



# **Changing Fee Regimes and their Impact on Student Attitudes to Higher Education**

**Nick Foskett, David Roberts and Felix Maringe**

**Report of a Higher Education Academy Funded Research  
Project 2005-2006**

**June 2006**

# Contents

|  | <b>Page</b> |
|--|-------------|
| <b>Research Summary</b>  | <b>3</b>    |
| <b>1. Background, Aims and Methodology</b>                             | <b>9</b>    |
| <b>2. Higher Education Fees and Student Choice</b>                     | <b>15</b>   |
| <b>3. The Impact of Variable Fees in Australia<br/>and New Zealand</b> | <b>31</b>   |
| <b>4. The Institutional Perspective on Variable Fees</b>               | <b>59</b>   |
| <b>5. The Prospective Student Perspective<br/>on Variable Fees</b>     | <b>85</b>   |
| <b>6. In Conclusion</b>  | <b>105</b>  |
| <b>References</b>  | <b>113</b>  |
| <b>Appendices</b>  | <b>117</b>  |

# Research Summary

## Changing Fee Regimes and their Impact on Student Attitudes to Higher Education

This research project, funded by the Higher Education Academy and undertaken during 2005-2006 was conducted **to provide evidence of the impact of the introduction of the new variable HE fees regime in England on the decision-making of young people about HE admission and on the shape and organisation of the HE undergraduate market place.** The research had three main strands:

1. A study of the implementation of variable fee regimes in Australia and New Zealand to inform our understanding of the possible impacts of the new fee regime in England
2. A study of the response of universities in England to the new fee model in terms of their operational processes and admissions policies and practices
3. A study of what potential applicants know and understand about the new fee regime, and how this is impacting upon their processes of decision-making and application and on their expectations about the nature of and value of higher education

### The evidence base

Two principal research approaches were used to collect evidence:

1. Eight HEI case studies (4 in Australia and New Zealand and 4 in England) were undertaken involving interviews with key institutional strategists in admissions, student services and staff responsible for marketing were involved in providing institutional perspectives on the direct and indirect consequences of students paying fees. Institutions were selected to represent a variety of key university types
2. Focus groups were conducted with approximately 50 students in four colleges/schools, two in the south of England and two in the north. The focus groups involved students who would be qualified to enter HE in October 2006 but amongst whom were some who were definitely planning to go into HE and some who had not made up their minds or had decided other pathways.

### Key findings from Australia and New Zealand

The Higher Education Contribution Schemes (HECs) were introduced in Australia in 1989. The scheme is similar to that being introduced in England, but with some important differences

- Fees are banded for subjects introducing price variation within the system
- There is much less support for bursaries, grants and loans from the state in Australia than in England
- All students pay HECs fees regardless of circumstances

- About a third of school pupils in Australia are in fee paying schools. Therefore parents and students are used to the system already and in many cases, university fees are lower than fees paid in schools.
- Most Australian students remain in their local areas for HE study and there is additional support for rural students who relocate.
- There is 25% discount for paying up-front but very few students utilise this facility suggesting that HECS and delayed payment are more suited to students than upfront fees
- Given the current exchange rate, students in Australia start repayments when they earn the equivalent of UK £18 000 per annum

The research demonstrated a number of important findings that might inform reflections on the introduction of variable fees in England:

- Participation has continued to rise and social class proportions have remained broadly static
- Variable subject based fees have not had dramatic or discernible impact on demand in Australia other than among mature women
- The proportion of students in part-time jobs is lower than in England
- There was a boost to applicants in 1997 when HECs were increased followed by a decline the next year
- In 2005 Universities were allowed to increase HECs by 25%. Virtually all did. Those that did not, did not witness any benefit in terms of increased market share
- The decision not to increase fees taken by a few HEI s was based on the fact that they had good reserves and wanted to protect themselves from local or regional competition
- Research in Australia suggests that perceived quality is driven by entry grades rather than by price or fee levels
- One university decreased fees to zero but no significant increase in participation was noted

### **Key findings from HEI case studies in England**

- Home student numbers were seen as stagnating in the immediate future although overseas applications were anticipated to grow.
- Charging a uniform fee across HEIs was seen both as making sense in terms of the value associated with products but equally as potentially self incriminating especially for smaller institutions competing with bigger and more established institutions.
- HEIs did not think that students would be involved in major protests as long as the increased financial status delivers benefits to students in a direct way e.g. through improved student services.
- The consensus was that announcing an upper price limit had failed to create a market as almost all institutions have opted for the top fee.
- It was felt that fewer students will progress to postgraduate study following the introduction of fees, because of accumulated debt
- On balance it was felt that more students are likely to take a gap year before entering HE in order to accumulate financial reserves

- HEIs felt that students may take longer to complete their study as they mix earning and learning.
- HEIs agreed that issues of employability will be more important as students become more aware of the need to be well prepared for the world of work
- It was felt that parental involvement in HE matters would increase
- Local participation in HE is likely to grow given that it ensures quality student life style while cutting the costs of HE experience. The regionalisation of HE study is likely to accelerate therefore.
- Students will probably spend less time on campus due to part time work commitments. The socialising role of the university is likely to be eroded.
- Fewer students will choose longer courses such as architecture, engineering because of the associated debt burden they entail.
- On balance the view was that applicants for 2006 will be down but that EU applications will increase.
- Groups likely to be most price-sensitive include students in London, or those thinking of studying in London, students not sure about the value of graduate education, poor middle classes in the poverty trap, mature students and recent graduates considering post graduate training.
- There is likely to be an increase in litigious matters affecting students with complaints centring on quality and timeliness of services.
- Consumerism is likely to increase as students are more likely to see themselves as purchasing a qualification not as partners in the development of their professional knowledge, attitude and skills.
- Students will anticipate top customer service which includes both speed and quality from inquiry to employment.
- HEI league tables will become more important to students as they select those courses and institutions likely to deliver greater benefits to them, especially in the careers market.

### **Key findings from the research with potential applicants**

- Potential students had a good knowledge of the headline characteristics of the new fees system. Most of them knew that:
  - They will be paying fees from September 2006
  - They do not have to pay the fees upfront
  - They can get loans to cover the study and living expenses
  - They do not have to pay back the loan until they are in employment and receive £15000 annually
- Beyond this they had very limited knowledge, and did not know:
  - Who qualifies for student loans
  - Under what conditions loans are administered
  - Why they are having to be asked to pay fees
  - What other financial assistance is available to them such as grants, bursaries and scholarships, how these differ, and how they qualify for them
- Potential applicants knew about the fees system from university open days, university websites and summer schools, but found the information confusing, erratic, incomplete, conflicting, and not easy to access. For

many, the complexity and difficulty related to accessing information was a deterrent to applying to HE.

- Students were divided in their opinions about whether the new system was 'fair'. Some thought loans were not fair as they would deter students from poorer backgrounds
- Others said that any financial assistance would be welcome and would encourage participation.
- Most were very positive about the repayment terms, describing them as well considered, appropriate and manageable.
- Many were against the fees increase rather than the loan itself.
- Most students felt that a university experience was vital for future job prospects, and even those who had reservations about going to university immediately believed they might ultimately go to HE.
- Those not choosing to go to university indicated that they thought it was taking too much of a risk, accumulating a huge debt with no guarantee of employment afterwards and little prospect of well paid jobs, but this was **not** a key factor in their decision not to go to HE. Those not going to university had made up their minds, not as a consequence of fees and loans, but simply because they consider themselves as ready to embark on a career path.
- For most, debt was a normal way of life, and loans were seen as positively contributing to a better student life style. Some felt that loans would eradicate student poverty and contribute towards making their lives more respectable.
- Delayed decision makers were a little more debt averse. Some thought they would not be able to afford it ever. A few considered the loans to be insufficient to cater for all needs of students, yet still enough to leave them in serious debt at the end of study.
- Part time jobs were seen as the most viable way of managing the financial side of HE. Many already had part time jobs and would continue with them whilst at university. Others were pessimistic about the compatibility of these two activities, seeing part time work as compromising the quality of their learning experience.
- A minority of students considered that working immediately after their A levels was the best way to prepare themselves for university later, and would like to pull resources together first and learn later.
- Most valued independence, which they often related to financial independence and reduced parental involvement in financial aspects of their HE experience and aspirations
- Students who intended to study in a high status university were not swayed by any financial considerations implying that the perceived benefits associated with studying in a prestigious university outweighed other advantages that may be brought in by reduced study costs at less prestigious universities. Quality was seen as the key price differentiator in the market, not fee levels
- Most students wanted the additional fee income to be used by universities for improved student services, better accommodation, more ICT facilities, exchange programmes and, occasionally, employing better qualified university staff.

## Overall Conclusions

Findings emerging from this study suggest that:

- Students are likely to be rational about the proposed fees increase in 2006 with the expectation that they will translate into better services and support for them during their years of study
- Students are unlikely to base their decision to go to university primarily on the issue of fees; some are strongly inclined towards accessing careers first and using HE as a career enhancement strategy rather than as career finding strategy
- There does not seem to be any substantial evidence in the literature and interviews with staff in Australia and New Zealand which suggests that increasing fees reduces participation in HE
- There is a likelihood that students will engage more with part time work as a coping strategy, not only to reduce the likely impact of increased fees, but also as a way to support a decent student life style and gain required employability skills
- Although students seemed pleased with the Income Contingent Loan (ICL) system, they express some insecurity about their financial and debt management skills
- Students had a meagre understanding of the detailed issues related to funding their study, expressing little understanding of arrangements about various institutional support available to them
- There is a likelihood of greater local participation in HE as a strategy to cushion students from increased costs of study. Alongside this will be a strong likelihood of parental involvement in the HE decision making of their children



# 1 Background, Aims and Methodology

## Introduction

This Report presents the principal findings of a research project undertaken during 2005/2006 to consider the responses to variable higher education fee regimes by institutions and by potential students.

It is an international study in that it examines the impact of variable fees in Australia, New Zealand and England; its stimulus, however, was the introduction of a new student fees system in England that comes into effect in September 2006 and the questions of policy, practice and implications that have surrounded the new system. To provide insights into the implications of the new fees regime in England it was seen by the authors that it would be essential to examine how higher education institutions and potential students were responding to the proposed changes during the year prior to its implementation. This was intended to provide both a view of what was happening 'on the ground' as the new system was being rolled out and a pre-implementation benchmark against which later studies of its actual impact and effect could be measured. In addition, though, it was recognised that governments beyond the UK had already introduced similar models of funding for students in HE, and that the experiences that could be observed there would provide a valuable perspective on what might happen as variable fees become established.

The Project was funded by the UK Higher Education Academy within their 2005/06 Research project scheme. The research team are grateful to the Academy for their financial support for the project but also for their on-going support and encouragement as the project has proceeded. The Project was led and managed at the School of Education, University of Southampton by Professor Nick Foskett. However, the research represents a collaborative project between the team at Southampton (Nick Foskett, Felix Maringe and Susan Lees) and The Knowledge Partnership, a consultancy specialising in marketing, communications and policy issues in higher education, based in Leeds, Cambridge and Brisbane (Australia). The Knowledge Partnership's team was led by David Roberts with Matt Hyde and Stephen Holmes.

## Rationale

The introduction of higher variable fees for undergraduate programmes in England in 2006 has raised a number of important questions for higher education institutions (HEIs) and the higher education sector as a whole. At a simple observational level lie questions about the level of fees that HEIs will select, the mechanisms adopted by HEIs and government for ensuring students and their parents have effective and adequate knowledge of the new fees regime, and about the level of knowledge and understanding that all the key stakeholders in the education system have of the new model (potential applicants, their advisors, HEIs, and parents). From an institutional

perspective the key questions have been about the appropriate level to pitch fees at, and about how to establish an associated financial support package to meet the twin aims of enhancing demand and addressing issues of equitable participation.

At a more significant level, though, are questions about the nature, culture and function of the higher education undergraduate market place, together with associated issues of equity and values. All observers and commentators agree that the HE market place will change in a significant stepwise manner in response to the new fees, but it is not clear what those systemic, organisational and cultural changes will be in either the short term or the long term. For example, will students evolve from being “partners” in the education process to “clients” and if so how might their attitudes change to service quality? Will the client-student, seeking return on investment, attach greater value to services such as careers, placements and alumni networking and less to facilities associated with a consumption model such as social and sporting provision? Will they expect HEIs to be more responsive and give greater weight to their preferences - in other words to treat them more as customers? Overall, how will the shape, pattern and nature of HE admissions and participation change in England in the period following the introduction of variable fees? Central issues here, for example, are whether higher fees will shift demand in favour of courses and institutions that are perceived to deliver better returns, and whether higher fees will deter some groups within the potential student cohort to reconsider or reject the idea of going to university.

In considering the key questions about the impact of variable fees we felt it essential to take two distinct perspectives within the research. The first was to talk with those involved in the HE application process in England. Hence the research was designed to include discussions with HEIs to identify their views and expectations of the patterns and changes that would emerge, and interviews with potential applicants to gauge their knowledge and understanding of the system and how this was impacting upon their decision-making.

The second perspective, though, came from our conclusion that the most compelling evidence to inform the debate in England would be found through examining trends and impacts in Australia and New Zealand. Both countries have a similar culture and education policy framework to the UK (unlike the USA or Europe) and have already transited from a “free to fees” higher education system. This shift to “user pays” over more than a decade, and the close resemblance of the Australian HECS (Higher Education Contribution System) system to that now being implemented in the UK, led us to conclude that the UK can learn much from these evolving markets. Hence it was felt important that the study should look at some of the emerging ideas from the evidence from Australia/New Zealand and compare it with current perceptions and views in UK higher education.

## **Aims of the Project**

The overall project aim, therefore, was **to provide evidence of the impact of the introduction of the new variable HE fees regime in England on the decision-making of young people about HE admission and on the shape and organisation of the HE undergraduate market place.**

To achieve this aim the project identified a number of key questions to frame the research programme:

1. What evidence is there from previous research about the impact of fees and fee regimes on the nature and processes of HE applications?
2. What evidence is there from the implementation of variable fee regimes in Australia and New Zealand to inform our understanding of the possible impacts of the new fee regime in England?
3. What has been the response of HEIs in England to the new fee model in terms of their operational processes and admissions policies and practices?
4. How do the HEIs in England expect the university admissions market place to change in the short term and medium term following the introduction of variable fees, and how do they expect to respond to those changes?
5. What do potential applicants know and understand about the new fee regime, and how is this impacting upon their processes of decision-making and application and on their expectations about the nature of and value of higher education?

## **Methodology and project organisation**

The project was undertaken between June 2005 and May 2006, with the main period of data collection between September and December 2005. The principal methodologies were:

- a) Literature search and review to identify and evaluate the existing literature and research evidence in the field of HE fees and fee regimes
- b) Identification of public domain secondary data on trends and patterns in HE admissions
- c) Face-to-face semi-structured interviews with key informants in HEIs. These were either members of the university senior management team with policy responsibility for recruitment and corporate development or senior admissions and marketing professionals dealing with the strategic and operational dimensions of recruitment
- d) On-line interviews with student group representatives, typically student union officers in universities
- e) Focus groups with Year 13 students in schools/post-16 colleges in England.

