HOUSE OF LORDS

Science and Technology Select Committee

Corrected oral evidence: Science research funding in universities

Tuesday 25 June 2019

10.20 am

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Members present: Lord Patel (The Chairman); Lord Borwick; Lord Griffiths of Fforestfach; Lord Mair; Lord Maxton; Baroness Morgan of Huyton; Baroness Neville-Jones; Lord Renfrew of Kaimsthorn; Baroness Young of Old Scone.

Evidence Session No. 10 Heard in Public Questions 67 - 74

Witnesses

Dr Philip Augar, Chair, Review of Post-18 Education and Funding; Professor Sir Ivor Crewe, Panel Member, Review of Post-18 Education and Funding; Matt Toombs, Secretariat, Review of Post-18 Education and Funding; Jacqueline de Rojas CBE, Panel Member, Review of Post-18 Education and Funding.

USE OF THE TRANSCRIPT

Examination of witnesses

Dr Philip Augar, Professor Sir Ivor Crewe, Matt Toombs and Jacqueline de Rojas.

Q67 **The Chairman:** Ladies and gentlemen, good morning, and thank you very much indeed for coming today to help with this evidence session on university funding and other aspects of universities. We are on livestream today and we are being recorded for the parliamentary television channel. Before we start, please introduce yourselves for the record. If any of you would like to make an opening statement, please feel free to do so, and then we will get on with the questioning.

Professor Sir Ivor Crewe: I am Master of University College, Oxford. I was vice-chancellor of the University of Essex before that and president of Universities UK for two years.

Dr Philip Augar: I chaired the post-18 review panel. I normally work as a writer on business management, with a particular interest in financial services. In the 1980s and 1990s, I worked in financial services.

Jacqueline de Rojas: I am president of techUK and co-chair of the Institute of Coding. I have been in technology software companies for 30 years.

Matt Toombs: I led the secretariat to the independent panel of the post-18 review.

The Chairman: Thank you. Dr Augar, do you want to make any opening statement, or are you happy to start the questioning?

Dr Philip Augar: I am happy to take questions.

Q68 **The Chairman:** In that case, I will kick off with a gentle question. They are all gentle, by the way, but this one is much gentler.

One of the key recommendations in your report is that, with a reduction in university fees, the shortfall that might occur would have to be filled by the Treasury. We assume that you have had opportunities to talk to the Treasury. What is the likelihood that that shortfall will be filled? What are the implications for universities if it is not?

Dr Philip Augar: The panel's recommendation is clear that the proposed recommended fee cut be accompanied by a full top-up in the average unit of resource across the sector. That remains our recommendation. We are not able to speculate on what this or any future Government might do with that recommendation, but it is part of a coherent package, and all parts are intended to fit together.

The Chairman: Do you feel that if the Government do not fill that gap it will have implications for the universities?

Dr Philip Augar: There are a number of purposes behind the fee cut and top-up. First, they would ensure that no undergraduate pays more for a degree than what we consider to be the reasonable cost of provision. Secondly, they would create the headroom to better align the taxpayer's subsidy in higher education with what we describe as economic and social value. We considered it as part of the package.

The Chairman: Do any of the other witnesses have a comment? Committee members want to come in.

Baroness Morgan of Huyton: I understand the premise and the argument that this is part of a package. Did you as a committee discuss whether or not the cut should go ahead if the Treasury does not make up the difference?

Dr Philip Augar: We stated quite firmly that the recommended fee cut to £7,500 must be accompanied by a full top-up in the average, sector-wide unit of resource.

Baroness Morgan of Huyton: That was the premise?

Dr Philip Augar: Yes, that was behind our thinking.

Professor Sir Ivor Crewe: The report also makes clear, expressing the point slightly differently, that the unit of resource in cash terms should be frozen until 2022/23 then from 2023/24 moved up with inflation.

Baroness Young of Old Scone: Was there any discussion in the committee about the increased engagement of government, in making choices that previously would have been made by universities, as a result of your proposals? At the moment, universities have a degree of ability to cross-subsidise and make choices about which courses they offer. However, your suggestion is that there will be a discussion or decision about economic and social value that is removed from universities and is rather more top-down. Was the committee at all anxious about that, or is it a deliberate move to take power away from universities?

Dr Philip Augar: We considered very carefully the operation of what has been a free market in higher education and we see much value in market principles in creating some competition and some choice. However, we felt that the way the market has operated has not been in the taxpayer's overall interests and that a managed market, which we reflected in the proposed fee cut and then a directed top-up, would be the way to deal with that.

Baroness Neville-Jones: Could you perhaps explain why the existing regime is not in the taxpayer's interest?

Dr Philip Augar: That relates to the direction of the taxpayer's subsidy, as measured by the RAB—the write-off of student loans. There are tables in the report that show a clear misalignment between the stated industrial strategy sectors and where the taxpayer's subsidy goes.

