen.

Lord Willetts: It depends what you mean by “market”. If you look on the websites now because you want to do a course—and, as I say, there is a whole range of them, official and unofficial—you can find out what it



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is that students there are saying. What are the likely employment outcomes? Which are the main employers? Do they endorse students who have done this course at this university? There is a lot of that information.

My view is that this is not simply “churn”, and that whilst information can be better, these are young people, their colleges and their parents with access to far more information than they have ever had deciding what they would like to go and study where, and with, for the first time, the capacity for the suppliers to grow or shrink in response to those choices.

Chair: I have one more brief question.

Lord Willetts: We have a repayable education voucher.

Q120 **Kit Malthouse:** One of the things that is often promulgated about the fee system is that it has increased participation from lower income families and all the rest of it, and I always slightly question in my mind whether there might be other drivers for that. The expansion of places and improvements in education generally might be bigger contributors to kids from lower income families going to university than the fees. It could be “despite”. The second thing—and I guess this is slightly wistful—is have we lost something by seeing higher education in purely utilitarian terms?

Chair: Brief answers, please.

Professor Denham: On the disadvantaged students, if you go back to the debate about fees, I very carefully never said that it would overall lead to a fall in the number of students from disadvantaged backgrounds going to university, because we knew enough by then that if the schools had done their job at 14 or 15, the desire to go to university overrode the financial considerations. That progress has continued, which is a good thing. The fall in part-time students now means that overall social mobility has stalled, but that is a separate bit of the same problem.

Yes, it is about what schools and other people do in outreach, and the fee system has not enabled more people to go, I would argue, but it certainly did not put them off in the way that some people were saying at the time.

Lord Browne of Madingley: I have been surprised, given the fact that there are not the maintenance grants, that these data on participation are strong. We did think that maintenance grants would at least relieve the sense, when you are in a lower-than-medium-income family, that you were taking on an apparently very large obligation, so I am surprised.

Your second question would take more than two minutes to answer. I completely agree that education should not be completely utilitarian, based on employment.



Lord Willetts: I agree with Lord Browne on that latter point. On the first point, the record—going right back to the Labour Government's changes—is that 10 years ago, for the poorest 20% of families, 10% of kids used to go to university. 20% now go. For the most affluent families, it is 60% going, so it is still way behind, but it has significantly improved, and it is significantly higher than participation by low-income students in Scotland. There are lots of reasons for that, but one is very important, and it is why the financing model does count. There were number controls.

Where there are number controls and a fixed number of places, getting to university is a zero-sum game. I used to have this conversation with Vince Cable, because Vince was representing Twickenham, with, I think, 62% of young people going to university. I was representing Havant, with 23% of young people going to university, and I said to him, "If the only way more people from Havant can go to university is by fewer people from Twickenham going to university, we are going to have a very long wait". Whenever you have a control on numbers—and this is one of my biggest single fears about these proposals for bringing it all back into public spending—it is the marginal students from the disadvantaged backgrounds who lose out.

Q121 **Kit Malthouse:** The expansion has driven it, not the fees.

Lord Willetts: The fees made it possible to take it out of public spending and for the Treasury to stop controlling numbers. When it is public spending, you need a means of controlling the public spending.

Q122 **Chair:** We are going to move on. Professor Denham, you have one sentence.

Professor Denham: Under the Labour Government, the numbers were not fixed. They expanded year after year. We did not have unlimited liberalisation. It was perfectly possible to create additional student places every single year, and that is exactly what happened.

Q123 **Catherine McKinnell:** I want to focus on interest rates. These are the last questions. Lord Browne, the proposal that you made to charge an interest rate above inflation was designed to allow the Government to recoup, as we have discussed, more payments from higher earning graduates than they initially bothered to cross-subsidise the system. Do you think that reasoning was, and is, widely understood?

Lord Browne of Madingley: No, but we started on the simple basis that it was a fit and proper use of funds to use them for higher education, and insofar as possible they should be charged at the government cost of borrowing.

Q124 **Catherine McKinnell:** Okay, but do you think that the phrase "low rate of interest", which has been used to describe it, is consistent with a rate that is higher than inflation and higher than the Government's cost of borrowing?



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Lord Browne of Madingley: No, it clearly is not at that point. If it were the government cost of borrowing, it would be pretty low.

Q125 **Catherine McKinnell:** Therefore, do you think enough students and families understand the real basis on which they are repaying these loans?

Lord Browne of Madingley: Probably not.

Q126 **Catherine McKinnell:** I will broaden the questioning, then, to Lord Willetts. Do you regret the way the interest rate has been set?

Lord Willetts: The interest rate was designed to ensure that well-paid graduates who might well pay back, and complete paying back, in 15 years or whatever would have made a substantial contribution back. The aim was to collect more from well-paid graduates, because, of course, the least affluent were, anyway, not going to complete paying off, so the interest rate did not matter for them. That was the objective, but I completely understand that it is the political pressure point today. It is not a fundamental feature of the system; it is exactly the kind of respect in which the system can, and should, adjust.

Q127 **Catherine McKinnell:** Could you explain why you chose RPI plus 3%, rather than, for example, CPI or the Bank of England, especially when RPI is now—but has been for some time—a discredited measure?

Lord Willetts: I cannot remember the arguments about which inflation measure to use. I would say that, back in 2010-11, RPI had not fallen so low in the esteem of the economics profession as it now has. I do not think that it is any longer an officially recognised economic statistic; it was then, and clearly that world has moved on. As I say, the main argument—and it was the subject of coalition negotiation, to be honest—was the aim of making the system progressive.

Q128 **Catherine McKinnell:** Therefore, RPI was chosen specifically for that aim, rather than another inflation measure.

Lord Willetts: I really cannot recall—and this may just be my poor memory—a submission about whether it should be RPI or CPI, or whatever. As I say, back in 2010, I think that RPI was more widely accepted than it is now.

Q129 **Catherine McKinnell:** High interest rates generate a positive income flow for the Treasury, even whilst interest is accruing, even though it is never likely to be paid back, which is a point that you have already made. That was clearly a factor when constructing the policy. Is that widely understood, and do you have any regrets about the way that has been structured?

Lord Browne of Madingley: It was an adjustment policy. We were clear that it should be a pass-through from the government cost of borrowing, basically: a fit and proper use of government credit standing,



which I think is fair. The Government can borrow at low rates, so those should have been the low rates.

Q130 **Catherine McKinnell:** John, do you have anything to add?