The stages of data collection were:

### **1. June - September 2005**

A review of published academic research that addresses the relationships between education fees and both student decision-making and changing expectations of service levels (from the point of enquiry onwards).

### **2. June- November 2005**

An analysis of applications, admissions, progression and outcomes data from Australia and New Zealand, locating HE trends in the context of the changing fee regime and other active variables likely to impact on access and participation such as population change, secondary and tertiary level performance, the higher proportion of students emerging from fee-paying schools, graduate employment etc

### **3. October - December 2005**

An on-line survey of student unions in HEIs across the three countries and a review of current published materials from this part of the sector regarding changing student service demands/needs that are considered to be a function of an evolving fees regime.

### **4. October-December 2005**

Case study of eight HEIs (4 in Australia and 4 in England) to evaluate, from an institutional perspective, the direct and indirect consequences of students paying fees (e.g. attitudes and expectations, variable use of services where this is recorded, evidence of shifting service priorities through student surveys, etc). This involved interviews with staff responsible for marketing, admissions, student services and senior management plus collect documentary evidence to show how each institution is responding to the changing market. The case studies selected reflected different parts of the sector (e.g. G8 and regional universities in Australia, one each of Russell Group, 94 Group, newer university and HE college in the UK) with the specific institutional samples selected to ensure a representative student profile in terms of socio-economic groups, ethnicity profiles and previous generational experience of HE.

In England we visited four higher education institutions to gain an understanding of:

- How they have planned for and managed the response to the new fees/student support regime
- Opinion as to the probable impact the changes will have on both patterns of demand and student (and parent) expectations of service.

Four HEIs were visited on a confidential basis, but included.

- A research led member of the 94 Group
- A post-92 university
- A specialist college serving the creative sector
- A church based university college

Three were located in regions that border either Scotland or Wales and thus were able to comment on the impact of differentiated fee systems across the UK. Four different English regions were represented and the nature of the location included:

- One located in a large metropolitan area
- One based on a suburban campus
- One on a 1960s campus close to a smaller provincial city
- One institution serving a predominantly rural area

Interviews were held with the following staff at each HEI, although in some cases these roles overlapped:

- A Pro Vice Chancellor or equivalent engaged in strategy and/or teaching and learning
- The Marketing Director
- The Head of Student Services
- The Head of Undergraduate Admissions

## **5. October - December 2005**

Qualitative research with focus groups of Y13 students in four UK schools/colleges who were considering HE entry in 2006 or 2007 to surface their awareness of, and attitudes to, higher education fees/bursaries, debt and how this was affecting their decision-making.

Four institutions were selected for the focus groups, two in the south of England and two in the north of England. The southern institutions were both sixth form colleges serving mixed catchment areas and hence providing a wide range of potential higher education applicants from different socio-economic, cultural and ethnic backgrounds. The two northern institutions included a large general Further Education College serving a mixed catchment with a significant population from ethnic minority groups; and an 11-18 comprehensive school with a large sixth form and a good academic record, serving a predominantly working class town.

In each institution two focus groups of 8 students (mixed male and female) were conducted. In the two southern colleges and the northern school these comprised one group of students who had chosen to apply to university for admission in October 2006, and a second group of students who would be qualified for HE entry but were either unsure about applying or had decided not to do so. In the northern FE college one group comprised principally 17 year old applicants while the second group was of mature students studying on a Higher Education Access course.

The focus groups were conducted by members of the research team, using common scripts, and were taped for later transcription. The scripts took the students through discussions focused on what they knew about the new fees regime, where that knowledge had been derived from, what their own intentions were in relation to HE, and how these had been influenced by the fees regime. In addition to the focus group script, the students were asked to undertake a 'Brand Price Trade Off' (BPTO) exercise in which their willingness to change their choice of HE institution and programme in response to reduced fee levels was tested. This enabled the research team to investigate the responsiveness of students to 'fee price' in the undergraduate market place.

## **The Project Report**

The Report that follows presents the principal findings of the study, and is organised into the following chapters

Chapter 2 (**Higher Education Fees and Student Choice**) examines the key findings from the literature review on the impact of fees and alternative fee regimes on student attitudes to and choice of higher education

Chapter 3 (**The Impact of Variable Fees in Australia and New Zealand**) presents the findings on the impact of the variable fees regimes in New Zealand and Australia

Chapter 4 (**The Institutional Perspective on Variable Fees**) is a summary of the perspectives of HEIs in England to the new fee regime, and considers how they have responded to the changes and how they expect the HE market places to change in the future

Chapter 5 (**The Prospective Student Perspective on Variable Fees**) presents the findings relating to student knowledge of the new fee regime and their attitudes to HE in the new market context

Chapter 6 (**In Conclusion**) draws together the key findings to present a summary of the research and its conclusions

## 2 Higher Education Fees and Student Choice

### Introduction

Among changes that have occurred in UK HE over the last ten years, few have been more far reaching and controversial than the new fees and funding proposals to be introduced for the 2006/07 academic year. The proposed new fees regime is part of the broader vision of the government's White Paper on 'The Future of HE' published in January 2003. The paper sets out the government's plans for radical reform and investment in universities and HE colleges and includes proposals for changes in student's finance system and plans for making HE more accessible to more young people.

The students finance systems have three core elements. First, is the proposed fee increases for home and EU students in universities and HE colleges. Second is the introduction of a HECS- style repayment mechanism using the tax system. Third is the right bestowed upon universities to charge variable 'top up fees'. The proposals have been variously perceived and reactions to them have ranged from outright condemnation to cautious approval by individuals, political parties of different persuasions, trade unions, parents, students' unions, industry and employer organisations.

Key arguments *against* the proposals have been that the new fees regime is likely to widen rather than narrow the access gap to HE, especially for students from disadvantaged communities. The introduction of variable fees may also create a tiered system of HE in which institutions fiercely compete for students, not on the basis of academic merit, but on their ability to pay increased tuition fees. Furthermore, there is concern that reduced participation would eventually slow down the national economy as students opt for cheaper courses in the arts rather than the more expensive courses in the sciences, medicine, pharmacy and engineering. Among students, parents and student union organisations, the burden of increased debt to individuals and their families is cited as a major weakness of the proposed changes.

This chapter reviews the key arguments for and against the new fee proposals and uses that analysis as a basis for investigating attitudes to HE provision which prospective entrants may have developed as a consequence. Using a range of previous studies on the impact of students' fees in England, Australia, US and New Zealand, the chapter summarises the key issues by examining the following:

- The benefits of broadening access to HE
- The rationale for introducing fees in HE
- Models of HE fees regimes in different countries
- The impact of fees regimes in HE in different countries
- The impact of fees on students aspirations, their choices and decision making in the HE context

Before we examine these issues, it is important that we review the broad context of HE in England as espoused in the government white paper, 'The Future of HE'.

## **The New HE Student Fees Regime**

### **a) The context and role of UK Higher Education**

In the foreword to the White Paper, the Secretary of State for Education and Skills, Charles Clarke underlines the key role UK HE plays on the national and global stage. He noted:

*British universities are a great success story. Over the last 30 years some of the finest brains in the world have pushed the boundaries of knowledge, science and understanding. At the same time a university place has ceased to be the preserve of a tiny elite but been extended to hundreds of thousands more students each year. In the early 1960s only 6 per cent of under-21s went to university, whereas today around 43 per cent of 18–30 year olds in England enter higher education.*

The broad context in which the new fees proposals were set for UK HE were summed up in the Newby Report (2002) on *New Directions for HE Funding* and include the following:

- That current levels of funding teaching and learning were insufficient to enable universities to achieve society's aspirations for maintaining and enhancing quality, to compete successfully in the global markets and to create a socially inclusive system in which traditionally under-represented groups participate in HE
- That universities and colleges were to cease operating as charity organisations fully dependent on government funding and operating on a spending model which is not based on business principles of balanced corporate accounts.
- That significant damage had already been done by many years of under funded expansion which since 1989 had seen resources per student fall by 38% following a decrease of 20% between 1976 and 1989.
- Staff student ratios have declined; teaching/learning infrastructure has been diminished by insufficient investment; levels of non completion have increased especially for institutions offering access to disadvantaged students.

These challenges require not only greater investment in HE, but a complete rethink of the ways in which UK HE funding is both conceptualised and implemented. Added to this, government also envisages more expansion in HE with a long term view to achieving 50% participation by its adult population.

University education and provision is no longer seen as a preserve for the elite and financially able, it is considered a tool for personal and national

economic development where every citizen is expected to play a role. HE is viewed as a driver of skills, values and knowledge among the citizenry required 'to empower the economy' through better performing public services and private enterprise. The expansion of access to HE witnessed over the last decade in England bears testimony to this new belief. In the Labour election manifesto for the 2005 parliamentary election a target of 50% participation among 18-30 year olds has been set based on this fundamental belief and on the need to 'create a more enlightened and socially just society'.

The increased investment into HE required for this expansion has thus been justified on both economic and social justice grounds. Citing the contribution made to the national economy, the White Paper notes the key strengths of UK HE through the contribution it makes to the employment sector, research publications (8% share of the world's scientific publications) and through its business links and innovation. In addition, UK HE has transformed both in terms of its curricula and transmission modes to embrace the diverse and changing nature of its student population.

Notwithstanding these strengths, UK HE is seen as facing difficult challenges ahead. On a global level, it is considered as significantly under funded compared to key economic competitors like Germany, France, the Netherlands, USA and Japan, all of which contribute 1% of GDP to HE compared to 0.8% for the UK. While UK HE continues to be well regarded in the international market, being second only to the USA on rankings of international student study destinations (Soutar and Turner 1999; Baldwin and James 2002), the lower investment is seen by government as constituting a serious threat to future UK international market share. Internally, HE institutions face the challenges of sustaining high standards of teaching and research, sustaining and enhancing links with business and industry and of making real and sustained improvements in access in order to narrow the social gap of those entering HE.

## **b) The new HE fee scheme**

Government recognises that a key solution to interrogating these challenges lies in increased funding to HE. However, it also believes that to drive sustained improvement in HE, funding should be decentralised to enable the direct beneficiaries of HE to make a contribution in recognition of the benefits accrued from the system. Specific measures proposed for this new HE fees regime include, therefore:

- Introducing in 2006 a new Graduate Contribution Scheme. Universities will be allowed to charge between £0 and £3000 annually per course.
- Government will continue to pay the first £1,100 of fees for students from lower income families.
- Abolishing up-front payment of tuition fees and enabling all full time students to have their fees paid directly by The Student Loan Company
- Allowing every student to defer repayment of their student loan until after they have graduated. Payments after graduation will be through the tax system and will be linked to ability to pay.

- Raising from 2005 the threshold at which graduates have to start repaying their fee contribution and maintenance loan from £10 000 to £15 000

(*The Future of HE* executive summary)

Further measures to encourage wider participation and creating greater equity were also proposed. These included:

- Requiring universities to draw up **access agreements** to improve access for disadvantaged students before they are able to increase the level of fee they ask students to pay
- Appointing an independent access regulator (the Office for Fair Access (OFFA)) to oversee these agreements to promote wider access and to ensure that admissions procedures are fair, professional and transparent
- Expanding the national Aim Higher programme to build better links between schools, colleges and universities and raise young people's aspirations
- Reforming funding so that universities and colleges will be properly reimbursed for extra costs in attracting and retaining students from non-traditional backgrounds and
- Doubling the amount of extra money to help vulnerable students and introduce a new package of grant support for part time students.

### **The Rationale for Introducing Fees in Higher Education**

In the following section, the rationale for introducing fees in HE is examined. Broadly this falls under three major headings; equity, equality of opportunity, and the benefit principle.

#### **a) Equity**

Defining equity is extremely difficult especially in the context of HE. Broadly, however, it recognises the differential distribution of opportunity and circumstances in society and calls for the application of differentiated treatment of groups to achieve some parity to access and to the associated benefits of engaging with HE. Harrison (1997) points out that HE students generally share the following characteristics:

- On average, they come from relatively well-off families because participation in HE is positively correlated with socio-economic background whether measured by parent's income, wealth, occupation, education or residential area
- On average HE students have relatively high life time earnings
- During their student life, HE students have limited or very low incomes.

The current fee proposals in the UK are aimed at ensuring that those at the bottom of income distribution are not deterred from going to university on account of failure to pay in two main ways. First government will continue to pay the first £1100 towards fees for students coming from low income families. Second, no students will be required to pay fees up-front as this can be paid later after graduating and being in employment. While this goes a long way to alleviate the plight of 'poor' students and hopefully remove the fees barrier to entry, there are some who argue that the issue of debt is treated and interpreted differently by people from different socio-economic groups. The UK Student Debt Project (2002) found that, while overall, attitudes towards debt in general could be typified as 'cautiously debt tolerant', significant sections of society especially Muslims of Pakistani origin, Black and minority ethnic respondents, those with lone parents, and those from low socio-economic social classes tended to exhibit the most anti-debt views. On the other hand, students who attended independent schools, those from families in the highest social classes and male respondents tended to have the least anti-debt views. Equally, debt averse respondents were more likely to decide not to enter HE and vice-versa. Thus, the strategy aimed at temporarily removing the fees barrier to entry may be counterproductive in the long run as it becomes associated with underlying attitudes towards debt. The intended equity achieved through these measures may thus be an elusive goal.

## **b) Equality of Opportunity**

A second rationale for regulating HE students' fees is the elusive concept of equality of opportunity (Johnstone, 2005). In finance terms, equalising financing opportunities is the closest interpretation that can be given to this idea. The goal is to enable students from varying backgrounds to have an equal financial resource with which they can finance their HE. However, if a student needs to borrow money in order to get to the same level as another who does not need to borrow, then there is a sense in which we could be creating unequal future conditions for these people. While one has a debt ridden beginning in life with the attendant consequences, another experiences no such impacts and the two could be said to have been unequally prepared for life after HE. Similarly, as Harrison (1997) argues,

*If a student needs to borrow, and capital market imperfections exist, then a rise in tuition fees or living expenses will require more borrowing and will affect the student more than a rise in the foregone wage costs of education (p.227).*

Thus while in the immediate, measures suggested may help to equalise financing opportunities, they have the potential to create, in the long term inequalities among varying groups of society.

### **c) The benefit principle**

'*He who benefits pays*', asserted Woodhall (1970:2). This is based on calculations of benefits HE is claimed to deliver to its recipients and to society in general. Society benefits from HE through:

- the contribution of a skilled workforce to UK's international competitiveness and its capacity for innovation
- reduction in criminal conviction
- encouraging cultural tolerance
- contributing more effectively to the voluntary and informal sectors
- becoming better able to cope with life challenges
- becoming more informed electorates and thus nurturing democracy
- better able to make sound choices in health and social matters

It is thus argued that HE is an indispensable tool for societal, national and international development.