Baroness Neville-Jones: Could you enlarge on that explanation?

Lord Griffiths of Fforestfach: I do not understand that, sorry.

Dr Philip Augar: I would like to refer to tables in the report, but we do not have copies around the table.

The Chairman: We have all had a copy, so please feel free to refer to it.

Dr Philip Augar: For the record, it is table 3.12, which estimates government spending by subject. The calculation is the write-off by student and by subject, multiplying the two together. It shows that the government spending subsidy is over £1.1 billion for the creative arts, over £800 million for social studies, over £500 million for maths and computer science, and about the same for engineering.

The combined taxpayer's subsidy for the creative arts and social studies, which are very worthwhile subjects, is more than twice the level of the subsidy for maths, computer science and engineering. Does that provide the clarification?

Baroness Neville-Jones: I am afraid I still do not see how the logic of the argument works.

Baroness Young of Old Scone: Perhaps I can help Dr Augar on this. Are you saying that the payback on the loans is not there because most of the people doing these courses end up in jobs where they do not earn very much, so they cannot pay back the loans? They may be very important, necessary jobs. Are you saying that in future people should go to university only if they will earn a lot after they come out?

Dr Philip Augar: Very much not. Clearly subjects such as social studies and the creative arts contribute a great deal to the economy. The question is the extent of the state subsidy. The state subsidy for 2018-19 is about £10.5 billion, and 20% of that is going to those two subjects. It is a question of degree.

Baroness Neville-Jones: But you are making a social judgment, are you not—a judgment on the social value of these subjects? You are saying that some are more valuable than others.

Dr Philip Augar: We are making a judgment on economic value and a recommendation about how the teaching grant top-up should be directed. We mentioned three factors: the reasonable cost of provision, the economic value, but also the social value. It is essential that all three elements are included; we make this very clear in the report.

Baroness Neville-Jones: I think I am right in saying that the evidence from universities to the Committee is that they reject the distinction you make between economic and social value. They argue that there is no valid distinction of the kind you are making.

Dr Philip Augar: Sorry, could you repeat that?

Baroness Neville-Jones: They reject the validity of the calculation you are making about value.

Dr Philip Augar: The data comes from the IFS. It is robust data.

Baroness Neville-Jones: Data is what you make of it.

Dr Philip Augar: The government spending, the write-off, by subject per student multiplied by the number of students doing each subject is robust as far as we are concerned. It is robust, independently approved data. The universities may challenge it, but we have seen no evidence of that.

Baroness Neville-Jones: I do not think the universities are challenging the arithmetic but the construction or interpretation put upon it.

Dr Philip Augar: So universities are challenging the idea that the taxpayer's subsidy to higher education should be subject to scrutiny?

Baroness Neville-Jones: No, they are challenging the notion that some subjects are more valuable than others.

Baroness Morgan of Huyton: May I ask you about the use of the IFS data? Is not the problem with what you are describing the fact that the very essence of using current data means that you are looking backwards at what subjects may be useful to the economy going forward?

For example, we have recently received really strong evidence that the creative industries are an increasingly important force in the economy. Indeed, a lot of the industries that were, in a sense, expected to take the country forward need a bit of a creative-industry background as part of them. Life is not as siloed as it perhaps has been in the past. The problem is that the data represents a past, siloed approach to the economy rather than where it is going.

Dr Philip Augar: We completely understand the importance of the creative industries as part of this economy. When we started the whole process, we asked ourselves what the purpose of tertiary education is. We divided the answer into two buckets, if you like: the economic bucket and the social bucket. They are both very important. The social bucket includes the contribution of higher education to good citizenship and this country's culture, and there is something in there about learning for learning's sake. We completely understand that.

The economic value is easier to measure, and it is a question really of quantity. You used the creative arts as an example. It is really a question of scale. There are 40,000 students registering for creative arts degrees every year. The total number of people working in the creative arts industry in the UK is 120,000. The taxpayer's subsidy to the creative arts through the student loan write-off is £1.1 billion. The annual budget of Arts Council England is less than that.

This is a question of degree and proportionality. The panel's recommendations are intended to focus on those parts of the high-cost-to-the-taxpayer subjects that are at the bottom end of the quality spectrum. This is not a broad-ranging set of proposals designed to crush a whole sector. The intention is to focus on quality and on the courses and institutions that do not deliver to students and to the taxpayer. It is important not to caricature the panel's proposals; they are quite laser-like in their intention. Perhaps colleagues would like to add to that.

Professor Sir Ivor Crewe: A piece of evidence that we took into account when we looked at the accelerating number of students who are taking degree programmes in the creative arts, for example, is that the proportion of those who then in fact move into the cultural sector is relatively modest. If I remember the figure correctly, it is around 50%, so one should not assume that all those who take degrees in this particular subject then move into the appropriate industrial sector.