Professor Denham: It is not an aspect of the system that I have ever really got myself into deeply. It just shows, though, that it has become so complicated, because of the need to keep adjusting it and remain within a framework of a loans-based system.

Q131 **Catherine McKinnell:** Do you think that high interest rates, particularly those above prevailing market rates, cloud the debate and perhaps create an unhelpful perception that what is designed to be a redistributive measure is actually punitive?

Professor Denham: Yes. It must be very difficult to explain it to people. David, to the extent that I understand it, has a sort of rational argument for doing it in progressive, redistributive terms, but to an ordinary member of the public who knows that money can be borrowed far more cheaply than that, it just looks like a completely unfair charge. We have become so far out of kilter with common sense that it has to be reset in some way.

Lord Browne of Madingley: None of us is an expert—at least, I am not—on consumer credit. I know about other things, but not about consumer credit. With consumer credit, if I recall rightly, people never really look at the interest rate with great care. That is the problem here.

Lord Willetts: That is the one term you used that I would challenge. You talked about it as a market rate. This is not a market, commercial loan scheme, and a good thing too. If it were a commercial scheme, thinking about unsecured loans to 18 year-olds, the interest rates would be shocking. There was an attempt to make this a commercial scheme in the 1980s. It is no accident that the Student Loans Company is called the Student Loans Company. That is the residual from an attempt to get the retail and clearing banks together to run a student loans programme in the 1980s.

There is an obligation on a bank to know your customer, so the first thing they would have to do is appraise John, from an affluent home in the South East, against Janet, coming from some tough background, as to which had a better chance of repaying. It would inevitably be a selective scheme, so this is nothing like a commercial loans scheme. This is universal access to funding for higher education, where the repayment depends on your subsequent earnings. It is not like negotiating an overdraft.

Professor Denham: In another universe, if we decided to put more of the public money in upfront, rather than spend that money on loan repayment, the level of fee that you would need to charge would be lower. You could then construct a system in which it was much more likely that more graduates would pay off more of their loan and more



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graduates would pay off their loan in full, because you were not asking the loan at the beginning to carry so much of the cost of higher education.

I would argue that would be not only more transparent but—and I mentioned this term earlier, perhaps wrongly—better ethically. I do not think I am the only one who worries about a system that says to large numbers of young people, “Borrow a huge amount of money on the basis that you will probably never pay a penny back”. It is not the way that I have brought up my children, and I do not think the state should do that, but that is the deal on offer at the moment.

Bring the £8 billion a year of debt write-off that the university system is creating every year forward, so that it is funding the system at the front. If you still need fees, it is a lower rate of fees, but then more people will be able to pay off their loan in full. The public would see the virtue of doing that, and the common sense and fairness of doing that.

Q132 **Chair:** I had better allow Lord Willetts a right of reply to that.

Lord Willetts: I do not agree with that, for two reasons. First of all, it is not saying to young people, “Get into debt”. If a kid left university with £25,000 on a credit card or in an overdraft, of course any parent would be worried. Saying, “If you are in a well-paid job, you will be paying back the cost of your higher education”, is not like a student getting into debt and having to service it. We are all trapped in that language, and I very much regret it. It is a very misleading picture. As I say, it is really a repayable education voucher—repayable through income tax.

On the debt write-off, the so-called RAB charge—which could take up a whole session—is not public spending. What John is proposing is either a big increase in public spending or a reduction in the resource per student. What you are simply trying to do with the RAB charge is estimate, on a set of highly schematic assumptions, how much will be repaid over the next 30 years. It will depend on how things turn out, and it will depend, above all, on public policy decisions, which I very much hope this Committee will influence.

Chair: Thank you very much indeed for your evidence this afternoon. We are extremely grateful. If there is anything that occurs after you have left and on which you want to let us know any further thoughts, then please, obviously, feel free to write to us, but we are very grateful for your time and your expertise this afternoon.

Examination of witnesses

Witnesses: Professor Janet Beer, Amatey Doku and Professor Mark E Smith.



Q133 **Chair:** Thank you very much to all three of you for being here this afternoon. My apologies for keeping you slightly late, but we heard some very interesting evidence. I know you were all in the room; I think we are going to cover pretty well the same ground, but if there are things that you have heard in the first session that you particularly want to respond to, then please feel free to do so. It would be very helpful if you could just introduce yourselves for the record and the benefit of those who are watching.

Professor Smith: I am Mark Smith, and I am Vice-Chancellor of Lancaster University, but I am also here as the Chair of the Financial Sustainability Strategy Group, which brings together funding councils, research councils, universities and Government to try to understand the issues.

Professor Beer: I am Janet Beer, Vice-Chancellor of the University of Liverpool and President of Universities UK.

Amatey Doku: I am Amatey Doku, Vice-President for Higher Education at the National Union of Students.

Q134 **Chair:** Lovely. Thank you all very much. I want to start in the same place as the first session, which was Jo Johnson's most recent announcement about the two-year accelerated degrees. While we have the benefit of all your expertise, it seems too good an opportunity not to ask you about your initial thoughts on that and whether you think that universities will offer the two-year degrees. You will have heard the evidence in the first session about choice, and I am particularly interested in staffing and the challenges in being able to staff two-year degrees, given the model that operates across many universities of three- or four-year degrees.

Professor Beer: Two-year degrees have been around for a long time. They have not been invented recently, and in my view—and I think the evidence supports this—they are, quite often, an attractive option for mature students. As you all know, we have seen a decline in the number of mature students in our system.

Where we, as universities, add a huge amount of value, particularly for students from first-in-family, widening-participation backgrounds, is in the stuff that we can put in and around the degree: the social and cultural capital that those students do not necessarily bring with them, in terms of parents who can find them internships or work placements, or arrange for them to have periods of residency abroad. We know that we can increase the employability of students from widening-participation backgrounds by about 40% if they have a period of study overseas, or in a work placement or internship. It adds value to the course of their study for the employer. Where it is BME students, it adds 80% to their employability—their likelihood of getting a graduate-level job.



We know this, and so my worry would be that students think, “I can do this faster; I can do this without incurring quite the same level of cost”. What they would then have at the end is a degree—great—but they would not have all the other things that universities are able to supply to students who do not come with much social and cultural capital. That is my worry, but they should be part of a wide range of options that we have on offer in universities. We need to look at flexible learning. We need to look at part-time and mature learning. We need to look at work-based and blended learning. There is a whole range of things that we need to look at, not least because of the reasons that were rehearsed in the previous panel about the fall-off in numbers that has occurred since the one-size-fits-all system was introduced.