At the individual level, the key benefit of HE to graduates is through higher life time earnings than non graduates. The fact that the private rate of return to HE is high has been used to argue for reduced government subsidy in HE with a concomitant increase in sharing the costs of HE with individuals. However, HE courses have different rates of return to graduates. Course in the arts, humanities, education and nursing do not lead to the same rates of return as those in economics, medicine, law and engineering, for example. Fees for courses with lower rates of return may be set lower than those with higher rates of return on account of 'likely future returns to individuals in terms of increased life time earnings' (DEETYA 1996a: 8). However, economists are rather cautious about the practice of setting fees according to the anticipated rates of return. Harrison (1997) for example argues:

*It is not necessarily true that those with highest rates of return also have the highest incomes. Secondary returns to HE cannot be measured accurately. At best we have estimates by field and there is a lot of variance within each field. For example not all law graduates become lawyers and so lawyers' incomes may not represent the average rate of return to those taking law subjects. (p. 229)*

In addition, the idea of making loan repayments income contingent has come under some criticism. It is argued that those who actually earn more income after graduation usually repay their HE loans quicker and so receive a smaller benefit from interest subsidy and pay more towards their degree.

### **Financing Students' HE Experience – Alternative Approaches**

Johnstone (2005) has argued that despite the widely acknowledged importance of HE globally, it is beset at the start of the 21<sup>st</sup> century with variations on the theme of 'financial austerity' (p.1). This austerity is caused

by a variety of reasons including flat or declining governmental budgets in support of HE, overcrowded institutions, deteriorating physical plant, declining staff-student ratios, increasingly demoralised and distracted academic staff, higher fees, greater students debt loads, and a restive student body.

Johnstone (ibid) goes on to suggest that a common prescription to this world wide phenomenon is some form of cost sharing. Essentially cost sharing is based on the assumption that the real costs of HE are borne by four principal groups: governments or the tax payer, parents, students, and philanthropists. It involves shifting the burden (not entirely removing the burden) of paying for HE from government to the student and parents. The key rationales for this shift as discussed above relate to three key principles of equity, equality of opportunity and efficiency. But what models of operation are available?

For a long time governments have financed students HE experience through grants, a form of student financing which does not involve repayment. Given the turbulent environments surrounding many governments, this system is no longer sustainable even though it is broadly seen by students as the only way to achieve full access by all societal groups, maintain quality and retain the element of affordability (Canadian Federation of Students 2002). Repayable loans are increasingly being seen, therefore as the most efficient way forward.

Johnstone (2005) identifies two basic forms of student loans, each with a number of variants. The first, and perhaps less popular with students, is the **fixed schedule** or conventional mortgage type loan. Students and parents dislike this approach to financing HE for a number of reasons, but chiefly because of the market interest rates normally associated with such loans. They also sometimes require collateral which many students, especially those from disadvantaged communities, may not have.

The second is what has come to be termed the '**income contingent loan**' (ICL). This loan carries a contractual obligation to repay a percentage of future earnings, based on threshold earnings beyond which a system is put in place to recoup the loan. Variable interest rates are quoted in different countries. Borrowers who reach a certain age before they attain threshold salaries are often exempted from repaying their loans in many countries. A variant of the ICL is the **graduate tax** where the graduate becomes obligated to income surtax generally for the rest of his/her earning life time. Hybrid variants of the ICL also exist especially in Canada (see Usher 2005) which basically combine features of fixed schedule and income contingent obligations.

Johnstone (2005) identifies seven key elements which need consideration in any student loan programme to make student loans unambiguous.

- **Eligibility;** the need for clear criteria about who is eligible to borrow
- **Source of capital;** a clear identification of where the money comes from in the first place
- **Origination and lender;** who will be the lender? Is there need to establish a lending company?

- **Ultimate risk;** who bears the ultimate risk in the event of non repayment?
- **Loan amounts and limits;** how much can be borrowed each year and in aggregate?
- **Amount and form of subsidisation;** how much of the full cost is to be paid by the borrower?
- **The shape and duration of the repayment period;** what patterns of repayment and how long should the repayment periods be?

The basic case for loans is simple. They permit students for whom post secondary education is a desirable and worthwhile investment to finance that activity by tapping into their own expected future income flows to meet upfront costs required to undertake the investment (Finnie 2004: 4).

Finnie (2004) argues further that participation in HE is contingent upon two critical decision rules. The first is what he calls the investment decision rule. Students choose to go to university if 'they perceive that the benefits outweigh the costs' (pp. 2). Essentially, students estimate benefits in various ways, but critically these benefits have to do with four aspects: employment opportunities, social status, independence and a hassle free life. If they consider that HE will deliver these benefits, students will very often choose to go into HE.

The second rule is what Finnie describes as the 'liquidity constraints decision rule'. Primarily, this rule is premised on being satisfied that the student has the means of paying the associated out of pocket expenses as well as the living costs. Essentially, this rule is about evaluating the liquidity factors and being satisfied that they will have sufficient funds to cover both the living and out of pocket expenses associated with a HE experience.

Grants and loans influence decisions to participate in HE by operating through both principles. However, grants are the preferred mode of financing HE by students principally because they do not have to repay the money, thus keeping their anticipated rate of returns to HE intact.

Loans are the preferred mode of financing HE for fiscal, equity and efficiency reasons. For government, loans go much further than grants as the money is paid back and can be effectively recycled. Loans thus provide for a greater number of students and therefore more efficiently contribute to broadening participation. In terms of equity, the argument is simple. HE has a strong individual investment component which is generally characterised by a favourable rate of return. On grounds of fairness, therefore it can be argued that students should be expected to pay back for part of their HE experience. In a life time perspective, graduates tend to earn higher than average salaries. The efficiency argument is that making money available through grants which are not repayable can attract even those students for whom HE may not be personally or socially worthwhile. 'Grants can thus result in over investment in post secondary education...' Finnie (2004:6).

## **International Perspectives on Fees in HE**

In the following sections we review the experience of different student fee regimes in a range of national settings. These include both developed economies and developing economies and reflect a range of cultural and historical contexts. The cases of Australia and New Zealand, which are significant exemplars for the developing UK system, are considered in Chapter 3, and so are not included here.

### **a) The Moroccan Experience**

Following the end of French occupation in 1956, Morocco introduced a stipend plan which assisted students in covering costs of attending university. This stipend was guaranteed for all students. However, since 1997, it has been provided on a selective basis, depending largely on family background factors. The key argument has been to spread HE cost sharing between government and parents and students (Johnstone 2002). According to Mahmed (2004) the enrolment behaviour before the implementation of cost sharing showed a steady increase. However, following the withdrawal of stipends, enrolments in tertiary education dropped by almost 50% with females contributing the bulk of this decline. Mahmed (2004) considers that there were two main reasons contributing to this decline. First is what he referred to as 'questionable, corrupt and unfair practices in determining who gets and who does not get the stipend' (pp. 17). The second is the creation of what he termed a cultural boundary to access in the wake of cost sharing. Traditionally, families put boys ahead of girls in decisions related to education. When educational costs are borne by families, girls suffer at the expense of boys. Although most of the available evidence does not suggest that there will be a decline in enrolment of such magnitude in this country overall, the growing numbers of minority populations from Africa in the UK may make it necessary for government to consider the cultural context of these communities which may in the long run significantly skew the predicted reactions of the UK population towards issues of HE fees.

### **b) The South African Experience**

Since the establishment of democracy and constitutional rule in South Africa in 1994, educational reform has been at the heart of national development in the country. Formerly divided along race, colour and ideological lines, the university system in South Africa was fragmented, uncoordinated and discriminatory. The need to redress inequities of the past meant that more black people were to be admitted into universities and initially university education was wholly funded by government. Soon it became clear that relying solely on government funding was a huge burden on the national economy and the tax payer. In 2001, government introduced income contingent loans (ICL) committing students to pay back loans when their income exceeded a specific amount based on what is considered to be average graduate salaries. In South Africa, the ICL scheme involves means testing based on family income and repayments are paid directly to the universities rather than to centralised government tax departments.

Essentially, no significant decline in enrolment has been noted following the introduction of the ICL in South Africa. In fact, on the contrary, there has been a steady increase in enrolment in tertiary institutions in the country.

### **c) The Zimbabwean experience**

Following political independence from Britain in 1980, education in Zimbabwe was democratised and enshrined in law as a fundamental human right. This led to unprecedented expansion at all levels. From a single university at independence, catering for about 2000 students, most of whom were white, there are now 12 universities in the country with a total student population of about 45 000 (MHE 2004) with a predominantly black population. In the first 15 years following independence, government solely funded university education in Zimbabwe with grants as the main source of student financing. However, a combination of extended periods of drought, a poorly performing economy and a commitment by government to the key role universities play in national development, new funding mechanisms for tertiary education were sought. In 2002, a new student financing policy was introduced with the main aim of broadening access and opportunities for tertiary education. A 100% loan system open to everyone in the tertiary system was introduced, replacing the previous grant system. Under this new system, all students including those in private universities are eligible for state assisted loans which are payable upon exceeding a salary threshold after graduating. Repayments are collected through a centralised government tax system in collaboration with employers.

Overall, this has had the 'net effect of increasing access and participation in tertiary education and training in Zimbabwe' (MHE 2004:13).

### **d) The Japanese experience**

The student loan system in Japan has recently been revised and has come under a newly created independent administrative institution, the Japan Student Services Organisation (JASO). JASO administers two types of students' loans. The first is interest free and awarded on academic merit and need, while the other carries no interest during the period of study but carries a 3% interest rate after completion. The second loan is awarded on economic need. Loan repayment is on a fixed monthly schedule of payments and must be paid within 20 years. Loans are collected automatically from the student's bank account, information which they supply on application (see Johnstone 2005: 18).

### **e) The Chinese experience**

Shen and Li (2003) have indicated that Chinese HE loan programmes have undergone modification since they were initially piloted in six cities in 1999. The government operates a subsidised student loan scheme (GSSLS) which provides loans in amounts up to Y6000 (US \$ 109) per year to needy students who comprise about 20% of the student population. Government pays the interest rates during the time students are studying. Graduates then pay half

of the commercial interest after graduation with a two year period of grace if needed. Student loans are never written off in China. The total repayment period is six years. Loans are disbursed by participating banks. Risk for non payment is shared by the university, government and the banks. A second type of loan, the General Commercial Student Loan Scheme (GCSLS) designed for affluent students is a non subsidised loan for which parental co-signatories are required and is administered in accordance with commercial regulations relating to all other commercial loans.

#### **f) The Netherlands experience**

In the Netherlands, student loans are provided to cover tuition and maintenance costs. Part of the loan is means tested while another part is non means tested. The means tested component can be converted to a grant upon evidence of satisfactory progress in the degree. Repayments are fixed after a two year grace period at low interest rates with an income contingent feature for those in low paying employment. Debts can be written off after 15 years if the graduate remains in low paid employment (Johnstone 2005: 19)

#### **g) The Russian experience**

The student loan system in Russia, known as the Educational Credit Programme (ECP), was initially designed to assist students from low and middle income families to access HE. According to Protapenko (2002), the programme was never implemented because government and the banks disagreed on who would underwrite the risk. In 2004, the government proposed what has been called a 'workforce contingent loan'. The loans were open to high scoring students but the less able could also access them if they undertook to work for specific government public service upon graduation. Thus the loan became a grant if the student agreed to serve the government for a specified period following graduation. It would remain payable if the subsequent work agreement was not undertaken or later revoked. The government charges no interest on the loans.

#### **h) The Swedish experience**

Along with other Scandinavian countries, Sweden has operated student loans since the 1960s to cover maintenance and to free parents from paying for their children's HE experience. Universities in Sweden are tuition free. Student loans in Sweden are available to anyone who needs them, are not means tested and do not require parental underwriting. Over the years the repayment mechanisms have changed, but as of 2001, a minimum repayment of 5% of annual income over the working life of the graduate has been in force.

#### **i) The US experience**

The USA probably has the longest history of shared costs in HE. Conventional loans are available to students in need at minimally subsidised interest rates. The federal government guarantees all student loans and pays

all interest during the time of study. Graduates have varying periods of grace following graduation in different states. Unsubsidised loans are also available to anyone needing them and have interest rates close to government borrowing rate. The Direct Loan Programme (DLP) administers the bulk of student loans and students can elect to repay according to an income contingent repayment schedule. (See Johnstone 2005: 21).

## **Students Views about Loans and Fees in Higher Education**

Wherever they have been introduced, HE students' loans have received varying forms of criticism from student bodies in many countries. In this section we review the views of the Canadian Federation of Students (CFS), those of National Union of Students UK (NUS) and the Union of Students in Ireland (USI).

In general students everywhere do not support the loan system. In the UK, the NUS are especially opposed to the variable top up fees model, arguing that

*... it is an imposition of graduate contributions which will inhibit participation from disadvantaged sections of our community and place an unfair burden on students when they graduate...(NUS-USI:1)*

They see variable top up fees as impacting negatively in a variety of ways:

- Students consider that variable top up fees will not provide full funding and that this will force students to make degree choices based on cost, thus creating a two tier system in HE which they see as broadly inequitable
- They think that setting up a fees scheme will be a tremendous cost to the tax payer with money having to come from treasury to fund universities in the interim period
- They also suggest that top up fees are broadly opposed by a big majority of UK citizens (84% of England public, teaching unions and Vice Chancellors)
- They see the widening participation agenda, used as a rationale for top up variable fees, as an excuse to allow market forces to command HE
- They '...believe that the proposal will not assist in widening participation nor solve the funding crisis in our universities and colleges- it only enables the creation of a commercial market in HE at the expense of people who will be saddled with debt for more than a generation' (NUS-USI: 5)

In Canada, where the proposals to introduce higher fees administered through a student loan scheme have recently been made, the CFS has offered a strong response which highlights the following arguments.

- Opposition to tuition fees increases is based on a very real fear experienced by working people that costs of post secondary education are becoming beyond their economic reach
- Students believe that tuition fees are the determining barrier to HE for people from modest and low income homes and as such will undermine the widening participation agenda
- The proposed cost sharing driven through students loan is seen as 'condemning students to lifetimes of debt especially those who will earn relatively less' (CFS: 4)
- Students think that raising fees has always been associated with reduced enrolments and in changing the composition of students in different medical class cohorts. In Canada they cite research evidence from Statistics Canada (2001) in which 'data demonstrating a widening gap in HE participation rates between students from affluent backgrounds and those from middle and lower income backgrounds... this trend corresponds to a period of dramatic increases in tuition fees across the country' (CFS: 5)
- The introduction of stricter borrowing terms means that students from low socio economic backgrounds will become further distanced from the prospects of experiencing HE

It appears that information inadequacies, lack of trust and strategic congruence are the key obstacles alienating students from any proposals aimed at raising fees and moving funding from a grant to a loan system.

### **Students' Attitudes to Finance and Issues of Debt**

In the final section of this review chapter we consider the evidence relating to student attitude to loans, grants and debt, on the assumption that attitudes play a significant role in students decision making in HE.