A significant proportion proceed to jobs in which they earn less than non-graduates would at a similar age. So it is not clear that the economic or social value to the country as a whole, or the social value to individual students, applies to all the students who are taking degrees in that subject at the moment.

Lord Griffiths of Fforestfach: How did you arrive at what I think you describe as a reasonable cost of provision—£7,500?

Dr Philip Augar: The only external advice that we purchased as a panel—I think this is correct—was a study of university finances, which we commissioned from the accounting firm KPMG. We asked them to write to universities, and a large number responded and contributed data based on the track data. KPMG are an expert firm that audits the accounts of a number of universities, and the KPMG employee who worked most closely with us personally audits those accounts, so we felt that they know the sector very thoroughly.

That revealed a lot of interesting data, and we were able to analyse from the returns which the universities submitted the direction of spend, the amount they were spending on direct teaching, and other costs. It emerged that the basic cost of provision of one of the lower-band degrees, as reported by the universities, was £8,800. However, further analysis of the data revealed that that £8,800 includes a 10% margin, called the margin for sustainability and investment, which is effectively a discretionary provision against future expenditure. We noted that the universities already spend a considerable amount on estates and equipment to keep the facilities up to date, and in our calculations we thought that simply adjusting for this would take the base cost down to £8,000, or just below.

We also thought hard about and studied hard what had happened to university spending since the trebling of tuition fees in 2012. We judged that that was a windfall for the sector, that not all that expenditure had landed in the best place, and that universities had been through a golden period while other sectors of the economy and other parts of the public sector were experiencing a decade of austerity, and we felt that it did not take a great deal of imagination or analysis to conclude that a reasonable cost of provision would lie below £8,000, and in fact some way below £8,000.

We looked at and modelled a number of base fee levels. We thought quite hard about £6,500 and felt that that was excessively punitive, and it was the committee's balanced judgment that £7,500, plus—as you reminded me, Lord Chairman, at the beginning of the meeting—a full top-up across the sector through the teaching grant, would constitute a reasonable cost of provision and would mean that no single undergraduate paid more than the reasonable cost of provision.

Lord Griffiths of Fforestfach: I think what Baroness Neville-Jones and I find difficult to understand is that you started by saying that you feel that market forces are helpful when it comes to universities. But, frankly, everything I have heard so far is that this is like a Soviet, planned economy. It is economic and social engineering, and it seems to me that the more you carry on, the more you are dragged into a non-market approach to the whole area.

I am not being ideological in saying this, because I recognise from your previous career that you value market forces. What I find difficult to understand is that almost everything is being determined in a non-market way in the world that you are describing to us.

Professor Sir Ivor Crewe: We were starting off from a position in which there was considerable central direction of the higher-education finance system, at least when we looked at prices, because it is the Government who have decreed that the maximum fee that universities can charge for home and EU undergraduates is £9,250. That is not what the market has said. It is the Government who have determined that they will underwrite that fee by guaranteeing, by statute, loans to all home and EU undergraduates who go to universities and charge that fee.

So we are starting from a position of central direction. Our recommendations tweak that. What we do not do in the report is make any recommendation about the total number of students who should be admitted to universities or to any particular subject. We are recommending—and in a sense we are moving in the market direction rather than the non-market direction—that students should not, as a result of the Government's maximum fee cap of £9,250, pay in excess of the reasonable costs of their degree.

The recommendation to bring down the maximum fee to £7,500, combined with a top-up that recognises that some subjects are high-cost, and indeed cost more than £9,250, or certainly more than £7,500, is designed to align the tuition fee, plus the top-up from the Government, more closely to the reasonable average cost of providing degrees in those subjects.

The Chairman: Baroness Young, your question is about this point.

Baroness Young of Old Scone: I want to refer to one issue that came up in answer to the first question. Is your report saying that degrees need to be vocational? I am a classicist. I was fully funded under the old system. We were as poor as church mice. I was the first kid in the village to go to university. I was the first kid in my family to go to university. I have not been a classicist since the day I walked out that door.

I have not done badly: I have been vice-chair of the BBC, I have chaired the Care Quality Commission, I am the chief executive of the Environment Agency, I am here in the House of Lords. Some might say that that is not much to go by, but the reality is that if you had judged my classics degree as not contributing to the industrial strategy or the economic wealth of this country, I hope you would have been a bit off beam. Is that what the committee is saying? Are you judging kids studying at university by the vocation they will undertake the minute they walk out the door?

Dr Philip Augar: Not at all. We recognise right at the beginning of the report, and the report is peppered with references to the wider social value of a degree. We do not expect degrees to automatically channel into specific vocational careers.