Q135 Chair: Can I just press on the issue of staffing? I hear your point about two-year degrees not being new, but for these particular accelerated degrees, do you think there will be some universities for which it will not be of interest, or do you think that some are really going to have to change their staffing model to deal with this?

Professor Beer: It would only ever be a small number. It would not be beyond the capacity of universities to identify staff. Things go on in the summer. We do summer schools for access reasons; we do summer schools for students coming from overseas. For instance, in my own university, we have an arrangement with Suzhou Industrial Park. They send Chinese students over. Singaporean students come over in the summer, so it is not that the universities are dead during summer. We do a lot of things. Of course, it is manageable.

Q136 Chair: Professor Smith?

Professor Smith: I agree with the comments that Janet has made. The key will be how, at the level that the Minister has set of £11,000, that then knocks on to the cost of running such degrees. That needs to be a bit better understood.

There are two broader points. One of the interesting things is that accelerated degrees will be of interest to a particular section of society, but one of the underlying thoughts behind it is that you would be able to get a degree cheaper, and I am not sure that the evidence shows that particularly the 18 year-olds think too much about that. There have been quite a large number of four-year and three-year degrees, and when the £9,000 fee came in, you did not see a big drop from the four to the three. It is what you get out at the far end.

Slightly off your question but some way related, how you can accumulate credit is more important, and you can do it in a piece-wise way—in other words, both credit transfer and collection of credit: “I will take a few chunks here and take some time off”. Some of the models in America, whereby you can interleave periods of work with periods of accumulating credit, would broaden the appeal, particularly for social mobility.



Q137 **Chair:** Thanks. That is a very good point. Mr Doku?

Amatey Doku: I agree with what has been said. It is really important that there is choice for students. We are of the view that there should be more choice, and it is easier to think about choice when you take it out of looking specifically at the 18 cohort of students coming in. We would welcome far more choice in the system, but it comes, first, back to that notion of student experience: are the students making an informed choice and understanding what impact that will have on their student experience?

The second question, which has not been touched on, is that the extent to which universities will take this up will be based on the incentives that they are given to do so, and that is where my concern is. If the universities do start taking it up in a much greater way than they have, we would get slightly suspicious as to why, and if it is because they can start to make money out of it, we would be very concerned. Hopefully, that will not be the case. Student experience needs to be at the heart of it, but if it is seen as another way to get more cash out of students, there is a real concern there, because the staffing issues probably will not be seen as a priority there.

Q138 **Rushanara Ali:** I wanted to start off by picking up on the point, Professor Beer, about the student experience. Do any of you have evidence of the effects of changes to careers information and guidance on whether students are making informed choices or not? You mentioned the point about the choices people then make, and if those additional support services are not available to working-class and minority students, they stand to lose out. Do you have any reflections on what happens within schools and what could be improved at the school level around careers information, given the changes that have been made over recent years?

Professor Beer: I have done quite a lot of work on the reasons why students make the choices they do, because I have chaired, for eight or nine years, the Higher Education Public Information Steering Group. In very many ways, there is too much information out there. Unless you have somebody signposting for you the best places to get information about courses, it is quite hard to find a way through the thicket of information that is available. Lord Willetts referred to the multitude of sites, some of them more reliable than others.

We fought for years for the Unistats website—which has proper information on it, course by course, about quality, outcomes etc.—to be linked to the UCAS website. We finally got it a couple of years ago, but it was slow coming. Most students go to UCAS, and then they go on from there. Unistats is very reliable, and well-informed heads of sixth form, or wherever people are, point their students towards it. However, if you are a mature student coming in, it is pretty tough, because the stuff you want to know is not necessarily available: “How much time do you have to commit? What is the workload?” It is all those kinds of things.



Also, different groups of students have different ranges of choice. If you are a middle-class 18 year-old, the world is your oyster. If you are a mature student or if you are someone who plans to live at home in order to cut costs, you have quite limited choice. Choice is not unrestrained. It is completely individual, but there are some students who have access to a plethora of good-quality information, and there are others who struggle to sort the wheat from the chaff.

Q139 Rushanara Ali: Is that linked to social class? You mentioned the point about BAME and working-class students.

Professor Beer: Yes. I was the first in my family to go to university. My parents were very keen for me to go to university, but they knew nothing at all, and I do not remember getting that much help at school, either. I am sure it would have been there if I had asked for it, but we know that career services in schools have taken a kicking over recent years, and so there is less advice available to every student.

Q140 Rushanara Ali: Do you think that some of the fair access money could be redirected to careers services to address that point? You have mentioned some systemic issues that could kick in. Two-year courses could be valuable, but could we be thinking through how we ensure that they are a success and do not end up causing the unintended consequences that you were alluding to earlier in your answer?

Professor Beer: Anyone who has taught in a university—and I am sure that Mark would agree with this—knows that there is a huge difference between a second- and a third-year, or a third- and a fourth-year, in terms of maturity and the way in which the course of study has changed them. There is something about maturing as you study, and having time to think and change. I do not want there to be a case where particular groups of students are, in a sense, forced into two-year degrees because it is more economical. That is the last thing we want. It has to be right for the individual, and, as I said, all of the evidence that we have to date is that it is mature students who like that faster route through.

Q141 Rushanara Ali: However, in relation to my point about access funds and careers services, which have taken a kicking—I do not know if you used that phrase—

Professor Beer: Yes, I know. I meant formal careers services in schools. As we know, Connexions was disbanded. However, we spend a lot of time and money—and Mark can tell you precisely how much money—on outreach. There are 11,000 interactions between the University of Liverpool and school students, from primary through to 18, every year.

Q142 Rushanara Ali: Is there a case for the Government to rethink how they spend access money, so that schools have the capacity to provide independent, appropriate careers advice and choices about which courses and which universities to go to, and guide their students from that direction, as well as universities having the funds to be able to do the



widening access work? It seems like they are not getting the support, but universities are getting considerable resources, and in fact there are massive discrepancies around social class and entry levels.

Professor Beer: In terms of the considerable resources, as I said, Mark will unpack that. It is part of our OFFA agreement, and it derives from the student fee, but, yes, of course, I would always want to make the case for better quality and completely comprehensive advice and guidance.

Professor Smith: The amount of money that goes out through the OFFA agreement is huge once aggregated across all universities, and it obviously goes into two or three major components. There is the direct support, which is easy to measure—like, for example, the bursaries, the fee waivers and all that type of thing.