There is a relative paucity of studies investigating students' attitudes to money and issues of debt in UK HE. However, research suggests that there seem to be consensus among students that debt deters prospective and current students' entry to HE (Callender and Kemp, 2000; NUS 1998; Hesketh 1999, CSF 2004). In addition, there is agreement that students from under-represented population groups in society are the ones likely to be affected the most. Studies by Hesketh (1999) and Scott et al (2001) suggest that HE students view issues of money and debt in different ways. For example, Hesketh found that middle class students were largely confident about money matters and were least averse to issues related to debt. Their confidence was attributed to the fact that they had the security of a fall back plan based on family resources to which they could turn to in times of difficulty. On the other hand, students from working class backgrounds were less confident because they had less money and were least unsure about being able to secure require resources for their HE experience.

Scott et al (2001) also found that HE students in the 2001 cohort were more tolerant to issues of debt than their predecessors. They attributed this to a growing culture among students of using credit facilities. However, while there has been a steady increase in the numbers of students taking loans for HE study over the years (Callender and Kemp 2000), the key reason given by those who do not take loans is fear of debt. There is evidence suggesting that students from ethnic minorities, including those of Asian origin and those from single parent families show the least take up of loans (Brennan et al 2005). On the other hand groups more tolerant to debt included younger students, white students and those from the highest socio-economic classes.

Students who borrow tend to do so for two key reasons; to finance current consumption, and to invest in the future. However Brennan et al (2005) have noted that there does not seem to be a clear pattern in the distribution of reasons for borrowing among different HE student population groups, resulting in what they termed a 'blurring of borrowing intentions'.

A key strategy used by students to circumvent the effects of debt is working part time during term time. A key reason given by those who engage in part time work is to supplement their incomes from student loans. Some of them consider the long term benefits of working part-time in terms of gaining employability skills and networking with future employers. However, the majority of students consider working part time as adversely affecting their studies and curtailing their chances of gaining good assessment grades due to lost time, being tired and stressed by the pressure of balancing working and studying (Smith and Taylor 1999; Brennan et al 2005).

If, as the above suggests, students and prospective HE applicants have different views towards money matters and issues of debt, then it is likely that their attitudes towards HE could become influenced especially in an era when their HE experience is going to be driven by a loan system. The theory of debt aversion appears to be at the heart of our understanding of how students are likely to react towards issues of HE loans.

In theory, debt aversion is 'a situation where individuals are unwilling to take loans to finance their HE study even though they know it represents a good investment' Finnie (2005:9) has identified three categories of debt aversion based on this understanding. The first is what he has called '**risk based debt aversion**'. This aversion to debt is associated with the uncertainty about the returns to education investment. Students who are sceptical about employment prospects following graduation, or about the perceived value of the courses they hope to pursue, including those who simply cannot cope with the idea of debt hanging over their heads broadly constitute this group. The second form of debt aversion is what has been called '**value debt aversion**'. This comprises people who are unwilling to borrow for religious or culture related reasons and can be extremely difficult to circumvent except through resorting to grants. The third form is what has been described as '**sticker price debt aversion**' where borrowers are scared of the total debt expected to be accumulated over the period of schooling. This often stems from over estimation of costs and under estimation of income. The role of information

and policies for student support, including a differentiated approach to the system of loans to suit various categories of consumers, cannot be over-emphasised if attitudes to debt have to be interrogated.

Administering students' finances through a loan system requires sound money management skills by students. Research however shows that the majority of students consider that keeping up with bills and credit commitments was a struggle. In many cases problems with money management, manifested through poor budgeting skills and often caused by uncertainties about the levels of support and income accrued through other means have negatively impacted on students' academic performance. While universities seem to be addressing this issue through financial and welfare advisers, there is often a sense in which the approaches used tend to be reactive rather than proactive (see Brennan et al 2005).

Overall, therefore, available evidence (Brennan et al 2005) on students' attitudes to money and debt suggests the following:

- The majority of students seem to be taking a pragmatic approach to issues of debt. They consider debt as a necessary evil, something you can not do without in current circumstances
- The majority of students continue to express worries about accumulating debt over the years of study and consider this as an erosion of anticipated future earnings
- Only about a ¼ of students mainly from the highest social classes were confident about getting a well paid job after graduation and were thus least worried about debt
- Attitudes to students' loans tended to vary especially along social class lines. Students from high social classes consider student loans as a cheap way of borrowing money whereas those from poor backgrounds including Muslim students were much less likely to agree with this view
- Almost 50% of students consider financial difficulties as impacting negatively on their academic performance, with older students and those from lower social classes being affected more

## **End Note**

This review has explored the rationale for introducing fees in HE. Broadly the arguments for this are economic. HE has become a positional good and governments recognise its contribution to the overall development of society and its individuals. Mass HE necessitates higher levels of funding in order to maintain and raise quality, resources and overall provision. Thus those who benefit from HE must share the responsibility for contributing to funding their own HE experience. Equity, equality and efficiency have thus been the key arguments upon which governments have rationalised the introduction of HE fees.

The most widely used model for HE fee payment has been the Income Contingent Loan (ICL) system which carries a contractual obligation on the part of the student to repay a percentage of future earnings based on threshold annual earnings beyond which a system is put in place to recoup the loan. Variants of the ICL are used in different parts of the world, the most common being a form of graduate tax where the graduate becomes obligated to income surtax for the rest of their earning lives. While different countries charge varying amounts of interest on the loans, the tendency has been to keep these as low as possible, often aligned to the bank borrowing rates for the rest of the repayment period.

Our review also shows that contrary to claims made by students about potential impact of HE fees on student participation especially on the disadvantaged communities, enrolment patterns have remained fairly stable or increased. While the prospect of debt weighs heavily on students, it is more unlikely than likely to deter them from engaging with HE either in the immediate, medium term or distant future. On the contrary, loans are seen by students as contributing significantly and positively to what is popularly known as 'students' life styles' (Brookes 2006).

However, while students are sceptical about the impact of debt on their current and future lives, they seem to have adopted a pragmatic view which acknowledges the role of debt in contemporary society. What matters to them most is what they perceive as a shrinking graduate job market which may not be able to give back anticipated returns to the investment they are currently making by engaging with HE.

### **3 The Impact of Variable Fees in Australia and New Zealand**

#### **Introduction**

Students in the Australian HE system have paid fees for 20 years, within a cultural and policy context that was otherwise similar to the UK. Indeed it was the Australian system that formed the basis for many of the developments for the English policy of student tuition and income contingent loans introduced for 2006. Australia was, therefore, the most obvious system to evaluate in terms of the probable impact that the new student financial regime might have on patterns of demand and student expectations. New Zealand also has a long established system of fees and loans but the system there is less similar to the one newly introduced in England. Detailed secondary evidence from New Zealand is included in this Report as Appendix 1, but findings from case studies are referred to in the main text at various junctures.

The evidence presented is drawn from:

- Interviews with senior individuals in the Australian HE sector
- Case study visits to 4 HEIs in Australia and New Zealand
- A review of published literature and studies and analysis of application data from tertiary admissions systems
- A survey of student unions

#### **The Australian HECS System 1986-2006**

This section provides a brief overview of the major changes to the Australian system of fees and income contingent loans so as to provide the context to later findings.

In 1986 an up-front fee known as the Higher Education Administration Charge (HEAC) was introduced and represented a first move towards universal user-pays for university study in Australia. The charge was flat \$250 pa irrespective of course load (mode or intensity of study).

The Higher Education Contribution Scheme (HECS) was introduced in 1989. This was a universal charge to undergraduate students of \$1,800 pa with a unique feature that students could defer payment until their future incomes reached a particular threshold with no real rate of interest being charged on the debt incurred. This was the world's first income-contingent charge for higher education.

Major changes were introduced a decade ago (1996/97) when all HECS charges were increased by an average of 40%.

- The HECS income thresholds for repayment were reduced considerably from \$30,000 to \$21,000.

- The uniform HECS charge was replaced with 3 levels. The 3-tier charge structure was set with reference to a combination of course costs and what seems to be a presumption of the income advantages of different degrees e.g. one of the lowest cost courses, Law, was accorded the highest charge and one of the high cost courses, Nursing, was accorded the lowest charge.
- Universities were allowed to recruit “full cost home students” for non funded places and to set their own fees (there was a limit to the numbers that could be recruited through this route).

In 2001 the income contingent loan was made available to all fee paying non-research postgraduate students to cover up-front charges, known as the Postgraduate Education Loans Scheme (PELS)

Major changes were introduced in 2004 (impacting the 2005 entry cycle). Universities were allowed to increase HECS fees by a maximum of 25% in all courses except education and nursing. Several other changes were also introduced that made the system more similar to the situation that will pertain in England for 2006. First, the HECS repayment threshold was raised from \$24,365 to \$35,000 and then again to \$36,184 (2005/06). On the supply side, 34,000 new funded places were introduced from 2005 in particular course disciplines – similar to the English additional student numbers in specific applied/vocational areas.

As fee levels have increased in Australia so there have been changes to the thresholds at which students must start to repay their income contingent loans. Therefore, as in England, it is not simply a matter of evaluating how an increase in the headline fee has impacted on demand for HE places as the other cost and risk variables have not remained constant.

The threshold at which repayments have to be made is not a variable that many English commentators have focused on. At £15,000 it is c85% of the average graduate salary, which is slightly lower than the case in Australia. One option when the cap on English fees is reviewed is to raise the repayment thresholds in line with raising the ceiling on fee levels, thus rebalancing the cost with the risk and reward elements. The other variable is the marginal rates at which the loans are repaid. In Australia a graduate earning over \$67,200 (a salary many would anticipate 10 years after graduating) has to pay a marginal repayment rate of 8%. This is in effect an additional marginal rate of income tax at a significant level.

## **Fee Setting in Universities**

### **a) Factors, Process and Consequences**

The evidence indicates that HEIs use a combination of cost and demand factors to set their fee levels, plus others that relate to reputation, brand positioning and desired levels of social justice in terms of access, equity, regional/rural development and indigenous populations. The case study research revealed no evidence of specific market research being used to inform fee decisions, although many HEIs had noted published research suggesting the HE market was relatively price inelastic.

There is no evidence indicating that analysis of demand by subject has been used as a basis for setting specific course/programme related fees. Most analysis of demand is based on overall demand for university places.

Case study institutions pointed out that fees, particularly when deferred, were only a part of the cost of attending higher education, with rent, living, transport and other study costs being the greater burden.

A briefing paper at Griffith University (2005) (similar in nature to many UK 94 Group universities) states the factors to be taken into account internally when setting fees - *“The university will want to take into account at least 3 factors in making its decisions: equity, reputation and finances.”* Further explanation of the impact of these 3 factors is then covered in this briefing paper. Of course in many cases it is hard to reconcile these three factors.

Amongst our interviewees there was a strong consensus that perceptions of quality were driven by entry standards and research quality (and additionally in Australia, international activity) and NOT by price (fee levels). This is thought to be reflected in consumption patterns generally, with a trend towards higher quality, higher price. The decisions on fees were taken on a financial and political basis. The need to raise additional income has been the main driver. The issues paper at Griffith continues:

*“Many commentators have observed that the level of fees might influence perceptions of quality; higher HECS will be associated with higher quality and lower HECS with lower quality. ....there is substantial evidence that price is perceived by potential students as a proxy of quality (Note: we disagree with this statement and have found no published evidence to support it). It is possible to increase the price for a course and experience an increase in demand. If it seems likely that UQ and QUT follow the Uni of Sydney in deciding to charge the maximum allowable HECS of 25% above the current rate, would Griffith want to position itself as a discounter by charging HECS 25% below the rate charged by competitors and other ‘top 10’ universities?”*

Our interviews revealed that the main drivers for not increasing HECS by the full 25% were, for regional HEIs, the fear of pricing too high, and for others the equity argument (in some cases underpinned by good financial reserves). One of the case study universities was an Australian

“metropolitan” university and to some extent its decision to hold fees down was “a symbolic gesture to its region and students”.

However in hindsight all of those universities that were engaged who held fees for 2005 had misgivings about discounting as they detected minimal price sensitivity at these fee levels (in real terms a little lower to the 2006 fees in England). One university reduced fees on some science programmes to zero in the hope of attracting more or better students but applications did not improve on either measure. The Australian Regional University had not detected any increase in demand due to its lower, more competitive, fees.

In contrast to the English HEIs in our study (see Chapter 4) there was little evidence that the Australian or New Zealand HEIs consulted widely or formally with student bodies or students generally before setting fees. However, no protests by students were reported.

Fees have not as yet been seen as a marketing issue, largely because fees are not yet considered a major factor in the market in terms of choice of university. However, as fee levels rise it was conceded that market research might be necessary to inform decisions. This is not to say that rising fees have not had an impact on marketing in HE. There was a consensus that a greater emphasis was being put on marketing and, in particular, reputation building and brand (with significant emphasis placed on this by vice chancellors and particularly higher ranked universities). Less strongly ranked HEIs are being forced to reappraise their strengths and to focus more in strong niches.

With a 75% non-school leaver student population the regional based University indicated that their research showed that the more mature students wanted their study to be more divisible and manageable by offering multiple entry and exit points. In addition to this they do not want to be locked into one mode of study – courses are now being delivered, on campus, off campus and on-line without the student being locked into one mode for the duration of the degree. This is the trend for both undergraduate and postgraduate study.

## **b) 2005 and 2006**

The majority of Australia’s 38 publicly-funded universities increased their fees for 2005. With one or two exceptions those that did not increase the fees were regional or technology universities. Generally it was the higher ranked or more established/prestige universities that were confident enough to raise their fees but there are several notable exceptions.

Only three have not increased their fees at all over the two years - the Australian National University, Macquarie University and the University of Tasmania (Illing, 2005)

For 2006 entry (i.e. the second year when HEIs had the option to raise fees by 25% on the 2004 levels) just nine universities decided to raise HECS fees by the maximum 25% with many holding the fees citing social justice and equity reasons. It is also likely that the pressure on applications may have had some impact.

As a result of the recent changes significant price variations have started to emerge with differential fees by HEI and subject. We have reviewed fees in selected subjects across three universities (see Appendix 2 for details). The low ceiling for the national priority subjects (teaching and nursing) appears to have had an impact similar to that of the £3,000 ceiling in England – i.e. a bunching of the fees at or close to the maximum. However, where the ceiling is much higher, greater variations have emerged. This supports the contention that had the English universities been free to set their own fees a more differentiated market would have emerged and in some cases, fees might have been set below the current ceiling of £3,000.

Unlike the English system the Australian ceiling varies by band as set by the Federal Government (a well established policy dating from 1989). This has the impact at the margins of moderating demand between disciplines and might have protected numbers in social sciences, languages, arts and humanities etc as the fees paid are considerably lower than for subjects that might be deemed directly competitive such as law and business. This is explored in more detail later.

There is emergent evidence that within individual universities a variable response is emerging across the subject portfolio based on the strength of demand and the probable returns to graduates. For example, Charles Darwin University (Northern Territories) held fees in 2005 but increased those for Law. This may create some pressure on the method used to allocate resources between departments, with areas such as Law seeking a share of the premiums they can charge to enable them to more effectively compete in the legal labour market. Roberts (1999) found this to have created some tension internally in New Zealand HEIs in 1999 even when the level of fee was very modest.