Your background is deeply admirable and worthy of respect. The panel was essentially a bunch of social scientists, and we share your interests and your training. This is not intended to be a bearing down on non-vocational education. This is an adjustment at the margin, where qualities are of particularly low value to the taxpayer and to the students.

When you start to look at the returns that individual courses bring to students, there is an enormous variation according to where you do them. You can do an engineering degree at one institution that brings a high return, and an engineering degree at another institution that brings a minimal or negative return. It is about getting at the bottom end of the spectrum, that bottom quadrant, where the quality is not there. This is not a broad-ranging attack on the arts and humanities; it is an attempt to focus taxpayer's resources on high-priority subjects, away from the significant minority of courses that just do not work for students.

Baroness Young of Old Scone: While we are still on this question, Lord Griffiths raised the issue of the fee reduction that you recommended. What guidance did you get from the Government about fee levels when the terms of reference were being finalised?

Dr Philip Augar: Our terms of reference asked us to focus on skills, access, competition and choice, and value for money for students and taxpayers.

Q69 **Lord Borwick:** May I ask about research? I understand that research is not part of the remit, even though we have received lots of evidence about the complex cross-subsidies that occur in university finances; it clearly takes the best of KPMG to understand those. When you were appointed, did you argue that research should be included in your remit, and did you take any evidence about the effects of your proposals on research when you were formulating them?

Dr Philip Augar: The answer to the first part of the question is no. There was no discussion of the terms of reference; those were the terms set for us.

On the question about evidence, we had an extensive programme of visits to higher and further education institutions where research cropped up. Professor Crewe was vice-chancellor of a research-based university and informed the panel on this area. The submissions we received from higher education institutions sometimes mentioned research, and I met UKRI on several occasions.

Lord Borwick: The effect of your recommendations on research depends entirely on whether the Treasury comes up with the money to totally top up the sum, as you have recommended. Effectively, lots of universities are worried that the confidence in the Treasury to come up with the money is misplaced.

Professor Sir Ivor Crewe: The panel was aware in broad terms that some research-focused universities probably cross-subsidise their research activities to some degree from a surplus made on the fee they charge for teaching. However, we did not have, and it is extremely difficult to obtain, sufficient granularity of data on spend by categories to actually measure the degree of cross-subsidy from tuition fees to research activities, and specifically from tuition fees for home and EU undergraduates, which are the only regulated part of the tuition-fee regime.

We were also conscious—we certainly knew—that universities typically do not receive the full overheads of their research activities from UKRI or the major research charities: Cancer Research UK, the Wellcome Trust and so forth. But—I know this from my experience as a vice-chancellor and my time at Universities UK—the stream of funds that subsidises and supports research includes unregulated fees, the commercialisation of intellectual property, business income such as conference income, and industry, to mention some.

While we were aware that there was probably some cross-subsidy from UK and EU undergraduate teaching, it was impossible to tell how much. We did not believe that it was on a significant scale, and we believe that, given the time universities have been given to adjust to a different regime of a lower fee cap but a higher Treasury subsidy, they would have the time to find the funds for their research activities when the overheads were not entirely met by the research funder.

The Chairman: So would you accept that universities need funds to subsidise their research? Are you suggesting that universities should find this subsidy from outside, for example from international students, industry subsidies or running conferences? Is that the correct interpretation?

Professor Sir Ivor Crewe: Not quite. I would not say that we "accept" it. We simply acknowledge the reality that—

The Chairman: Is that not accepting it?

Professor Sir Ivor Crewe: No, I do not think it is, because that assumes that we took the view that it is appropriate for undergraduates, whose teaching is funded to some extent by the taxpayer, to subsidise universities' research activities.

We did not take a position on that. We did not say that we thought it was justified; we simply recognised that, under the current funding regime, some universities use some of their tuition fee income—we do not know how much—to subsidise some of their research. That is the reality, although it is difficult to measure.

The Chairman: Were you able to look at the evidence which your own vice-chancellor from Oxford University gave in reply to our questions?

Professor Sir Ivor Crewe: I do not think that it would have been appropriate for me to take more notice of what my own vice-chancellor argued than of evidence from any of the other universities.

Lord Borwick: You said that some universities cross-subsidise research to some extent. Do you have any examples of research universities that do not cross-subsidise?

Professor Sir Ivor Crewe: We simply do not know what the precise cross-subsidies are for research in any particular university.

Lord Borwick: But did you ask whether there were any universities that did not cross-subsidise?

Dr Philip Augar: If I may add something, this is based on the KPMG analysis. It is contained in a voluminous annex to the report. The line-by-line responses from the universities are voluminous and they account for all expenditure. They describe this as the cost of provision. The panel believes that this actually reflects what they spend rather than what things reasonably cost.