It is much less easy to understand the impact of the widening participation fund, which of course couples to the careers advice that you are talking about, because part of that widening access is making students realise what they can do. It has to reach quite a long way back into the school system, because obviously the choices that you make at GCSE and then A-level are going to have very significant impacts. It would be very helpful to understand the impact, more directly, of the level of spend that goes beyond the bursaries and fee waivers.

Q143 **Rushanara Ali:** What I am pushing towards is more of an idea: what if a group of universities decided to test out a model where they are paying for careers advisers in schools, for instance? If they are really serious about widening participation, where schools do not have that kind of resource—which is increasingly the case, as I am certainly finding in my constituency—could and should they be looking into models where they work closely in partnership with schools so there is more entrenched support to deal with these issues?

Professor Smith: The question is: what is the most effective way of undertaking that spend? You could put it into individual schools, but is it more effective for it to be done in a co-ordinated way by the universities themselves? I think, effectively, that is the question you are asking, but it is not known what the most effective way of doing it is. I am sure that quite a few careers services within universities already provide, via their outreach arms, that type of advice.

Q144 **Rushanara Ali:** I think what I am getting at is that, given that universities now have the mechanisms through fair access funding, could they not be looking at more creative ways of shoring up the support that schools get, in order to ensure that the students are making the appropriate choices to prevent some of the unintended effects that Professor Beer was referring to?

Professor Beer: Can I just come back in very briefly?

Rushanara Ali: Very briefly, yes.



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Professor Beer: In terms of widening participation, previous speakers were absolutely right: we have seen a doubling in terms of participation from the lowest socio-economic backgrounds. However, we need to get students hooked in much earlier. That 20% is mainly girls. We need to do something about working-class boys, and we need to do it at the age of 12, not with a careers adviser at the age of 16.

Q145 Rushanara Ali: At the moment, we are not even doing that across the system. Moving quickly on to student loans, how do you view the Government's moves to increase the student loan repayment threshold from £21,000 to £25,000 and freeze tuition fee caps at £9,250?

Amatey Doku: Briefly, on your previous point, we need a lot more information; the education system needs to be a lot more joined-up. We have been talking about this in the sector: there is a piece around, "Do we know what works?", and having a strong evidence base to test out all of these different widening participation aspects.

To your question, the objective information that we want to send out to young people is going up against a lot of information that is coming out of university marketing departments. To your question about student loans, we obviously welcome the fact that the system seems to be marginally fairer, but we have been very clear from the beginning that tinkering around the edges simply is not good enough and that there needs to be a root-and-branch review of higher education funding, because at the moment it is not politically or economically sustainable.

Q146 Catherine McKinnell: Would you agree with the work undertaken by the IFS that universities have experienced a significant per-student funding increase since the 2012 reforms?

Professor Smith: There has been an increase. It depends how you define the word "significant" of course. David Willetts gave a wonderful modern history lesson, but, developing his numbers, £9,000 or even £9,250 is not historically high. If you look back at 1989-90 and project it forward to 2012, the value we got per student then was £9,600. What then happened, as David portrayed, was that there was a long-term decline to a minimum of £6,400, which the £3,000 fee and then the £9,000 fee addressed.

On this big windfall, it was better than it was four or five years previous to that point, but the question one really wants to ask is how much of a windfall it is compared with how much it costs to teach. That is where the so-called TRAC—transparent allocation of cost—methodology comes in. The latest figures are for 2014-15 and 2015-16, and showed a 1.7% surplus in 2014-15 and 2.4% in 2015-16. Although there has been an uplift, it has been to replace all the things like the loss in the capital grant, which, again, David Willetts quite rightly identified. In a word, the answer to your question is yes, but it is back to a level where the teaching element of the system is now just about sustainable. If you are asking, "Is £9,000 over-inflated?" the numbers do not say that.



Just one minor point: in your previous session, one of the comments about the TRAC methodology—and a lot of professionals would have recoiled at this point—was that it was an example of smoke and mirrors. I do not think that is very fair. I am not a natural practitioner of TRAC, but I know that a lot of people work hard in universities to make it as accurate as possible, so I thought that was slightly unfair on them.

Q147 Catherine McKinnell: At another previous hearing, the Committee took evidence that a university had been “spared austerity” due to the increases in 2012. However, what do you say to people who have expressed concern, which we have seen widely reported, about the significant increases in the pay of vice-chancellors at universities? Does that undermine somewhat the argument for the increase in per-pupil funding?

Professor Smith: It is very difficult for me to comment about vice-chancellors, given I am one, so I have a conflict of interest. It is clearly highly politically charged, and vice-chancellors are well remunerated. The question is, “Is their remuneration fair or not?” You can always cite what I would call outliers, which are very high, but if you look at the bulk of vice-chancellors, they lie at a pay ratio of between 5.8 and about 8.2. That would compare with the National Health Service, where the average is getting on for 7.5, and the Civil Service, where the ratio is 11. That is the first point.

The second point is—and I know that what I am going to say next gets pushed back against a bit—how do you determine what the right level of remuneration is? If you look at international comparators, British vice-chancellors are only in the middle of the overall distribution of vice-chancellors across the English-speaking world, so that seems to me to be a very comfortable place to sit, in the sense that we are neither at the top or the bottom end of that distribution. All of the indicators that you look at seem to suggest—and I am not for one minute suggesting we are not well paid—that, by any means of trying to measure, “Is that fair or not?” most vice-chancellors are relatively fairly paid.

Q148 Catherine McKinnell: Do you have anything to add, Janet?

Professor Beer: If my Chair were here—because, as Mark says, it is quite awkward being one and being asked that question—he would say that when they recruited prior to my appointment, the first thing that the head-hunters they appointed did was to come in and say, “Are we looking in an international market?” When they started talking about that international market, they said, “Absolutely not—we cannot afford that”.

Amatey Doku: Very quickly, on your previous point about whether resource per student has gone up, I do not think it has gone up significantly. It has gone up, but what you end up saying, as happens across the piece in this debate, is that because in the past Governments have not been good at allocating resources to universities—because Governments have not been successful at it—all of a sudden a system



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that involves putting the burden squarely on the shoulders of students is somehow the better way of doing it, rather than interrogating what the problems were in the first place. There is a slight blurring of that conversation, as to why it is that the current system might be better.

In terms of vice-chancellors, one of the reasons why we are talking about this is because of Jo Johnson, and when Jo Johnson comes under a lot of pressure he does try to deflect, so we do have to be aware of that. However, as part of the broader picture, students sometimes find it difficult to stomach seeing some of those higher pay cheques. They are going through difficult financial times and having to take on a lot of the burden, and they have made, over the years, their voices heard very clearly that they are not happy with the financial situation.