### **c) Fee Paying Domestic Students**

A full fee (tuition fee) place for domestic students is one for which the university does not receive any government funding (non-Commonwealth supported place). Students enrolled in these places are required to contribute the full cost of their course but they do get access to income contingent loans (FEE-HELP).

In this “free market” the level of fees is not subject to a ceiling although some reference to the limits for government supported places is made by

both applicants and providers. In this part of the sector the fees are much more closely set between subjects than is the case in the government managed bands. Hence \$12,000- \$16,000 for a law degree is not untypical (twice the ceiling for a supported place) as is \$12,000-\$17,000 for Humanities (2.5-3 times the support rate) or \$15,000 for visual or performing arts (around three times the rate).

The level of fees in this part of the market reflects the fact that to universities they represent marginal and not core income, and thus providers are less concerned about price elasticity or equity. They also consider that these places will be taken up primarily by the more wealthy students, more able to pay (particularly as in Australia about two and a half times as many secondary school leavers are in a fee paying school than in the UK).

### **Fee Increases - Impact on Student Demand**

In this section we present evidence relating to the impact of rising fees on:

- Overall demand for higher education
- Demand for specific subjects
- HEI market share

Simple economic theory suggests that increasing student charges will diminish the attractiveness of higher education over other pursuits. However, analysis of the impact of HECS is not straightforward because of the general expansion in the provision of places and the vagaries of the economic cycle that affect the demand for education.

In looking at the demand for HE in 2006 and beyond all the case study universities indicated that a number of other market indicators must be taken into consideration outside fees. The regional based Australian University indicated that sector-wide there had been a decline in Semester 1 2005 due to a range of market reasons, and fees may have been one of them (there was no formal research to identify this as the cause, however, and many of these regional institutions had not increased their fees, including this one). However, enrolments increased 2% in 2006, despite fees at this University being increased, therefore recovering from the previous year.

The Metro based Australian University experienced a 2% decrease in the school leaver market. This was attributed to the buoyant job market. Demand for Science and Technology has decreased which they have attributed to an unsure job market and career paths. The Bachelor of Arts program has been a very stable program following an increase in enrolments four years ago. There has been a reduction in demand for business degrees particularly with the school leavers (Generation Y) who are looking for careers where they feel they will leave their mark to make a difference.

## **a) Attitude Surveys**

While attitudinal surveys can shed light on whether HECS has deterred interest in higher education, it is important to acknowledge that, in general, these types of surveys do have limitations in that actual behaviour may not necessarily accord with attitudes. A study conducted by Robertson et al (1990) immediately after the introduction of HECS concluded that HECS (at then low levels) had little effect on the composition of applicants and no effect on the composition of those who accepted an offer.

The Higher Education Council commissioned a study in 1991 examining the impact of HECS on different groups (Higher Education Council, 1991) For school leavers, HECS was found to be a low ranking factor for those not deciding to go on to higher education and a middle ranking factor, behind academic factors and other economic factors, for those intending to undertake higher education. For adults, HECS was only a middle ranking factor regarding attitudes to higher education participation.

A study by Ramsay (Ramsey et al, 1998) of students entering the University of South Australia examined the specific issue of the impact of HECS on different groups in the student population. Comparing students from a low socio-economic status background with school leavers in general, the study found that HECS had no more of an impact on the decision to enrol of those from a disadvantaged background than on students in general.

## **b) Application Impact Studies – 1996 Changes**

It is the impact of the changes in 1996 which are of most interest to the UK rather than the more historical ones relating to the introductory phase of HECS.

Andrews (1997) examined changes in the rate of applications to higher education institutions post 1996 and concluded that they may have lowered demand for higher education among mature students by 7%, but the study was not able to make any conclusions regarding longer term effects.

A more recent study from DEST (Aungles et al, 2005) has evaluated the impact on demand resulting from changes in HECS. It concluded that there was no evidence that the introduction of HECS in 1989 had an impact on demand, at least as measured by applications through State Admissions Centres, but that there is evidence that the changes introduced in 1996 had some impact:

- Demand among prospective school leavers declined, with approximately 9,000 fewer school leavers a year applying for university from 1997 onwards. Given the predictable decline in the school-leaver cohort in the UK post-2009 because of demographic

trends, the finding that the size of the feeder group of school leavers was a significant influence on the demand for education is important.

- The analysis undermines the claim that a strong economy rather than fee increases is the cause of a decline in demand. An increase in the 15-19 teenage full-time unemployment rate was found to increase the number of Year 12 completers applying for university and vice-versa. However, this effect was found to be “small and insignificant”.
- Older persons appear to be more sensitive to HECS changes, particularly those aged 25-39. Nearly 17,000 fewer mature age applications were lodged each year from 1997 onwards and the study concludes that HECS had the effect of reducing mature age applications by around 10,000 persons each year. Some of the decline was attributed to the strong economy as a 1% rise in the unemployment rate was shown to increase the level of mature age applications by around 3,500, thus low unemployment depressed demand for HE places.
- Mature students new to higher education or studying part-time or externally (at distance) appear to be price sensitive. The lower repayment threshold is more likely to have deterred people from combining work and part-time study. This is important in the UK context where part-time students are still subject to up-front fees. English HEIs are concerned that fees will be inconsistent across mode of study.
- A further refinement of the analysis showed that older individuals new to higher education showed relatively high elasticity of demand whereas older individuals with a previous complete award or previous incomplete award had lower elasticity of demand (e.g. returners and postgraduates).

### **c) Trends in Enrolments**

Notwithstanding the impact of HECS, there has been a very substantial expansion of participation in higher education in Australia, which climbed 25 per cent between 1989 and 2000. However, the relationship between changes in price, student demand and enrolment is not clear as the Commonwealth Government essentially constrains the overall number of places or enrolments through budget decisions.

Although demand as measured by applicant numbers is important, the sector is most concerned with enrolments, as this drives financial stability. During the decade to 2003 universities in Australia consistently over-recruited students relative to the targets set, and increasingly this was the case. The Australian data therefore makes it hard to create a strong case for low level income contingent fees acting as a deterrent either to

students or providers in the market. This is in contrast to England where in a number of years the sector as a whole has failed to meet its targets (HEFCE) during a period where up-front fees have applied.

#### **d) Impact Post 2005**

Until 2004 there had been a period of increasing numbers of applicants to universities but for 2005 there was a fall of 5% and a fall in all states.

In interpreting the data regarding growing student numbers, we need to consider the trends in the size and nature of the population. Australia's population is growing and in contrast to the UK, it is forecast to grow to 2021 in all states except Tasmania. Unlike the UK, the number of school leavers in Australia is not predicted to decline significantly over the next 40-50 years. Queensland is the state with the fastest growth in population. Forecasts 2002-2008 show the number of school-leavers rising, thus even flat applications in 2004, 2005 or 2006 would represent a decline in the penetration of the age cohort.

This fall in applications led to speculation as to the role and impact of the substantially higher fees (or the fear of them, since they did not apply in all universities), mostly based on opinion and much of it political and partial. Where the local state government is led by Labour, criticism of the role of fees (increased by the Liberal Conservatives) has been swift

Victorian Education Minister Lynne Kosky, writing in *The Australian* (2 Jan 2006) states, "*it was clear that the federal government's plan to increase university places through fee courses was not working, and students were unable to afford higher education without financial relief. The FEE-HELP scheme is there but students are not picking it up*".

Commentators have pointed to the two possible reasons for the decline in applications. One is a strong economy that lures students into the workplace rather than to university. The other, more concerning, reason is the increasing cost of higher education, which is disadvantaging students from poor socio-economic backgrounds and creating a two-tier university sector.

All our case study HEIs stressed the importance of the strong labour markets of Australia and New Zealand as being instrumental in demand trends for HE, together with the current demographic bulge and, in Australia, stronger staying on rates. As with England, the combination of these factors makes an analysis of the impact of fee variables problematic.

In the UK the role of a strong (tight) labour market in terms of demand for HE is somewhat different to that in Australia and New Zealand where more jobs are available for school and college leavers due in part to the

importance of tourism and other outdoor sectors that have lifestyles that appeal to young people.

### **Fee Increases - Impact on Subject Choice**

It is speculated that as fees rise a greater proportion of applicants will seek places on overtly vocational programmes at the expense of those in social studies, arts and humanities. Whilst choice of subject at application is somewhat restricted by the need to build on prior learning (in science, for example), it would be possible for those more instrumental in their motivations to switch from arts/humanities to law or business subjects.

All the case study institutions indicated that the number one focus for a student was now employability – “it is about the Job rather than the Journey”. The greater demand for career related study was in part a function of a broader range of professions than ever before requiring HE qualifications.

In evaluating the evidence from Australia on this issue it must be remembered that demand across the portfolio is to some extent moderated by the price bands, with arts/humanities and social studies etc in the lowest band, business and related subjects in the middle band, and law in the upper band. Demand is also moderated by cut off scores, and more popular subjects are more difficult to enter, and to some extent the market seems to be aware of this. Finally, those from more price sensitive sections of the community (low SES groups) have historically been less likely to apply for humanities and social sciences. Thus any substitution effect was unlikely to be strong or steep.

Andrews (1999) examined whether the 1996 changes to HECS impacted on subject choice using data from 20 universities comparing 1996 and 1997. The *a priori* expectation was that demand would have been more subdued for courses in HECS Band 3 where prices were higher. He found no consistent pattern in changes in applications by HECS Band. For example, some courses in HECS Band 1 went up (Education) while demand fell in other courses (Arts). Andrews concluded that there was “little evidence of any systematic pattern in the changes in applications according to the HECS Band in which the discipline was placed”.

To investigate whether there has been any marked shift in the share of first preferences for subjects of study as a result of the 2005 increases we have evaluated application data in one state (Queensland). The data, produced here in Appendix 3, is at subject group level but is nonetheless instructive.

The first point to note is that applications levels had been stable 2001-4 despite a growing population, so penetration of the school-leaver

population is likely to have fallen. For 2005 there was a fall of 4.4% reflecting some sensitivity to the increased HECS fees of up to 25%.

If we consider the changes to the share of first preferences achieved by each subject it is clear that IT has been falling consistently and sharply, mirroring the UK trend. Despite this being a vocational area, the known decline in jobs in this field has clearly had an impact. There also appears to be a systemic decline in applications to agriculture and environmental programmes, again mirroring the UK and reflecting changes in the Queensland economy.

Management and Commerce also shows a downward trend albeit a slow one – also similar to the UK where this is a large but mature market sector. There is nothing surprising, therefore, in the declining share of these subject groups, but the higher fees from 2005 may have increased the rate of decline somewhat. The trends also suggest that the “vocational attractive, non vocational unattractive” argument is too simple as the applicant market is well enough informed about trends in the economy to make more refined decisions.

Turning to the subjects that have a growing share, the most evident of these is education, which had been edging upwards since 2000 but, with the increased fees in other bands and job prospects secure, it appears to have won a major increase in share in 2005. A similar picture and explanation can be related to health, although here growth has been more consistent and stronger. The niche area of food and hospitality has also been growing consistently but is very small, and here growth might be a function of increased supply to some extent. For architecture and building the higher fees appear to have had no clear impact as this sector is strong in Queensland as growth continues.

What of the arts and humanities areas? Creative arts had a generally upward trend but the 2005 cycle saw it win a higher share of the market. This category does include some highly vocational courses as well as fine arts. Society and culture subjects had been winning share but 2005 saw a marked fall. Perhaps this is a sign that at higher fee levels at least some students are sensitive to the career potential of certain subjects?

The Metropolitan based case study university, located outside of Queensland, experienced a decreased demand for Science and Technology which they attributed to an unsure job market and career paths. The Bachelor of Arts program has been a very stable program following an increase in enrolments four years ago. There has been a reduction in demand for business degrees particularly with the school leaver (thought to be due to Generation Y students looking for careers where they feel they will leave their mark and make a difference i.e. those with a social component). Demand for Education degrees was also increasing.

Another institution, with the 3<sup>rd</sup> largest arts faculty in Australasia indicated that there was slight fall in demand within this faculty and they were experiencing an increase in science as a means of entry into medicine. There was a dramatic drop in IT, which was attributed to a knee jerk reaction directly related to the job market.

One interviewee raised the point that there is an increased pressure on each faculty to compete for student places within the institutions as well as with other market competitors. As most Australian universities recruit regionally the incidence of internal competition can be high, mirroring the historic pattern in Scotland, for example. There is a need for good advice at the centre to ensure the students enter the most appropriate programmes.

Research by Long and Hayden (2000) indicated that a student's financial circumstances had influenced their choice of course/subject in 11.1% of cases. The incidence of this may have increased since then as fees have increased and differentials have widened between HEIs, and this might explain the fall in the humanities and cultural areas.

In their 1999 study James, Baldwin and McInnis found that graduate employment rates and starting salaries were an influence on students' subject choice but the students did not consider the influence to be strong. The rate of employment was consistently a stronger factor than were salary levels, but this may reflect access to, or awareness of, the data on these measures, the latter being a more recent phenomenon,

The study found that these economic measures were more influential in some subject areas such as business and economics (62% influenced by employment levels and 47% by salaries), engineering and surveying (57%/51%) and health (50% and 28%) but less so in science (39%/30%), education (39%/12%) and arts/humanities and social sciences (30%/12%).

Graduate salaries are of course uneven by subject of study. The latest data for 2005 Australian salaries are reproduced in Appendix 4. They show a range from \$65,000 (dentistry) through to \$30,000 for pre registration pharmacy. One of the most important results is that subjects such as humanities, arts and social sciences are at the foot of the table, with graduates earning typically 15% below the median for all subjects. On this measure, Education (a national priority and thus fees are low) looks to be a good financial investment as median salaries are above that for all subjects. Perhaps it is the combination of higher than average salaries combined with lower fees that are driving up the share of applicants for Education?

### **Fee Increases - Impact on University Market Share**

It is argued that as fees and costs rise, so more students will seek out the more prestigious universities. However, this is difficult to evaluate:

- As noted, in Australia the more prestigious universities have tended to increase their fees more than others, thus moderating demand.
- The elite universities have higher cut off scores thus depressing application levels
- Commonwealth places are limited so enrolment is a poor measure of demand

In isolating the impact of HECS we are also making the assumption that applicants are price sensitive and that they can exercise choice. Whilst the DEST research cited above indicates price sensitivity evident in the choice between applying or not, there are few reliable studies that indicate that applicants are willing to trade off university preferences due to a price differential. The research by Long and Hayden (2000) indicated that a student's financial circumstances had influenced their choice of university for 17.4% of students. However this may simply mean that they were restricted to local providers rather than less high charging providers. The percentages were slightly higher for full-time rather than part-time students (the former being more mobile geographically). The incidence of this may have since increased as fees have increased and differentials have widened between HEIs.

Unlike the English pattern, most Australian applicants stay in state and most in city. For some Australians in urban areas there may be a real choice between university A and university B within a specified subject area, with both offering similar cut off scores. In these circumstances it should be possible to track changes in share and relate this back to emerging changes in fee levels. However, this would need to be at subject and not institutional level or at least by fee band. This would be a useful further area for research.