But in all that voluminous, granular analysis, there is no line that says "cross-subsidy to research". As far as the student, the person who pays the fee, is concerned, this is a tuition fee. If there is a cross-subsidy, it must somehow go through the overhead line, but that is not the line in the returns that I described as overhead estates: IT and the rest. That is not separated out.

Baroness Neville-Jones: You did not take evidence that went beyond the analysis that you had asked KPMG to do. Is that the right conclusion to draw on this particular aspect?

Dr Philip Augar: On this particular aspect, we did not go further. This was not part of our terms of reference.

Q70 **Baroness Morgan of Huyton:** Dr Augar, you have partly answered the question I was going to ask, which is whether you looked more widely than teaching and looked at the role of universities in broader social issues. You said that you did.

I suppose I want to understand better whether you looked not at the social impact but at the local socioeconomic impact, if you like. You have talked about quality. My understanding from what you said is that you looked very carefully at the quality of courses, but the implication of what you said later in one of your earlier answers was that you were interested in the quality of institutions.

If that is the case, are you assuming that it is okay if some of the current institutions go under? Did you as a committee consider that and the local socioeconomic impact of that? Obviously in the industrial strategy and other strategies at governmental level, everybody is very clear that the impact of local universities is very strong. Those are some of the ones that are lower down the scale, and they often take a very high proportion of local students. Where was your thinking on that?

Dr Philip Augar: The panel's thinking was in line with what you just said. When we think of the principal criteria—the reasonable cost of provision, the economic value and the social value—clearly a university has the potential to completely transform the local economy, and there are many examples of where that has occurred. When, under our proposal, the Office for Students considers the economic and social value, it will absolutely take that into account.

Baroness Morgan of Huyton: Did you consider the impact of the income cuts, which you are arguably proposing, on an institution that is operating pretty close to break-even, perhaps even at a small deficit?

Dr Philip Augar: We were not able to look in detail at individual institutions, but we looked hard at the sector's overall financial position. We noted the recent Office for Students' report, which described the sector's state of health as being reasonable. We understood that a small minority of institutions are operating in deficit. Some of that is planned deficit, as it were; a deficit for future investment.

Other parts of that are unplanned. We were surprised that higher-education institutions would be in unplanned deficit, given the growth in income that institutions have had over the past several years. We acknowledge institutions' responsibility to be sustainable—for the communities in which they work, for the current generation of undergraduates and for past graduates. A failing university affects all of those. It could not the panel's business, and it is not in our remit, to protect failing institutions. It is a matter, frankly, for the OfS, and the chairman of the Office for Students has already spoken about that.

These have been very benign, very favourable years for the HE sector. There has scarcely been a seven-year period like it. I find it absolutely remarkable that in those circumstances any higher-education institutions should be in financial difficulty. The large number that are not doing very well speaks to me of bad governance and bad management.

Baroness Morgan of Huyton: So you as a committee think that if that has happened, it is okay to give a further blow to the institution that could push it under and leave some of our "left behind" communities without a local higher-education institution?

Dr Philip Augar: We do not think that. That is a matter for the Office for Students and for government.

Baroness Neville-Jones: I am trying to make sure that I understand what you are saying. It does sound as if you are saying that they have had a very good period, one that was rather better than everybody else's, and they should now take a hit.

On the point about degrees, if I understand you correctly, Dr Augar, the value to the individual of a degree is one thing, and not all of them are valuable, but the value of an institution giving degrees might be valuable to an area. You make a distinction between the social value of the institution and the value of the degree to the individual getting a degree from an institution. Am I right? Is that a correct interpretation of what you are saying?

Dr Philip Augar: I think so, but you will probably want to develop that, so let me hear you develop it.

Baroness Neville-Jones: I am trying to get a grip of the assessment of this business of the value of degrees.

Dr Philip Augar: We understand the value of a degree to an individual. That value can be expressed in economic terms through the earnings or in social terms through the way in which good citizenship and social progression can be developed by a degree. But evidence is emerging that in the bottom quadrant there is a minority, but a significant minority, of institutions and specific courses that are delivering neither.

Baroness Neville-Jones: That would argue, would it not, for what some would say is a more refined analysis whereby you do not take a swipe at the whole sector and say, "You all go down by X", but analyse the institutions that are not performing so well, as distinct from those that are.

Dr Philip Augar: That is exactly what we are asking the Office for Students to do when we say that the—

Baroness Neville-Jones: But your proposal goes across the board.

Dr Philip Augar: When we say that the enhanced teaching grant should be awarded by reference to the reasonable cost of provision and the social and economic value, that is exactly what we are asking the Office for Students to do.

Baroness Neville-Jones: So should one interpret that as meaning that the top-up should go only to institutions which the Office for Students assesses is performing well?