We want to see more transparency in the processes. We want to see more students on the remuneration committees, and that is sometimes not talked about. It is really important that there is student representation throughout that. All the factors need to be taken into account so that they are done in the most transparent way possible, but I do think that some students find some of the pay packets hard to stomach.

- Q149 **Catherine McKinnell:** To move on to something slightly aside from that, for every student that enrolls, the university is granted about a £27,000 fee in income, regardless of the course. Is there a risk that universities have too much of an incentive to encourage a proliferation of cheap-to-run courses? Is there any evidence of that within the system? Do you share some of those concerns?

Professor Smith: If I start off by talking about the spread of costs, the TRAC data splits it down into the different disciplines. If you look, the range goes from veterinary science all the way down to classroom-based subjects like sociology etc. If you look at the number of subjects and compare it with the £9,000, of about 40 subject areas, the numbers that I have are that there are 26 that cost above £9,000.

- Q150 **Catherine McKinnell:** I would be more interested to know whether that has shifted since 2012.

Professor Smith: The answer is no. If you look at the number of people going into high-cost subjects compared with low-cost subjects, there has been an increase overall, because obviously the registrations have gone up. Those classified as low-cost have gone up by 4% over the last two or three years, whereas the high-cost subjects have gone up by 9%, particularly around biological sciences and biomedical-related courses. They have been very popular.

- Q151 **Catherine McKinnell:** That is helpful. I do not know whether you have anything to add; I just have one other question about the Office for Fair Access.



Professor Beer: I would like to add one thing there. In terms of the high-cost subjects, obviously we get a supplement from the Funding Council to cover those costs. There is a lot of talk about disciplines that are cheaper to teach, but when we get research income, quite often there is funding in there for infrastructure in the sciences and engineering. When you get research income into law, social science, English or philosophy, there are no infrastructure costs in there. It tends to be costs for studentships, individuals, post-docs etc., so they would be very much people-based costs.

The only place I have to go to, to pay for the pro bono law clinic, to add value to the law student experience—indeed, to pay for a new law school—is student fees. There is some scope within STEM to benefit the student experience through research funding but very little in humanities and social science.

Q152 **Wes Streeting:** Following up on Rushanara's line of questioning, the most recent figures I could find from OFFA were that £725.2 million had been spent on widening participation through access agreements, and one of my frustrations with the OFFA framework is that it does not necessarily derive a link between the cause and the effect, or impact, of this spending. Given that this week figures emerged showing that the Government have cut £650 million from early years, would we not be better, in terms of meeting our access and widening participation objectives, to take it from universities and give it to early years? Professor Smith, do you want to go first?

Chair: It is a rather enviable question, but well asked.

Professor Smith: The answer to that question goes back to the answer to the previous question: how effective is it? The point that you are trying to make—which, of course, is perfectly valid—is that the way you drive social mobility is by driving up performance early on. However, you cannot expect me to sit here and say, "Of course, you should take money out of a university".

The call is where it is most effectively spent. The starting point of your question was absolutely the right place, because I would say that there needs to be much better understanding of the cause and effect on the spend of that £725 million. At the moment, it is very difficult to say just how effective it has been. The reason for bringing that up is that, if you could show it was being effective, I would probably disagree with your premise. If you could show it was being ineffective, it would be very difficult for me to say that.

Q153 **Wes Streeting:** Just before I move on to the rest of the panel, because of your role in HEFCE and because of the timing, you probably picked up through some of the lines of questioning that there is a perception—and certainly in relative terms, it is true—that throughout this period of austerity, the higher education system has weathered rather well. I am a local councillor, and you are doing a lot better than my local authority.



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Having said that, we should be very proud of our universities, the extent to which they punch above their weight on the global stage and the quality of education outcomes, and that has been forgotten in lots of the public discourse. From your point of view, in terms of the financial sustainability of institutions, is it “steady as she goes”, or are there some problems that we are overlooking during the process of being very mean about vice-chancellors’ salaries?

Professor Smith: The key point is that it is very interesting to go back through the historical period that David Willetts unpacked, because you could say, “How did universities go from £9,600 in 1989-90 and still survive 12 or 13 years later with this decrease to £6,400 that you claim?” Of course, we used that big ballast tank, which is called capital and estate. We just did not do any repairs and stuff like that.

If you walked around universities in the mid- to late-1990s, they were beginning to get shocking, compared with if you go around now. I have to be slightly careful here, because you always have these vanity projects, but I do not think there are many. If you look at the quality of the libraries now and the learning spaces that we have been able to fund, which have changed the way students do group activities and self-learn together, that is what has underpinned the point that you are making about us being able to punch above our weight. All of the data shows that, and it is because of that investment we have been able to put in place in all of the support structures that allow us to perform.

That then goes on to answer your question. The worry I have is that at the moment we have fared well—there is no point in me saying that we have not, because it is absolutely true—but it looks like a rollercoaster if you plot out the unit of resource over time. We do not want to go into another steep downturn. We would only be saving up the problems that we have now solved, so my plea would be that any report that goes forward looks seriously at what real level is needed to keep them on a sustainable footing. That is where the TRAC data comes in, because at the moment it is about 100%. That means that you have a sustainable system, but it can soon go rapidly out of kilter if you start pushing back on things.

Q154 **Wes Streeting:** Professor Beer, I am sure that, even though it is Christmas, you are not a turkey who is going to vote for reallocating money away from universities. I should probably say, as well, that as well as sitting on your information working group, we sat on a number of other university boards and committees together.

I do wonder: you were remarkably, characteristically candid earlier in terms of the challenges around two-year degrees and where public policy could inadvertently lead to some undesirable outcomes. Notwithstanding all of the praise that I have heaped on universities, where do you think some of the criticism of universities has been fairer? On value for money in particular, the numbers are going in the wrong direction, according to student experience surveys. What more do you think universities ought



to be doing to make sure that students are getting the experience they believe they are paying for?

Professor Beer: It was a strange year for the NSS last year, because it was a new survey. It would have been nice if that had been launched, in a sense, in an uninflected environment, but there was a boycott. My own Guild of Students boycotted it because of the link through to funding through the TEF. The NSS results we had last year were not, I fear, as good as they should be.

Let us not forget—and you will expect me to say this—that the National Student Survey is the best means that we have for improving the student experience, both through the headline figures and also through the free comments that students make at the end. Certainly, the granular detailing in universities allows us to make real improvements, and that is my concern always: to be improving the quality of the student experience.