Given the limited resources for this project we have taken two universities from the growth state of Queensland and looked in detail at recruitment trends 2003-05 in the context of their changed fee structures. Appendix 5 contains the data for the two universities. Griffith University increased its fees by 25% in 2005. This institution has a campus on the Gold Coast, a rapidly expanding area of population. It experienced a reduction in intake numbers in 2005, with a downturn in all the selected fields of study. However, its numbers also declined in the national priority areas, despite no fee increases. This might indicate that other factors could have been at play such as its visibility or brand appeal.

The second university is Central Queensland University (CQU), which is a regional university serving a less urban and less wealthy community. It increased its fees by 15% in 2005. The impact of the 15% increase in HECS fees seems more uncertain at CQU with some areas registering increases and some a decrease. The negative impact was on a reduced scale as compared with Griffith despite serving what might have been

considered a much more price sensitive market. However, CQU has increased its marketing spend on high visibility campaigns and on outreach activity. It also serves a more captive market.

To evaluate the impact of higher costs on market share we have also evaluated the market share of first preferences to the three universities serving greater Brisbane - Griffith, QUT (Queensland University of Technology) and University of Queensland (UQ) for 2002/3 to 2004/5. Overall the volume of applicants to the three universities fell over the period by 9%. The share of the three universities indicates no clear trend or pattern at an aggregate level. Note that this may provide some further evidence that league tables are not that influential as UQ is ranked much higher in international tables (49<sup>th</sup> in the 2004 THES for example) than the other two. It is also the most prestigious and established (ranked 4<sup>th</sup> in Australia in the recent Melbourne Institute study, compared with Griffith at 17 and QUT at 21). There appears to be little evidence thus far of a “flight to quality” in this data although it pre-dates the recent increases in HECS.

There are significant variations across the portfolios of these three universities in terms of share but again no clear pattern emerges that shows that UQ (as the elite established GO8 university) has been increasing share.

The evidence from our Australian case study universities reinforced the finding that there is no clear and consistent relationship between relative fee levels and movements in application or enrolment share.

## **Fee Increases - Impact on Equity and Access**

As this is a major area of concern and a focus of public policy in the UK we have afforded this issue a degree of priority within this report.

### **a) Bursaries and scholarships**

Unlike the English system there are few grant-based schemes in Australia to support what might be termed equity students. The view was expressed that the Australian system is one based on access to opportunity and merit (i.e. future economic returns) and not one based on welfare (based on current parental circumstances). A strong case could be made that the Australian system is more equitable, and certainly more transparent and simple, than the English model, which was more a product of a very public political process.

In Australia each university has its own range of scholarships. All of the case study universities had developed schemes, in part to address access but mostly to attract quality students. These are either funded internally (by the universities) or externally through memorial or industrial scholarships/bursaries, often the product of fundraising initiatives. Most

scholarships are merit-based and are aimed at supporting the individual university's strategic direction:

- Assisting students from low socio-economic backgrounds
- Assisting students from rural or isolated areas
- Assisting students with indigenous backgrounds
- Encouraging academic excellence
- Encouraging sporting excellence
- Encouraging research, development and innovation
- Encouraging cultural diversity and understanding

The evidence does not support the hypothesis that scholarships are provided disproportionately in relation to "hard to fill courses" i.e. to aid recruitment, as most scholarships seem to be equally divided between faculties, with fewer scholarships offered in the smaller faculties.

Research through university websites indicates that the number of scholarships on offer has not risen in proportion to the increases in fees nor have their value, unless they are related to a percentage of annual fees.

There are also Commonwealth academic and equity-based scholarships. They are thought to make a positive impact on diversity but some eligible students are thought to slip through the net due to misunderstandings surrounding the terminology, and thus perceived eligibility.

In New Zealand, one HEI that is a leader in widening access reported that funds designated to support students in financial hardship had not been taken up to any great extent despite strong marketing. Often mainstream student loan schemes were not taken up either which suggests an aversion to loan and to means-tested support. However, a scheme that provided emergency food parcels for students was considered successful.

## **b) Equity and participation**

The hypothesis is that higher fees and expectations of debt would lead to a depression in demand from those from less affluent backgrounds.

Chapman and Ryan (2003) found that before the introduction of the HECS there was a clear relationship between enrolment and measures of family wealth. Participation levels did not fall for any wealth group after the introduction of the HECS but the increases in participation were greater for the middle and highest wealth groups. The major 1997 changes didn't impact on the participation of any group.

Robertson et al (1990) studied factors affecting non-enrolment. HECS ranked 13 out of 17 in important factors. Only 7% said HECS was an important/very important reason for not enrolling. There was no statistical

relationship between measures of low economic status and identification of HECS as important/very important.

Andrews (1999) traced the share of low socio economic status students aged 17-24 from 1989-1998 and their share of disciplines in the high cost, band 3 and found no changes.

Aungles et al (2002) found the overall share of low socio economic status students constant but the introduction of differential HECS charges may have deterred a relatively small number of males from a low SES background from enrolling in the more expensive HECS Band 3 courses. It is important that the changes described above are kept in perspective as the study estimates that around 100 males from a low SES background are likely to have been deterred from entering these programmes nationwide

Research by Marks (2005) showed that the demographic and social characteristics of the 'Applied, no offer' group were similar to those of other students enrolled in Year 12 in 2001. Young persons from middle occupational and educational backgrounds were only marginally more likely to be in the 'Applied, no offer' group. Similarly, school sector was not associated with belonging to the 'Applied, no offer' group, so there appears no discrimination in favour of either fee paying or non-fee paying schools. The principal reason students did not receive an offer was that they achieved a low entry score.

We have obtained and evaluated data from DEST that provides a number of measures of access (Appendix 6). This shows that since 1997 the proportion of young students admitted to universities in Australia from low SES groups has remained fairly constant. However, since 1999 the proportion has declined marginally each year. The participation ratio has also been fairly even but there has been a decline since the high of 44 in 2001. Retention amongst low SES students has remained high and stable at c84% but the success rate has been climbing, indicating that a higher proportion of low SES students now graduate.

A similar pattern is evident for mature students, although retention is predictably less good. During this period the number of students from low SES groups increased by 7%. Figures for the latest period were not available so the impact of the recent and substantial rises in fees is not known.

There is some evidence in this data therefore that could suggest that recruitment from SES backgrounds is under pressure, but this might be a function of a wider change in the social and economic demography of the country. The proportion of any age cohort classed as from "low SES" is not itself a constant and as already noted, the Australian economy has remained strong and growing and thus the proportions of the population classified by reference to economic status may be changing. This requires more investigation.

## **Financial Costs and Benefits for Students**

### **a) Graduate debt**

A\$15,000 to A\$21,000 is the typical range of debt of young students leaving university, with amounts up to A\$33,000 reasonably common. These levels are relatively low compared with UK student debt, whether calculated as a proportion of fee levels (post 2006), related to the threshold at which fees have to be paid back in either country, or on a currency conversion basis.

*How terrible is that? It's about the range covered by the cost of a new car. If a new graduate on A\$35,000 a year borrowed A\$30,000 to buy a new car, no one would blink an eyelid. But when the debt comes from HECS there's all this hand-wringing and carry on about how they'll never be able to afford a house or family. All the emotional talk about "crippling debt" reveals how few people among this highly educated group have been able to get their brains around the concept of the "income-contingent loan".*

(The Age, 28 May 2003)

Andrews (1999) noted that: *"those students in Australia from a low SES background who do undertake higher education studies are as least as likely as other groups to defer the upfront HECS payment and incur the HECS debt...In conclusion, it appears that (higher fees/HECS) had no strong or consistent effect on their level of debt aversion as measured by their willingness to apply for new mortgages or personal loans on the amounts involved. This provides no support for the view that HECS deters people from low SES backgrounds because of a generalized aversion to debt".*

### **b) Graduate employment and salaries**

Graduate employment, unemployment and salary levels as a proportion of tuition fees appear to be very similar in both the UK and Australia which is important when evaluating the impact of higher education costs on future demand. Graduate employment rates and salaries are critical factors in underpinning demand during a time when costs for study are rising because a healthy graduate labour market reduces the perceived financial risk of study even when much of the debt is income contingent.

The latest UK data (2004), taken from the Higher Education Statistics Agency (HESA) website shows that after 6 months 55% of first degree graduates were in full-time paid work compared with 54.5% in Australia (after four months). The same sources show 6.9% of Australian graduates unemployed after four months, comparable with the 6.5% in the UK after six months.

Turning to graduate salaries, in 2005, the median annual starting salary for new Australian bachelor degree graduates in their first full-time employment was \$40,000 (up from \$38,000 in 2004), as indicated on The Graduate Careers Australia website. This was 81.8 per cent of an annual rate of average weekly earnings (\$48,900 at the time).

Taking the mid priced band B (e.g. a business based degree) three years of fees on a FTE basis would equate to 52% of the median graduate salary.

Obtaining a directly comparable figure for the UK is more problematic. Research published by the UK Association of Graduate Recruiters (AGR) claimed members were predicting a median starting salary of £23,000 in 2006. This is only an increase of 2.3%, the smallest increase for five years. Some sectors such as Law, insurance, banking or financial services and IT were predicting no increase. The AGR membership is skewed to large employers who might be expected to pay higher salaries. Prospects, which covers a wider range of graduate jobs quotes an average £18,300 pa covering 2,660 posts advertised May 2004 April 2005. Taking the Prospects (*prospects.ac.uk*) figure, the £9,000 fees for a three year English degree would equate to 49% of the average graduate salary, very close to the Australian figure.

### **c) Part-time work**

Unquestionably the biggest impact on the student experience has been the increase in part-time working to fund the student lifestyle and to limit debt levels. 70% of students work 12-15 hours in Australia and 70% work part-time in New Zealand, compared to 40% of UK students working part-time.

All our case study institutions indicated that students were working between 10 – 15 hours a week in addition to full-time study. However the students associations indicated that this was closer to 15-20 hours per week on average. This has changed the face of campus culture. Students now have limited time with other students and do not engage in campus activities and societies as much as in the past.

As there is an increase in mature age students and school leavers are working longer hours this has also changed the teaching dynamics. Students bring with them skills and experiences from the workforce into the learning environment; as a result students are thought to be more critical of the qualifications of teaching staff and their professional career experience. There have been adverse media reports in Australia in relation to teaching staff being less qualified than the students.

In both the metropolitan based case studies the increase in full time study combined with increased working hours was thought to have had an adverse effect on student results. Both the careers offices and the student associations supported this finding. One career counsellor indicated that

she had recently met with a student who had indicated they were resigned to the fact that their results were not a true reflection of their academic ability but due to work and life pressures they were satisfied with a lower result due to the hours they worked.

In the context of this study the key issue is whether the motivation to work is necessarily linked to the need to pay higher tuition fees. On balance the answer is 'no', although managing the level of debt appears to be a factor. The prime driver was thought to be a desire to maintain a social lifestyle.

The most comprehensive research on this topic in Australia is by Long and Hayden (2000). This showed that many students identified the financial imperative to undertake employment as a problem for their studies. Nearly 1 in every 10 students who are employed 'frequently' miss classes because of that work. Nearly 2 in every 10 students in employment say that the work adversely affects their study 'a great deal'. Financial circumstances influenced the choice of mode of study of 23.3% of students. In 1984 49% of young students were employed during term time whereas in 200 the figure was 72.4%. For all students, the rise had been from 49.5% to 72.5%.

Institutions have changed their teaching to adapt to this, as classes are increasingly broadcast online or delivered through "pod casting" with online communication and feedback, placing an extra focus on the virtual learning environment. This is compounded by a decrease in academic weeks during the year. The impetus for student organisations has therefore been to 'grab some of the students' time' or give them a reason to stay on campus through the development of innovative and attractive commercial and non commercial services. The nature of volunteering activities, methods for increasing participation in democratic involvement and the deliver of clubs and societies have changed in several institutions to meet the challenge of students' time poverty through better use of technology, new methods of marketing activities and communicating to students.

At a University-level, nearly all students' unions have job shops and on a national scale, the Student Job Service, set up in New Zealand as a direct result of fees being introduced, is an innovative way in which students can seek part-time employment through a national, easily accessible website and is a concept which could be replicated in the UK (perhaps in conjunction with partners such as AMICUS, NASES– the National Association of Student Employment Services, trade unions and careers services).

## **Fees and the Changing Environment of HE**

Our research has identified a number of cultural, organisational and process changes in the HE sector that appear to be related to the changing fee regime, and these will be examined below.

### **a) Entry Standards Falling as Demand Weakens?**

Despite there being a fall in applicants of 5% in 2005, 8% more offers were made, whereas in recent years the increase had been in line with application increases. This raised questions about the quality of the intake and about the confidence the HE sector had regarding its ability to convert applicants to admissions.

The offer rate per 100 applicants is a measure of the softening of admissions standards. In 2005 after the major fee rise this increased to 78/100 from 68/100 in 2004. However, historically 78/100 is not unknown and as recent as 2001 it was 77/100.

Statistical data for 2006 entry is not yet available but main-round offers of university places for school leavers going on to university have increased by 4.4% nationally building on the 8% in 2005 and suggests that universities felt under pressure regarding recruitment.

*The debate about academic standards has reignited as a second year of softening student demand pushes cut-off scores (equivalent to UCAS tariff points) to new lows at some universities. This is a familiar line to those reading this in the UK, but there does appear to be emerging evidence that Australian entry levels are becoming more liberal as a function of a weakening of demand, although hard published evidence was not available at the point of writing.*

(The Australian, 18 January

2006)

### **b) Demand for postgraduate study**

It has been suggested that as graduate debt rises, so there may be pressure on full-time postgraduate numbers as graduates seek employment rather than further study as their preferred option.

The feedback from our case studies was that the motivation for postgraduate study is about career progression. With a very buoyant job market students are leaving study at the completion of their undergraduate degree so study is not continuous. It is thought that the postgraduate market is far more price sensitive than the undergraduate market as the opportunity costs are greater and more easily measured – loss of salary, lifestyle and leisure time. Postgraduates want to see results in the programme very quickly and are less likely to study full-time. Postgraduate students are increasingly interested in multi entry and exit points and multi-mode delivery. The demand on postgraduate study is inversely proportionate to the health of the economy as a general trend.

However, none of the sample institutions had experienced a significant decrease of participation in postgraduate study and this is in line with the published quantitative data.

In 2003 15% of UK graduates went on to further study only (mostly FT) within six months and 9% to paid employment/study (i.e. part-time) (*hesa.ac.uk*).

It is only later in the decade when graduates emerge with much higher HECS debts that a picture of the impact from Australia will emerge based on similar levels of fees to those levied in England from 2006. However, the evidence to date is that postgraduate numbers have increased since 1994 but at a rate (23% over eight years) that is much less steep than has been the case in the UK. What is also evident in the detail is that the proportion of postgraduates who are fee paying has increased dramatically from 20% in 1994 to 45% in 2002. This may reflect a switch to part-time study (note that Australia is less obsessed with mode of study and thus data on mode is less easily available) and a shift to ‘student pays’ (rather than state or employer).