Dr Philip Augar: That would be for it to decide.

Baroness Neville-Jones: That is in the logic of what you are saying.

Dr Philip Augar: We could flip the coin and say that institutions that are performing particularly badly would need to agree an improvement plan, a resolution plan, with the Office for Students.

The Chairman: Baroness Young, is your question answered?

Q71 **Baroness Young of Old Scone:** I have just one more question about the level at which you set the reduced fee rate. You talked about the estate cost and said that this was already rather well funded. We are hearing from universities that a number of them are subsidising other activities in the university, both teaching and research, from international students.

Of course, the competition for international students is intense, and international students shop around and do not want to go to places that are clapped out and do not have good facilities or the best kit. That is particularly so with the higher-cost universities.

Is there a risk that you are underrating that element? In particular, is there a problem with the fact that the Government want to grow the research and innovation capability of this country under the industrial strategy for the future, and envisage spending 2.4% of GDP on research? That will require in excess of half a million more youngsters, and middle-sters, coming through and taking undergraduate and higher degrees.

We cannot really afford to let our university campuses not look forward to increased capacity and growth. Do you have any thoughts on those two fronts—both the growth of the sector which the Government want and the international competition issue?

Dr Philip Augar: Those two points fit together well. Are we underestimating the cross-subsidy? It is very clear from the KPMG analysis that in the high-cost, usually STEM-type, subjects, a large amount of cross-subsidy is required. That is why the panel's proposals would create the headroom to direct the cross-subsidy from the low-cost-to-provide subjects to the high-cost-to-provide ones, which in turn feeds into the industrial strategy. My colleague Jacqueline de Rojas works in the technology industry. Is there anything you would like to add, Jacqueline?

Jacqueline de Rojas: Just that, from an industry perspective, by 2022 we will need 1.2 million more technically skilled people to fill the jobs that are opening. Within 20 years, 90% of jobs will have a digital skills element. What was important for us when we looked at all the evidence was how we could align with the industrial strategy and create more people with more skills for the digital and technology sector. It was more a priority of now.

You asked about the creative arts and whether they are more or less important. The answer is no, but technology, the industrial strategy and the skills gap do matter.

Aligned to that was that we also have a very disorganised, underrepresented and fragmented FE sector, which can provide a huge amount of training to fill the skills gap that we really feel in the industry. We have not talked about the FE sector, but that is important in terms of having an institutional presence in areas where skills are needed, and where there may be no university presence, for example. I put that on the table as a broader perspective on what we also discussed.

Lord Griffiths of Fforestfach: I am trying to understand this. I was once an academic economist. If there is one abiding principle from someone who says they believe in markets, it is that if you have a problem in a market, you should try to resolve the problem without fixing prices. If you want to subsidise individuals and so on, go directly and subsidise them like that.

It seems that a lower price for university education is there particularly to help people who might otherwise not go to university, which is a laudable social objective. However, it also seems that, at the heart of what you are doing, there is an emphasis on value for money. This could be seen as a Treasury-driven initiative to minimise the cost of subsidising higher education. Do you feel that is true? Did you look at alternatives to just accepting what the Treasury, the Government or whoever was saying, and look at systems in other parts of the world that work quite well?

Dr Philip Augar: I will ask Ivor to address the first part of that question, and I will address the second part. The first part was effectively about whether it would be better to address this issue using differential fees, a subject we discussed at great length and rejected.

Lord Griffiths of Fforestfach: Before Sir Ivor answers, I can see why he said in response to a question I asked earlier that prices in this system were fixed in the first place. Was there not an argument for saying that, by freeing up prices, the universities felt that at last they had the ability to manage themselves in a global world in a way that would allow them to compete better with first-class, international institutions and so on, rather than somehow accepting this controlled world, with fixed prices, a planned economy and all those constraints, in coming to an answer?

Professor Sir Ivor Crewe: I certainly think that universities benefited from the switch from a fee of £3,000 to £9,250—well, £9,000—in 2012. It put the finances of the higher education sector on a much stronger basis. Indeed, as my colleague Philip Augar said, financially, these have been golden years for the university sector, but not other parts of the post-18 education sector.

The switch gave universities more discretionary funding. It made them that much more autonomous and they could choose how to invest and spend the surpluses generated by the higher tuition fees, and other fees, particularly fees for overseas students. Some universities have used their autonomy very successfully and some have done so less successfully. I do not believe that our recommendations—remember, the recommendation is for the unit of resource to be maintained in cash terms—give universities any less autonomy materially than they already have.

If your question was directed at the possibility of differential fees, or universities charging a higher fee for some subjects, we looked at this very carefully on our panel. We looked at the practice in other countries, particularly Australia, where differential fees were introduced. Our judgment was that there was no coherent basis for recommending differential fees.