If you ask me whether we as a nation spend enough on early years, which I realise is not the question you ask, no, we do not. We absolutely do not, but the more graduates we have, the better life chances children have. Graduates are better parents; they keep their kids out of trouble; they read to them; they look after them. They are less of a burden on the state. Every single graduate saves their country \$100,000 over the course of a lifetime in money the state does not have to spend intervening. The more graduates you have, the better able a population is to look after the next generation. I am always going to argue for both, I am afraid: that is “cake and eat it”.

Q155 **Wes Streeting:** The retention and graduation destination, on some courses at some universities leaves, a lot to be desired. For some of those so-called widening participation success stories, the price of failure or not getting what they were sold is higher. How is the sector responding to that challenge? From an equity point of view, we want to make sure they get a good experience. From the Exchequer point of view, we want to make sure they are paying their graduate tax.

Professor Beer: Absolutely, and I already made the point about keeping students in. We have to be very, very vigilant, when alternative providers enter the system—I always say this—that student success is at the heart of their business model; that they are putting at the front the fact that they are not only going to get students into higher education, but they are going to support them through. It is coaching students to think about higher education, especially if they are from a first in family background. It is then raising their aspirations, so it is getting them in, but it is keeping them in, making sure that those students have support. That point was made earlier by the panellists: why would you give London Met less than you give Imperial? It is counter-intuitive and counter-productive.



We must support students to reach their potential, because some students who have not been in high achieving schools get into the university environment and do that. We have the data to prove that. We need to make sure that we are not sucking money out of one bit of the system that it is really important to keep it in, because student success needs to be the thing that drives us.

Q156 Wes Streeting: Finally, I once did Amatey's job at NUS and at Cambridge University Students' Union, so I want to ask you the concluding question from my section. Shakira Martin has been quite outspoken about the fact that so much of the public debate has been about fees, and she is very concerned about student finance, students' pockets and affordability. Can you elaborate on that and what you would like to see in the context of the review? Finally, although you and I would both flinch at the language of students as customers and have a different philosophical view of the role of students, given that the whole system is meant to be geared around students—students at the heart of the system, student power, student voice—do you feel that students have the kind of voice and influence in universities and at sector level that they really should?

Amatey Doku: They are two very good questions. There is no coincidence that this year the priority campaign that was voted on at national conference was for a poverty commission, which we are collecting evidence for. We know that students are suffering financially as a result of the system. We know that students are carrying financial burdens throughout their time at university, and that is having a knock-on effect on their ability to attain and to succeed.

We were very clear, when maintenance grants were scrapped, that that was the wrong thing to do, and we have been very clear that maintenance grants need to be reintroduced. We cannot have a system where students from more disadvantaged backgrounds will come out with bigger debt, and I have yet to find anybody who can defend that position. That needs to be looked at again.

On your second question, which was about whether students are at the heart of the system, it is very interesting: the idea that students can now hold the university to account. I would be interested to speak to officers who have done my job in previous years to see whether there has been an exponential rise in students being able to hold their universities to account. If you compare it to the amount that the fees have gone up, I do not think that necessarily has happened.

We have currently grave concerns about the new regulatory framework. We do not want to be in a situation next year where there is less student representation than there is at the moment. We are concerned about the loss of the annual reviews, quality and the independent student union voice that was there. We are very concerned about the fact that we still have not heard about the board place for the Office for Students. In my view, we should have a majority of student representation on the Office



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for Students. That has not happened; we have one, but we still have not heard. My application was rejected; Shakira's application is still live, but we have not heard anything yet, and we were meant to hear weeks ago. If students are really at the heart of the system, we need to ensure that at every level of decision-making, within our universities and within the sector, students are really being heard.

Wes Streeting: We are sending Jo Johnson the transcript of the session, so he can expect a kicking if it is not resolved. For the benefit of viewers, we have the opportunity for people to tweet in questions to Jo Johnson. The Treasury Committee is in the 21st Century, under our Chair, so people can tweet Jo Johnson questions, and that is something they might want to ask about.

Chair: The hashtag is #askjojohanson, so there you are. You heard it here. Kit.

Wes Streeting: From the 21st Century to—

Q157 **Kit Malthouse:** I am conscious that there will be an element of abuse that comes through; let us put it that way. Do Warwick and Liverpool Universities compete?

Professor Smith: Well, I am Lancaster.

Q158 **Kit Malthouse:** Sorry, Lancaster. They are only an hour or so apart. Do you compete?

Professor Smith: Absolutely, very fiercely.

Q159 **Kit Malthouse:** On what basis? It is not on fees.

Professor Smith: No, it is on student numbers. To your question earlier, you are absolutely right. There is not a market in fees but, if you go around a university in the second or third week of August, so the clearing week when the A-level results come out, the amount of activity going on to recruit students is unbelievable. The level of competition for student numbers—

Q160 **Kit Malthouse:** It is about numbers, then. It is just about pure numbers.

Professor Smith: Yes. Again, you were quite right in your earlier question. There are not any universities that have gone out of business. However, there are some universities now that are less than two-thirds of the size they were back in 2012. That is quite a rapid change.

Q161 **Kit Malthouse:** Which ones?

Professor Smith: London Met.

Q162 **Kit Malthouse:** Right, so it has shrunk. Why?

Professor Smith: It is because of the recruitment. Other places were much more successful.



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Q163 **Kit Malthouse:** No one wanted to go there.

Professor Beer: No, but there is a London factor as well. Most institutions in London are smaller than they were.

Q164 **Kit Malthouse:** Why is that?

Professor Beer: There are fewer 18-year-olds, and, as Mark said, the student number controls being lifted has meant that students are, in a sense, in the driving seat as regards choice.

Q165 **Kit Malthouse:** Why are they not choosing to go to the London institutions?

Professor Beer: It is incredibly expensive to live there.

Q166 **Kit Malthouse:** It is nothing to do with the institution itself.

Professor Smith: It is a combination of factors.

Q167 **Kit Malthouse:** It is to do with the external factor of London being expensive to be a student in.

Professor Smith: If you look at the 2012 lifting of the student number control, it had a significant effect. Although universities could expand, it used to be a very tortuous process. You used to have to put an application into HEFCE, which said, "We want to vary our numbers by about 3% or 4%".

Q168 **Kit Malthouse:** Yes, I understand. You were holding out London Met as an example of where competition had driven that institution to be much smaller than it currently is, whereas I thought you were indicating, Professor Beer, that it is due to other factors, such as the cost of living in London.

Professor Beer: It is a mix. It is very expensive for students.