In 2005 Graduate Careers Australia found that just over one-fifth of graduates (22.5%) were undertaking further full-time study four months after “graduation”, down from 23.4% the year previously. The HESA data for the UK shows a figure of 22.9% in further study after six months (15.2% full-time and 8.7% work with study).

**Figure 3.1 Domestic FTE Postgraduates 1994-2002**

|                            | 1994   | 1996   | 1998   | 2000   | 2001   | 2002   |
|----------------------------|--------|--------|--------|--------|--------|--------|
| <b>Non fee paying</b>      | 50,186 | 52,494 | 45,998 | 39,397 | 38,514 | 39,152 |
| <b>Fee-paying</b>          | 10,122 | 14,234 | 21,113 | 25,600 | 29,378 | 34,691 |
| <b>Total Postgraduates</b> | 60,308 | 66,728 | 67,111 | 64,967 | 67,892 | 73,843 |

The most striking comparison in relation to postgraduate education is the ratio of domestic undergraduates to postgraduates, which shows that taught postgraduate study is less of a feature of the Australian HE system as measured by the ratio of undergraduates to postgraduates (4.4:1 in the UK against 5.6:1 in Australia). However this seems to be changing as the number of Australian Masters by Coursework students as a proportion of Bachelor completions was 1:6.7 in 1996 but by 2002 had fallen to 1:3.7

In making a judgment about this issue we must note that debt levels at graduation appear to be lower in Australia relative to the UK (we refer readers to the proportion of students in employment whilst studying as a possible factor) and that since 2001 income contingent loans were made available to all fee paying postgraduate students to cover up-front charges (PELS). In these circumstances accumulated debt should have been less of a disincentive to continue studying than might be the case in England.

We must not assume that for all students postgraduate study is their first preference. In Australia a far higher proportion of graduates progress into

employment after a few months than in the UK (as evidenced elsewhere in this report), which is in part a function of a growing labour market. Thus the case can be well made that a strong economy is the major barrier to PG study and not HECS debt. Nonetheless, there is evidence that Australian universities share the concern that debt may be one deterrent to would be postgraduates.

The final piece of evidence relating to this issue is that in the decade to 2003 the salaries of recent postgraduates by coursework (Masters) has increased 36% and the 2003 median stood at AU\$60,000 – well ahead of the figure for first degree graduates (\$38,000). Thus it would appear that in Australia a Masters affords graduates a significant salary premium.

### **c) A hostile media?**

Universities appear coy with regard to their fee setting and try to ensure that their announcements on fee changes attract minimal media attention (unless they are lower than the competition). This lack of openness (as perceived in some sections of the media) may be counter productive. If universities are to charge higher fees and position themselves more as businesses operating in a market they can anticipate a more hostile media, with the glass always being half empty and the language of the sub editors becoming more lurid. Headline examples have included:

#### ***Unis struggle as students opt out***

(The Australian 18 January 2006)

#### ***Fees push students out of uni courses***

(The Australian 7 January 2006)

#### ***Piecemeal policy on the run a picture of confusion***

(The Australian 18 January 2006)

#### ***Degrees cost more after fee hikes***

(The Age 2 February 2006)

Most universities in Australia now issue press releases announcing fees increases and are expected to explain or justify them.

### **d) Increased use of league tables?**

League tables appear to be used more overtly in the private school sector by parents selecting schooling for their children than in higher education. The report by James, Baldwin & McInnis (1999) makes no mention of league or ranking tables as a factor in how a student selects a university but they were perhaps inferred through references to reputation and prestige. League tables appear to be deployed by Australian universities

to establish reputation in the international arena, to attract overseas students, funding and high quality research applicants.

### **e) Incidence of gap years**

In Australia and New Zealand young people taking time out to travel is a longstanding part of the culture and thus cannot be assigned to fee levels or the costs of HE. There was some evidence from New Zealand, however, that the extent of gap years being taken for economic reasons, prior to HE entry was increasing amongst certain debt adverse groups such as Pacifica.

### **f) The role of parents**

Parents who are providing financial assistance and supporting their children during their degree were thought to influence study choices and there is increased presence of parents at information days and during the enrolment process. The school leaver market is greatly influenced by word of mouth with career advisors, teachers, peer groups and also parents and grand parents emerging as influencers.

One institution had conducted a survey of 400 1<sup>st</sup> year students to determine demand for their programmes. They found that they were 2<sup>nd</sup> choice for the majority of students surveyed but most indicated that they had “not been allowed” by parents, or had not able (location) to study at their first preference. Satisfaction levels with these students were high even though they did not get their first preference.

Parents are increasingly influencing the academic performance and educational choices of their children and all of the case study institutions recognised this trend. Young people are staying at home longer, particularly students; therefore their parents continue to be an influence along the student journey. Although no formal research had been conducted at the sample institutions their outlook on this trend was unanimous.

Historically all the case study institutions had encouraged parents to visit the campus and there was an open invitation to participate in Open Days and Orientation. However there is an increasing trend in all of the institutions to develop specific marketing programmes targeted at parents, such as information sessions during Open Days, recruitment expos and Orientation. Increased participation in these events was observed, and more probing questions from parents are typical.

One institution hosted a series of integrated parent liaison sessions for all first year students. They were very successful, and they are in the process of developing a second information session and feedback

opportunity for parents (in 2006) at the commencement of the second year of study. This program is also directly related to the university's retention policy.

One institution had a significantly high rate of first generation students and has developed a series of information sessions specifically for Pacifica and Maori parents to address issues such as the support required from the family during the student journey.

Student services areas in all sample institutions advised of an increase of contact with parents during the student journey. A common challenge relates to privacy of information in relation to a student and the sensitivity of not releasing this to a parent. Increasingly this issue is being incorporated into information sessions in an attempt to outline rights and responsibilities to all stakeholders.

One career advisor indicated that parents are monitoring trends in the job market and providing advice to their children.

#### **g) Retention and attrition**

Some fear that with higher fees, albeit on a referred payment basis, higher drop out rates in England will be a consequence. Others have suggested that retention will improve as students have more to lose from dropping out and with a higher cost, applicants might research their options more thoroughly. We found no evidence from Australia that supported either of these hypotheses, either from evaluation of research or data, or from the qualitative phases.

Evidence of the impact of the higher fees charged in 2005 is not yet available. However, as the tuition element of undergraduate education in Australia has risen over recent years, DEST (2005) was able to conclude that the 2002 attrition rate for all domestic students was 18.5% - the lowest rate since 1994.

Research published in 2005 by ACER (McMillan, 2005) found that Australian students who change courses or withdraw from study without gaining a qualification are more likely to be driven by personal interests and career objectives than academic difficulties or financial pressures. The research examined the pathways of almost 7000 young Australians who commenced higher education in 1999 or 2000 and found that the majority of commencing university students (74 per cent) persisted with their initial course, while 12 per cent had changed courses and 14 per cent had stopped their studies before completing a qualification.

The most common reasons cited by those who withdrew from study were also related to interests, career, or wanting to get a job.

## **h) Student satisfaction**

Will higher tuition fees and rising debt levels lead to students having higher and perhaps unrealistic expectations of service? If this were the case, we might have anticipated that in Australia, student satisfaction levels might be low and falling? In fact the opposite seems to be true. Some of those interviewed believe that this may reflect HEIs having sharpened up their student support and the use of interim surveys modelled on the national CEQ instrument to provide an early warning of areas of dissatisfaction.

Our research with case study institutions suggests that students have shifted to a more consumer-based system, and as a result this has placed increased pressure on institutions to deliver. However, this change in attitude cannot be linked solely to the increase in fees and is in part indicative of society in general.

Students are more demanding and forthright in voicing their disapproval about process or services they feel are sub-standard. They are aware of what other institutions are offering (more regional recruitment enables this as students' networks will contain friends that attend other universities) and they are constantly comparing throughout the student journey

All of the institutions unanimously agreed that fees, whilst not a major factor for deciding where to study, had definitely had an impact on student attitudes. One institution had students asking for a refund when academic staff held a strike and classes were cancelled. Students complained that they were not getting 'what they paid for'. A challenge for all institutions was to shift academic staff thinking to a customer services model.

There is more of an onus on institutions to be aware of the claims in their prospectus and recruitment materials with greater awareness on what is implied and ensuring they are able to deliver.

The Course Experience Questionnaire (CEQ) has been used to measure graduates' satisfaction with their study experiences since 1993 and was the template for the National Student Survey in the UK (*hefce.ac.uk*). Despite an observed increase in consumerist attitudes, broad satisfaction has remained at a high level - 89.8 per cent in 2005 (89.4 per 2004). Dissatisfaction has been low over the same period. As a comparator, the 2005 National Student Survey in the UK found that 81.3% mostly or definitely agreed with the statement that "overall I am satisfied with the quality of this course".

The broad satisfaction figure in the CEQ represents the percentage of respondents answering '3', '4' and '5' on a five point scale (with the 5<sup>th</sup> point indicating highest satisfaction). The dissatisfaction measure is made up of responses '1' and '2'. The satisfaction figure (represents the percentage of respondents answering '4' or '5' on the five-point scale) rose

from 67 per cent in 1999 to 68 per cent in 2000 and has reached 69.5 per cent in 2005

Interviews with officials at DEST in July 2005 revealed that there had been no observed increase in the level of complaints from students that had escalated to a point where the ombudsmen have been involved or legal proceedings initiated.

From an institutional perspective none of the sample institutions were concerned or had experienced increased litigation. Whilst the introduction of fees may have initially increased the number of complaints this is not currently seen as a major problem and was in some ways viewed as a positive outcome, creating a pressure leading to better practice. In the sample institutions both the institutions and student advocate bodies have processes in place to measure satisfaction including surveys and increased student advocate roles on campus.

Most of the complaints received at institutional level related to teaching and learning, such as language barriers of (international) staff, workload management and access to staff, rather than facilities and infrastructure.

One institution has implemented a Student Charter that emphasises that the relationship between the institutions and the student is a 'two way street' and there is an obligation on behalf of both parties to perform.

### **i) Student representation**

Whilst quantitative data was limited in the areas of advocacy and representation, there was some qualitative evidence supporting the view that students were becoming increasingly aware of their rights. Some student organisations were bringing these rights to the attention of the students and there is evidence that students have influenced academic programming (such as ensuring lectures are compressed) to suit their lifestyle of getting on and off campus quickly.

However, it is questionable how effective their representative input was in influencing a rise in fees in Australia. Only one Australian student organisation claimed they had influenced rises in fees in 2005, but arguably in these instances they were pushing against an open door (Curtin Student Guild). It seems that time poverty has had a damaging effect on the political activism and representation in New Zealand and that this is a threat that UK Students' Unions may well face

### **j) Impact of changing student demographics**

Where there has been evidence of a greater impact on students' associations is where particular marketing strategies have led to a different

student demographic (such as students from lower socio economic backgrounds) coming to University with little or no family background of higher education. In some instances this has led to the student organisation having to adapt its traditional 'offer' so that it develops student services to meet the needs of such new demographics. This is similar to what we have seen in the UK students' unions over the past five years.

As is the case in the UK, the rise in international students has impacted on the student community, with separate international students' associations being established in Australia and some evidence of problems of integration between different cultural groups in New Zealand. Again, student organisations have had to adapt their services, activities and governance structures to meet the demands of new student groups such as international students.

At the time of writing, the policy of two-year or fast track degrees was being promoted in England by DfES as a response to the fear of student debt and a desire by some to enter the labour market as quickly as possible. All the case study institutions in Australasia provided summer school options and the opportunity to 'fast track' and demand for these programmes was very high, catering as they do for non-traditional students as well as school leavers. However, as we discuss below, the impact of summer study is that students cannot engage in the usual vacation paid employment thus resulting in a greater need for term time work.

## **End Note**

The context of HE fees in Australia and New Zealand provides an interesting comparator for the institution of variable fees in England. The evidence suggests that some of the direst warnings relating to variable fees have no basis in fact, and that there has been a relative problem free transition from 'free' to 'fees'. Participation rates remain high. There is little evidence of a flight to vocational degree programmes. The most extreme possible market scenarios have not emerged - and the financial burden borne by students is not perceived as extreme in the context of the enhanced lifetime salary benefits of a university degree. We shall consider in the next chapter the response to variable fees of HEIs in England and their expectations of the changing arena of undergraduate recruitment and university degree programmes as the new fee regime is put in place.



## 4 The Institutional Perspective on Variable Fees

### Introduction

A key element in the changing scene is the response of HEIs to the new fee regime. Their responses to the new market reflect their expectations of how it will operate, but will also in themselves shape what that market is like. The research project therefore involved a case study of four higher education institutions in England to gain an understanding of:

- How they have planned for and managed the response to the new fees/student support regime
- Their views about the probable impact the changes will have on both patterns of demand and student (and parent) expectations of service.

The four HEIs selected as case study institutions were:

- A research-led member of the 94 Group
- A post-92 university
- A specialist college serving the creative sector
- A church based university college

To provide both a geographical and a contextual contrast between the HEIs they were selected so that four different English regions were represented and the nature of the location included:

- An HEI based in a large metropolitan area
- An HEI with a suburban campus
- An HEI with a 1960s campus close to a smaller provincial city
- An institution serving a rural area

Semi-structured in-depth interviews were held with the following staff at each HEI, although in some cases these roles overlapped:

- A Pro Vice Chancellor or similar engaged in strategy and/or teaching and learning
- The HEI Marketing Director
- The Head of Student Services
- The Head of Undergraduate Admissions

The evidence from the case studies has been evaluated and presented in relation to issues and themes here rather than as institutional case studies. This approach allows the different perspectives and experiences of the varying HEIs to be reported more effectively.

## **Anticipating and Planning for Change**

Faced with the changing policy regarding tuition fees and student financial support, each HE provider has had to determine its own position. In setting fees, developing the student support package and assessing the benefits and risks relating to the new environment, we can identify a number of factors which came into play according to the sample of HEIs that we engaged.

HEIs are aiming to insulate themselves from a more volatile undergraduate degree market by growing international and postgraduate numbers. However, without an extension of the financial support there is a concern that PGT full-time numbers will be under pressure as graduates with significant debts seek either employment or a period of escapism.

For most HEIs the great majority of their income is generated as a consequence of recruiting and retaining full-time undergraduates, both in terms of HEFCE funding and derived income (which in future will include an increasing element from tuition fees).

Three of the four HEIs reported a sound financial position, with two having built up reserves. This was seen as being important in managing risk should there be a difficult recruitment round, and meant they were also more able to invest in services and facilities to enhance the student experience and support achievement and retention.

There was some evidence of financial prudence and caution in anticipation of uncertain times ahead. All the HEIs were planning to grow student numbers in the medium term but not full-time undergraduates. In part this was a response to uncertainty in this market and the growing awareness of the demographic changes that lie ahead (i.e. falling Year 13 cohort size from 2010) - to be over reliant on this youth driven market was not thought sensible.