I will give an illustration of this. If fees were differentiated based on their contribution to the Government's industrial strategy, it would presumably mean charging lower fees for high-cost subjects and higher fees for low-cost subjects. There would be even less alignment between what students were charged, what they would owe on leaving university and the actual cost of their degree.

If fees were differentiated on the basis of the capacity of graduates in those subjects to contribute to the costs of their higher education, you would be charging very high fees for low-cost subjects such as law, economics and business studies. We were not convinced that there was a justification for that either.

The problem with the argument for differential fees is that it is never clear whether those who are arguing for them think that the basis for the differential in the fee charged is the value to the student or the value to society.

Baroness Neville-Jones: You are talking about value arguments, rather than cost arguments. You used the word "cost", but you are actually talking about value.

Dr Philip Augar: I was going to answer the second part of the question from Lord Griffiths. Before I do, I will mention that another potential way to introduce differential fees would be to allow the better-quality institutions to charge a premium. We considered that briefly, but rejected it because it would lead to a spiral of decline in institutions that were less able to charge the full fee.

The second question you asked very directly was whether this value-for-money business was simply about minimising the cost to the Treasury. That is simply not the case. The implied top-up is £1,750, the difference between £9,250 and £7,500. On a sector-wide basis, it would be more expensive for the Treasury to top up through a direct grant rather than through the loan write-off, so it is simply not a matter of minimising the cost.

Q72 **Lord Mair:** We have already talked about the adjustment of the teaching grant for different subjects to reflect their social and economic value and the question of alignment with the industrial strategy. Do I understand correctly that you are proposing that that should be undertaken by the Office for Students?

Dr Philip Augar: Yes, the allocation of the grant should be undertaken by the Office for Students.

Lord Mair: So the Office for Students would make the judgments about the industrial strategy, for example, and what value subjects have in relation to that. Is that correct?

Dr Philip Augar: I presume that they would do so in consultation with BEIS, the Treasury and other government departments. There would need to be an agreed framework.

Lord Mair: That is not straightforward, is it?

Dr Philip Augar: No, it is not, but neither is allocating £10.5 billion of public subsidy in what appears to be a random way that is not aligned with the industrial strategy. But you make a fair point.

Lord Mair: You made it clear at the outset that you are recommending a full top-up to compensate for the reduction in fees. If that does not happen for any reason, or only a partial top-up happens, might there be a risk of universities having to adjust courses or reduce content in courses, depending on what the Office for Students comes up with in the rather complicated adjustment we have been discussing?

Dr Philip Augar: The fee cut and top-up are part of a complex suite of recommendations, covering higher education and, as Jacqueline de Rojas mentioned, further education. They are intended to fit together as a suite. They include the proposal for a lifelong learning loan allowance, which would apply to adults in the system who do not have a degree. Currently, around two-thirds of the working population do not have a degree and may wish to return to study, perhaps through modules rather than a full degree. Our recommendations are intended to be an interlocking suite, and I would rather leave it at that.

Lord Mair: I fully understand that, speaking as an engineer. It is a whole system, and if parts of the system are cherry-picked and the whole system is not adopted, there is a danger of things getting skewed.

Dr Philip Augar: It all fits together. That is right.

Baroness Neville-Jones: I have a question. Clarification is what I am seeking. The notion that the Treasury should top up the gap has been taken to mean that all universities will get the top-up. Are you actually saying that the Office for Students—in consultation with government departments and in light of the industrial strategy: namely, government policy, which seems to be a very big part of your thinking—would decide who gets the top-up and would differentiate between the institutions that merited it and those that did not?

Dr Philip Augar: Yes, with reference to the cost of provision, the economic value and the social value of what the universities were offering, and the performance of individual courses at individual universities.

Baroness Neville-Jones: That is a very complex, value-ridden judgment, is it not? It will be very difficult and could cause tremendous controversy.

Dr Philip Augar: That is important, but it is a matter of looking at the alternative, which we consider to be unsatisfactory.

Baroness Neville-Jones: Under that system, we would end up with different universities receiving different levels of top-up.

Dr Philip Augar: Absolutely.

Professor Sir Ivor Crewe: In fact, that was the system for many decades, up to 2012. The UGC and then the Higher Education Funding Council allocated what was called the T grant to universities according to the numerical distribution of the subjects to which they admitted students.

Degree courses were placed in one of five price bands that distinguished between medicine, for example, which was in the highest price band, and the humanities, which were in the lowest one, because of the differential costs of providing those degrees. The teaching grant that universities received depended on the number of students; it was allocated on a per capita basis. It was algorithmic and depended on the number of students they were teaching in those different subjects. What we are proposing is a small partial return to a system that was in place for a long period of time.