Q169 **Kit Malthouse:** The perception was that London Met was not of sufficient quality.

Professor Smith: You need to look back at the history. It had a history, a few years ago, of having to undergo a significant change, because of various activities that had gone on there. That perception of it had an effect on its attractiveness to students, but having said that it is just a very competitive market.

Professor Beer: Hang on—that is one-half of the story as regards London Met. It is not just London Met. For instance, Kingston University is 10,000 students smaller than it was. It is about part of the story that I told earlier, about making sure that students were being set up to succeed. The turnaround in London Met that has been undertaken in the last three or four years means that the students are absolutely at the heart of the enterprise.



Amatey Doku: In my day-to-day job, which I have been doing since July, I have had the opportunity to go and visit lots of different universities. More investigation needs to go into this, but one of the interesting stories is that, from experience, universities do want to recruit more and more students. They do want to expand. I am not going to name and shame institutions, but we are concerned that some institutions, for example, have expanded so much and not invested in the infrastructure to house the students. Even though the buildings may look great, they are not always big enough to house the number of students. We have students staying in hotels for the first couple of weeks of term, freshers—think about what that does to the student experience—because they want to expand. Part of that is because of where the incentives are in a marketised system.

When I was a student union president, I questioned why we were assuming that student fees were going to go up, because at the time, politically, differential fees were being introduced in the system. By the time we got to 2020, fees would hit £10,000. The university sector was being told that recruiting more students would mean more money. Politically, that has not worked out this year, for a whole host of reasons. Universities are now stuck having to recruit more students, but not necessarily having a sustainable model of funding, because of the freeze on fees.

Q170 **Kit Malthouse:** I understand that. On the competition issue, which is one of the things we are trying to get to, maybe London Met is not the best example, because of other issues. If you are saying that Kingston is being outcompeted by other universities, has it dropped its price?

Professor Beer: It may have reduced student numbers. In fact, I know the previous vice-chancellor very deliberately reduced student numbers, simply because of the desire to focus on the quality of the student experience. We are all conscious of the situation that Amatey just described. You need to make sure that, when you have the students in your university, they have the conditions in which to flourish.

Q171 **Kit Malthouse:** I understand that. The point about the system as it was set up originally was that there would be price competition for students, but that has not happened.

Professor Smith: The interesting thing is that dropping price can be counter-productive. In the very early days, in 2012, there was a handful of universities that decided that was very deliberately what they would do. They would buy this argument that they will compete on price, and some came in at around £2,000 less. What happened? The number of applications for those universities went through the floor. The argument was: "They cannot be offering us something that is very competitive, because they can sell it for much cheaper."

Q172 **Kit Malthouse:** It is a good, so the more people pay for it, the higher the price, and the more people want it.



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Professor Smith: A handful of universities deliberately tried that approach in the early days. Within two or three years they had all reversed back to £9,000, because they had had very significant drops of applications.

Q173 **Kit Malthouse:** There is no functioning price market.

Professor Smith: I would say on price, no.

Q174 **Kit Malthouse:** But there is competition on the basis of broad numbers.

Professor Smith: Correct.

Q175 **Kit Malthouse:** You want to expand or to have better recovery on your fixed costs, so the incentive in the system is to get as many people as you possibly can. If that is the basis, have your institutions responded to that stimulus by reconfiguring to offer more popular courses that you know you can fill?

Professor Smith: It goes back to an earlier question. Do you take into account the relative costs of those subjects? The problem is that there are cliff edges as well, which is the point that Amatey made earlier. You have certain types of lab space, for example. In your high-cost subjects, you can fill a lab up and run that lab class twice, but if you then have to go and say, "I need a bigger lab", you will probably not expand to that sort of level. You are making those choices all the time.

Q176 **Kit Malthouse:** Does that mean the system pushes you away from those expensive courses towards ones that do not require any equipment, but just a lecture theatre that you can get 300 people in, all popping at nine grand a point, with an economics lecturer reading from a textbook?

Professor Smith: It would do if the purpose of a university was simply to make money. But a university has a wider societal role to fulfil, which includes the advancement of knowledge, and the advancement of knowledge is across the whole piece. I call it the shape of a university. Universities are slightly different shapes, but as a senior management team, probably in discussion, given the collegiate nature of the university, you will decide what shape of university you want. You would not want to distort that shape too much, because it would change the whole dynamic of the institution. That is what it is about: creating the broader environment, the broader society.

Q177 **Kit Malthouse:** What is the incentive for expansion, then?

Professor Beer: It is partly about demand. It is about students wanting to study particular subjects, but it is also about creating the conditions in which we can innovate and respond by providing programmes that equip students for jobs that have not yet been invented. Who knew that we would have to have programmes in the various "nomics" 20 years ago, or programmes in artificial intelligence? Universities have an obligation to constantly be innovating and thinking of new approach.



Q178 **Kit Malthouse:** I understand that, but that has been the case for the last 300 years or whatever. What I am trying to tease out is what impact the current structure has had on the broad incentives that drive the reaction of universities. Are they migrating towards low-cost courses that they can fill? Are they driven—most of them seem to be—towards enormous expansion in numbers? Are they saying it is a combination of the two? “The extra money we get from having this massive course that we can fill with lots of people paying nine grand, at quite a high surplus to fixed cost, means we can pump more money into the nomics and all of the expensive stuff that we need to do”. It is becoming clear from the evidence we have had so far that the system is not having the intended effects, but is having other effects.

Professor Smith: Your last point is exactly the debate that goes on all the time. That is why I talk about shape. There is no doubt that you can help some bits of the university by expanding other courses, because, as you say, there is more margin in some subjects than others. You have the ability to expand the higher-cost subjects. The level of cross-subsidy is not that great, but it is there, and it is a question about balance all the time. Say I am an English lecturer. If I went along and said, “I am going to expand the English department, just so I can employ some more chemists”, I know what sort of answer I would get from them. It is a balance of being able to expand them and help other bits of the university at the same time.

Professor Beer: It is also about responding to local needs, as most of us are anchor institutions in our cities and regions. In terms of the ecosystem that is Liverpool Hope, Liverpool John Moores and the University of Liverpool, we think about how many nurses are needed. We think about how many doctors we as a university, and indeed in partnership with Lancaster, educate. There are severe health needs in the Liverpool city region, so you have to be responsive there. In the way you support students to become entrepreneurs, to get work experience, et cetera, you have to respond to the demands of your place. Universities are very place oriented.

Kit Malthouse: The transfer of a market mechanism on to an atmosphere in which those things are driving you, so it is not profit driven, means you are never going to get the function that was initially intended.

Chair: Before you answer that, I am going to bring in Alister, who is going to ask his questions. Feel free to answer that last one among them.

Q179 **Mr Jack:** Well, that was a statement, really. I am conscious of time, but there are a few questions, so I will rattle through them. First, Martin Lewis suggested changing the term “student loans” to “a graduate contribution tax”. Is that something you would support?

Amatey Doku: No. The argument that we have to change the name really insults the intelligence of young people. I do not think that is



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necessarily the root cause of the problem. I would hope that any independent review looking into higher education funding would not come out with that as its core recommendation.

Q180 **Mr Jack:** Good, so when he refers to the language of debt as being psychologically damaging you would not agree with him.

Amatey Doku: I suppose it is not helpful, but that is because it is what it is. It is a strange hybrid of tax and debt, and it is all very confusing. Young people look at the current system and at their parents' generation, and their parents' generation did not have to take this on for the rest of their lives. Language is important, but the fact of the matter is that graduates coming out of our universities have a financial burden.

Q181 **Mr Jack:** How much do you think that parents understand the financial burden on the way in? How well informed are they that, for instance, for a family with a combined income of £70,000, approximately £5,500 of it will be part of the maintenance grant, and those parents will have to find the other £5,500? Do you think they are aware of that at the beginning of the process?

Professor Beer: Amatey made the point earlier that students who come from less well-off backgrounds will necessarily have a higher debt when they come out, because of having to get access to maintenance support, which is a loan. I believe that we need to return to means-tested maintenance grants in order that students do not have to pay for social mobility in quite that way. Nick Barr said a very interesting thing in the lead-up to this change in the student funding system. He said that no parent ever stayed awake at night worrying about how much tax their son or daughter would pay in the future.

I disagree a little, Amatey, in the sense that the language of "debt", the language of "loan", the fact that that debt starts clocking up the minute you walk through the door of the university, is quite frightening to an 18 year-old. We need to do better as a sector in explaining which elements of the current system are indeed progressive.

Q182 **Mr Jack:** Sir Amyas Morse, who as you know is the Comptroller and Auditor General in the National Audit Office, said that, if student loans were a regulated financial product, the NAO would be "raising the question of mis-selling". He said, "The decisions students make when entering higher education have lifelong implications for their career prospects, earnings and debt". Do you think students have enough information before they set off on this journey? Do you agree with him?

Professor Beer: I do not agree with him, because, as David Willetts said, it is not like a credit card debt. Indeed, it was set up in order to support many students in paying, particularly women, who are usually in and out of the workforce in their 30s, and students in our arts schools and our conservatoires, who would tend to be self-employed, in and out of the workforce, with not necessarily conventional careers. The beauty of the current system is that it supports that level of flexibility.



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Professor Smith: It is very interesting. The language is unhelpful, and I do not think that is insulting anyone's intelligence, because it is using everyday language to describe a non-everyday financial product. That is why it is easy to confuse it; David Willetts made that point very clearly. It is not like any other unsecured loan that you are likely to take out in your life. Therefore, I think the language is rather unhelpful.

I have two other points. To your specific question on the £70,000 combined income household, I suspect their level of understanding is very variable, and I suspect many do not understand. I have tried it on open days. I have broadly talked to parents, and their understanding is very wide, from being completely on top of the system to it being completely mystifying to them.

Q183 **Mr Jack:** Or pretending they are on top of it.

Professor Smith: Well, I take it at face value. I think they are both making key points.

Amatey Doku: I often joke, but I think it is true, that I am slightly disappointed that I will not come out of this job with a degree in higher education of some kind. This stuff is very, very complicated and it takes you a long time to get your head around it. To expect 17 year-olds to go into making this choice fully informed is sometimes unfair. We have got ourselves into a situation where we need to correct and add things. Even if you understand it as you are going in, it has been retrospectively changed and the loans have been sold off, so all that makes it very difficult terrain.

Professor Smith: It is very interesting to look at the letter a student gets, which, as Janet says, starts racking the debt up. Going back to your financial product argument, it should definitely say that, but then it should say, "The likelihood that you will repay is this". It does not say any of that. It makes it black and white.

Q184 **Mr Jack:** Do you think at the beginning it should say how much you are paying and how much your parents are expected to pay?

Professor Smith: Yes, but also the long-term—

Q185 **Mr Jack:** Yes, I understand. I am going to come to that in a minute.

Professor Smith: Yes, if all that could be spelled out, it would be incredibly helpful.

Q186 **Mr Jack:** There was a divergence between Professor Denham and Lord Willetts on the student loan repayment being set at 9% of earnings over £21,000. Martin Lewis made this point: if you are going to be a high earner, it is quite likely, in 30 years, you are going to repay your debt. If you are going to be a low earner, you are not, so why not take as much debt as you can, because you are never going to repay it; it is going to be part of that £8 billion write-off? They had a different take on it. I just



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wondered what your take would be on that. I suppose I have to put a question at the end: is it a good system, this 9% over £21,000, and the ability to, frankly, take debt on that you know you are never going to repay or are very unlikely to repay?

Professor Smith: I do not know. It depends on how students think, and I am not sure that I can answer that question.

Q187 **Mr Jack:** Do you think we are educating them today, which is a risk, by highlighting it?

Professor Beer: Higher education is free at the point of entry. You just said "how much parents are expected to pay". There is no expectation, and that is part of the way in which the system works. Of course, we know that students from better-off families are supported, which is why students from worse-off families have higher debt, because they have nowhere to go but the loan company. I believe that there is an equitable point of entry for students with the ability to benefit from higher education, but we could do more to make it more equitable.

Amatey Doku: Quite a lot of this debate is based on the premise that it is going to be written off after 30 years, and people seem to accept that unquestioningly. That is slightly concerning, because I do not think the Government can give that guarantee. We are of the very strong view that, while it is seen as a positive of the system that the majority of people do not pay it back, it is quite financially irresponsible for the Government to be pursuing that system. It will be the people in 20 or 30 years' time, if not before, who will have to foot the bill for that black hole. We do not seem to be speaking about that enough. We have to be very, very careful.

Mr Jack: You should be at the Treasury, not the National Union of Students.

Chair: He has a great career ahead of him.

Mr Jack: I agree.

Chair: Thank you very much indeed. I am sorry we have kept you slightly longer than we had expected, but we are very grateful. As I said before, if there is anything else that you want to add once you have thought about it or reflected on the evidence, please feel free to write to us, but for today we are very grateful.