Baroness Neville-Jones: If I may say so, this is a reversion to "unto those who hath shall be given". The stronger, the older and the richer would be able to stand the racket longer than others, so in fact universities that were making their way on research but that do not have big pockets would find that regime very hard. I think there are good reasons why that system is not in operation now.

Every system has its downsides, and I worry that this strengthens the strong and is to the potential detriment of those who are not necessarily worse at their job but are less well endowed to stand the loss of income.

Professor Sir Ivor Crewe: I understand why you make that point, but I do not believe that it is necessarily the case, because our recommendation for the reduction of the fee to £7,500 and an increase in the centrally directed grant included significant provision for universities that are taking a larger rather than smaller number of students from disadvantaged backgrounds. They tend not to be the research universities and are not teaching a large amount of laboratory science. There will be swings and roundabouts.

Baroness Neville-Jones: It will be the other way round, in fact.

The Chairman: There is a time constraint, but Lord Renfrew has a quick question, and if time allows I will come back to Baronesses Morgan and Young and Lord Mair.

Q73 **Lord Renfrew of Kaimsthorn:** Do you foresee the universities needing to increase the number of international students to bridge the gap from the reduction in tuition fees? If so, is that a satisfactory outcome?

Dr Philip Augar: Under our proposals there would be no reduction in cash terms in the sector-wide unit of resource. As you will be aware, Lord Renfrew, there has been a demographic dip. That turns round very shortly, which would give an increased number of domestic students who would potentially be available to fill the gap.

Baroness Morgan of Huyton: On a tiny point of clarification about what you said about FE, Ms de Rojas, I do not think that anyone around this table would not recognise the importance of investment in FE. My concern about what you said is that there was a slight implication that it was okay if HE institutions went under because they were not terribly good, because FE would be there.

There is a real danger that we end up with strong institutions getting stronger and areas of the country being served only by FE. I do not quite know the extent to which you discussed that as a committee and what your conclusions were.

Jacqueline de Rojas: We discussed this at length, and I guess my frustration comes from the fact that FE is so fragmented, underrepresented—

Baroness Morgan of Huyton: That is a different debate, and we would all share that view.

Jacqueline de Rojas: —and not very articulate in defending its corner. One thing that we very much wanted to do was to make sure that it was a whole conversation and not just about universities. I am not suggesting at all that we have FE-only led geographies and educational institutions—not at all.

Baroness Young of Old Scone: I would like clarification on the unit of resource for teaching. Dr Augar, you said very clearly that you do not see that coming down. Yet Lord Willetts, who normally gets things the right way up, said that your aim was explicitly to bring down the unit of resource for teaching. So I am very confused.

Dr Philip Augar: That is simply not correct. Interestingly, Lord Willetts, for whom I and I am sure the panel have the greatest respect, was Universities Minister back in 2012 and is on the record as saying then that his expectation was that there would be a variation in that fee, that not everyone would rise to the then increased level of £9,000. This is an example of a market failure.

We have the highest respect for Lord Willetts—he is a great expert on the sector—but this market has not worked out as intended by the architects of the system.

The Chairman: Lord Mair has a question.

Lord Mair: Thank you, Lord Chairman, but I do not need to ask my question now.

Q74 **Lord Maxton:** I have been deliberately quiet because I live in Scotland, and to be honest because the system that you are describing and that is in your report does not cover Scotland. Did you go to Scotland to compare? The impact so far of not having student fees for most students in Scotland has had an impact on the FE system. To what extent did you make that comparison?

Dr Philip Augar: I did not visit Scotland on panel business, but colleagues did. I spoke to Scottish civil servants, and we studied the Scottish experience carefully and took account of it. There was much to admire in it.

Lord Maxton: There is much to admire in the university system, I accept, but the impact on the FE system has been considerable—or is that also a matter apprenticeships?

Dr Philip Augar: Some parts of the Scottish FE system in fact flourish rather well. We are straying slightly beyond the remit of the terms of reference, and certainly beyond the remit of my expertise, but the number of young people in Scotland doing what we call higher technical qualifications seems, from recollection—I do not whether you can verify this, Matt—to be higher than in England. The gap at the higher technical level, particularly in science and technology subjects, as Jacqueline explained, is one of the panel’s principal concerns in the whole report.

Matt Toombs: In Scotland, we saw that there is more of a flow of young people through further education colleges who take higher technical qualifications and then go on to universities to move into degree study. There is more of a flow between FE and HE in Scotland among young people.

The Chairman: Dr Augar and your colleagues, thank you very much for coming today. It has been most helpful. I know we are challenging in our questioning, but that is to allow you to bring out what your report is about. Thank you very much indeed. We appreciate it very much. I know that we slightly overstepped the mark with the time.

Dr Philip Augar: We welcome the opportunity to explain our recommendations and would be happy to do so again, should that be necessary.