However it would be wrong to assign the planned shift in the balance of the student body simply to forecast volatility in the market. There was a consensus that growth would also be inhibited due to a combination of capped numbers through HEFCE (at degree level) and weak demand for Foundation Degrees. The view was also expressed that HE was now off the political agenda with the focus on improving performance in FE and schools. A period of consolidation in full time degree numbers is therefore anticipated and thus any decline in demand in this context will be less harshly felt than would have otherwise been the case.

The 94 Group member was planning for growth in PGT and international students as this was felt to fit its mission. However, even this strategy was not thought to be immune from the impact of undergraduate tuition fee rises as they expressed concern that PGT in full-time mode would come under pressure as graduate debt increased. The 92 university has a similar strategy with regard to the balance of the student body.

Both the specialist and general HE colleges sought growth by transformational change – a mix of seeking university status, partnership and opening new delivery locations. Neither saw organic growth at the undergraduate level as being likely.

Our case study HEIs were all seeking to increase international student numbers but there was a distinct air of caution here too. One of the universities was planning to introduce limits on recruitment in any single subject area to ensure international students get an “English experience”. It was also to address complaints from UK students concerned about the impact of too many overseas students on their learning experience, and potentially, their grades. This highlights a possible area of tension that could become more evident if international numbers (and proportions in certain subject areas) rise simultaneously with home students paying higher fees.

Ironically the new undergraduate tuition fees policy may have more impact on future plans for PGT than at degree level. The viability of PGT full time is a concern with the consensus being that more flexible delivery through blended learning or a modular CPD model is likely to emerge as the preference of the home market. Clearly some HEIs are better placed to respond, as they are more flexible in the design, development and delivery of provision.

### **a) The Setting of Fees**

All the HEIs in our sample had set their fees at £3,000 for degree programmes. The more complex decisions that created debate related to bursaries and scholarships and the level at which fees should be set for sandwich placements and Foundation Degrees.

In most cases students, student representatives and staff working in student experience roles were engaged in the fee setting and bursary development process. Student protests were muted.

Two of the four HEIs used research before setting fees – the general college and the 92 university. We conclude that the use of research reflected the more managerial culture and the fact that both occupy more competitive parts of the market. The specialist and 94 institutions relied primarily on supply-side intelligence from peer groups – that is, that most were planning to charge the £3,000 fee. Even the two that did research the market were heavily influenced by peer intelligence and thus £3,000 became the starting point of any analysis.

The evaluation identified the following factors as ones considered in setting the degree course fee at £3,000 pa:

- Maximizing marginal income
- Ensuring student perceptions of quality provision at the HEI
- Moral pressure
- Price elasticity/impact on demand
- Current financial health of the institution
- The need to invest in the student experience

A significant proportion of the residual marginal income is likely to be spent on facilities/campus developments and services that are designed to enhance the student experience, although some will clearly be used for what might be described as normal “costs of business”.

The 94 Group member’s decision to charge the full £3,000 was described as being “almost immediate and certainly unanimous”. The university created a fees and bursary working party that included a PVC, and staff from marketing, recruitment and student services (a student financial adviser). This allowed for a rounded set of perspectives to be brought to bear on the issues. The view was that intelligence suggested that all peer universities would charge a headline £3,000 and so probably would most of the other HEIs in the market. The judgement was that the higher end of the market would not be sensitive to fees at this level, particularly as payment would be deferred and income contingent.

The specialist college majors in full time undergraduate provision. It took the decision to charge the full £3,000 based on judgement (a group of senior managers took the lead, including those from planning, finance and quality). The decision was unanimous at SMT and Board level but the process was not “scientific”. This may appear surprising given the widely held view that the arts would be one area where demand might be price sensitive and that the college’s location is high cost for students. However this institution’s portfolio is highly vocational and its record of graduate employment is strong

The university college took a more evidence-based approach, but again the starting point was the assumption that most HEIs would charge the full £3,000. There was a healthy debate internally, informed by research of a quantitative and qualitative nature commissioned from an external consultancy. The research was shared with various committees and was a firm basis for gaining support for the final decision.

The concern over higher fees centred on the location in which the college is situated – described as a “low cost, low wage economy with low HE participation”. There is a modest private sector graduate labour market so there was concern that the financial returns from the investment in a degree might not be that evident to potential students, many of whom were local to the region. However, this institution, like many colleges, majors in health and teaching and thus most of the students would not be liable to the “HEFCE sector fees”. This case study illustrates the importance of not generalising when discussing the returns of students investing in HE, as both the rate of return and the level of investment can vary across disciplines and location.

The speediest decision on charging £3,000 was made in the ‘92 university, in part due to confidence in being able to recruit effectively at that fee level, but also due to the need for additional income given plans for investment in its city campus facilities.

## **b) Factors Considered in Setting Fees**

In some cases we found that the decision to charge the full £3,000 was driven primarily by a concern to maximise revenue. However, in most cases it was related to the dual issues of income generation and perceptions of quality.

A lower fee was thought to project both lower quality and lack of confidence in the brand. It was also thought that setting a lower fee would be a short-term tactical response to the market and one that competitors could easily match if they needed to. Discounting was thus considered to be a risky strategy that would yield at best, modest short-term advantage.

The additional income that is projected to flow from the higher fees will be invested in facilities and services. It was widely recognised that a “higher price, high quality” proposition will require investment and most of the case study HEIs feared that if they had levied a lower fee, this would have reduced their income to invest in facilities and services relative to other providers. Thus the conclusion was that lower fee HEIs would eventually suffer on a comparative basis.

However, it was generally agreed that entry requirements (or academic pricing) is the main driver of the perceived value and quality of an HEI and that the fee level is secondary – at least at levels up to £3,000. There was clear evidence that some HEIs are increasing their entry grades based on firm analysis of the market, both to manage perceptions of quality in line with the analysis above, but also to reposition themselves into parts of the market where a fee of £3,000 will be more likely to be viewed as good value. In the medium term this is a mutually reinforcing approach.

The imposition of a ceiling on fees has resulted in a largely homogenised market in terms of headline fees at £3,000 and not the differentiated market envisaged by policy makers. Given the political lobbying by the sector for higher funding some claimed that there had been a “moral” pressure (or more accurately, a form of peer pressure or political necessity) to increase fees to the £3,000 maximum.

None of our sample institutions reported major protests or demonstrations from students or the student unions. Some described “ritualistic speeches” in Senate, and other forums where students are formally represented, that restated principled opposition to fees. However the perception was that by the time individual HEIs had begun to consider their fees/financial aid packages the fundamental decision, to increase tuition fees, had been taken.

All the HEIs in the sample were sensitive to the need to engage student representatives in the process and the students themselves were thought to have been pragmatic in their responses. In most cases they were consulted about fees, but the shape of the financial support packages and the issue of how the additional income raised by fees would be invested were of greater interest.

It was claimed that students, and their representatives, appreciated that setting fee levels lower than the sector norm might have had a detrimental impact on students and graduates. They recognised that the value of their degree could be perceived to be of lower quality if fees were pitched at a lower level, and that without the marginal income generated, investment in services and facilities would be more difficult. Resistance has been limited from students therefore. As one interviewee indicated '*the union has been more vocal about the smoking policy than about fees!*'.

### **c) Income and Expenditure Issues**

The pain of the new fee regime will generate a predictable financial gain to the HEIs, assuming they can maintain student numbers through recruitment and retention. The marginal yield will build over time as each "top up fee cohort" progresses through. The 94 Group member estimated an additional £10m pa in 4 years, representing a 6-7% increase in overall income. In the other institutions the overall figure will be less but, as they rely primarily on teaching related income, the proportionate impact on the top line will be greater. However, for those that have a large proportion of non-HEFCE funded students the impact will be less.

On what will the new income be spent? A substantial proportion (20-40%) is, of course, set aside for student support through bursaries or scholarships as required under the terms of the OFA agreement. The issue of how to spend the balance created what one HEI described as "animated discussion".

The staff unions are stressing pay increases but the focus from the HEI perspective will be on the student experience in a broader sense. To this end there has been a coalition of objectives between managers and student representatives – as both see investment in student services and support as a positive and necessary area for development, particularly in the context of more diverse participation. In most of our cases the student union had been consulted about how the additional funds should be invested and in some cases firm commitments had been made, which reassured both students and their representatives.

However, the additional income will not be ring fenced, and so it will be impossible to audit where the marginal income from fees is spent. It is likely that the additional income will be used to bring forward investments that would otherwise be deferred, but in most cases specific developments have been identified:

- Improving social spaces and catering facilities.
- Wireless enabled systems to facilitate more study flexibility.
- Improving support in learning resources and libraries (identified as an important focus).
- More staff in front line support services that are visible to students and will support learning and achievement.
- Campus development and enhancement.

#### **d) Unintended Consequences of the Cap on Fees**

The evidence from the case studies suggests that had no ceiling been imposed, a true market would have been created for degree level education based on price differentials, not just between HEIs but probably between subjects, along the lines of the Australian system (although here the fee differentials were built into the policy thus encouraging variable pricing between subjects based on delivery costs and the rate of graduate salaries).

The logic of this revelation is that consumers may have been financially disadvantaged by the imposition of a ceiling, which is the exact opposite of the intention, as this created a natural level to which most were HEIs attracted as a “defendable figure”. The ceiling at £3,000 gave comfort that most would set at that level, thus having the impact of maintaining the status quo of flat fees but at a higher level.

In all probability, without the ceiling being in place, a proportion of HEIs would not have had the confidence, in the absence of rigorous market intelligence, to have set fees as high as £3,000 (we refer readers to the picture for Foundation Degrees below). However, if the cap was lifted at some future point it is unlikely that any HEIs would voluntarily reduce fee levels, unless they were under recruitment pressure, as the market will have become accustomed to a £3,000 norm.

The conclusion that many HEIs might well have levied lower fees in an unregulated market relates in part to the impact of HEFCE subsidies on financial yield per student. HEIs can only maximise their marginal income if the fees they charge can be sustained without damaging recruitment. Each unfilled place would represent a substantial loss (and for several years) due to the proportion of FTE income coming from HEFCE subsidy relative to the fee component. This is particularly the case in “hard to recruit subjects” such as engineering. In these subjects the concern of most institutions is winning their share of the market and recruiting to contract.

The general consensus within the sample was that discounting the headline fee by a modest amount (£500-£250) would have a marginal impact on demand (i.e. winning market share) as those least able to pay would be exempt. Thus, without the £3,000 “price guide” we may have seen fee levels at less than £2,500 being commonplace, as anything less would, in the judgement of the sector, have simply reduced institutional income and, probably, have damaged reputation.

In this context the views on the strategy deployed by one university outside our sample, Leeds Metropolitan University, are interesting. It was thought that discounting the headline fee would undermine perceptions of Leeds Met’s quality, particularly if associated with liberal entry requirements. However, because of the substantial discount to £2,000 and the clarity of the message, many anticipated that it would lead to the University winning higher regional share for 2006. The discounted fee might prove attractive to the “poor middle classes”, as the discount would be of most benefit to this group, reducing their

liability by £3,000 for a typical degree. Given the view that the market was generally “uninformed” and “sleepwalking into the changed financial environment” some doubt was expressed as to whether applicants would be aware of the Leeds Met offer. As this report was written, the interim UCAS data on applications for 2006 showed that the market as a whole had fallen by 5% but Leeds Met had increased applications by 8%. Whilst the lower fee may have had a role to play, other factors are probably at play, not least the investment in promoting the Carnegie brand (a faculty that majors on sport).

### **e) Pricing for Sandwich Programmes and Foundation Degrees**

The issue of sandwich year fees was typically a considered one in those HEIs where this applied. It was thought that the market would be price sensitive, but that courses with placements would remain attractive rather than be perceived as “longer and more expensive”. Indeed the view was expressed that placement programmes might become more attractive if they were effectively marketed as a means of enhancing the CV and being an opportunity to earn additional income.

The key was thought to lie in both providing and communicating quality and value as determined by the level of support in finding the placement, the quality of the employer and the salary offered.

It was agreed that these benefits and the value of the placement year needed to be marketed more strongly. With higher fees employability and employment would, it was thought, become a major issue, if not THE main issue, for students but especially for parents. Therefore, high quality placements and support were a probable source of significant differential advantage.

Nonetheless, providers considered the market would be sensitive to the price for sandwich placements and would not readily part with a fee set at 50% of the full-time fee as in previous years. Within our sample we detected fees ranging from 20/25% of the full fee where the student is expected to take the lead in securing the placement, to 40% for placements that are arranged by the institution with leading employers and with quality assured support.

Setting fees for Foundation Degrees (FDs) has proved problematic. There is already evidence that fee differentials are emerging across the FD portfolios, for example in one HEI across a range from £1,500 to £3,000. In setting variable fees judgements were made regarding the perceived value of the qualification and market demand. HEIs had less intelligence to fall back on in the FD market - about both the strength of demand for the new qualification on the one hand and the likelihood that all providers would charge the ceiling rate on the other. Thus a less homogenised market has emerged.

### **f) The Strategic Development of Bursaries and Scholarships**

Because there were few guidelines and more options/variables to consider, HEIs appear to have spent considerable effort in developing their support offer and on consulting internally. Decisions on fees and financial support

were in reality part of the same decision and evaluative processes, described by one interviewee as “two sides of the same coin”.

One case study institution created a Fees and Bursary Working Party comprising a PVC, the Marketing Director, a student financial adviser, and an academic staff representative. They developed policy drafts for the senior executive to consider and approve. The high cost of living in the locality was the major factor that shaped the policy. The starting point was a wholly *needs-based* approach, but the final package included a merit (scholarship) element.

Opinion was divided as to whether merit based scholarships will have any impact as students/parents may see them for what they really are – a means of winning share in hard to recruit subjects or attracting higher quality students (however that might be defined). In this particular institution, merit scholarships of £1,000 were being piloted in three subjects based on A-level scores achieved.

Another case study institution decided to create an attractive needs- based scheme supplemented with a range of £1,000 scholarships in subject areas that were known to be appealing to pupils in local schools that constituted the main feeders. The area has low rates of participation so widening participation is critical, so 50% of the anticipated additional income from fees has been set aside for financial support with the balance going to student experience initiatives.

The specialist institution also has a mix of merit-based and needs-based support with £300 bursaries for those from specified locations (such as low participation postcodes), but also from locations where the institution is planning to locate delivery in the future, thus creating good PR and a recruitment pipeline. £500 is available for talented and gifted students based on reference and interview.

The fourth HEI has an outstanding record in widening participation. It used this record to argue successfully in its OFFA agreement that a support scheme available to all students, on a needs blind basis, would be simple to administer (efficient) and benefit a large number of widening participation students. This approach is the most strategic, market- oriented approach to the deployment of support funds that we found.

The support is positioned as *scholarships* and they are awarded in three bands of £250, £500, and £1000. The degree programme a student reads will be allocated to one of these bands according to market demand. Thus law students receive £250 and engineering students £1,000. In effect this is market-based pricing but using a “cash back” psychology. This approach to fees and support was thought to be more effective in protecting the perceived value of the brand than a straight fee discount. The universal £3,000 headline fee was also thought to send a message that the institution valued all subjects and all students equally. To reinforce this, although the residual income generated from each student will vary by subject, the resource allocation

model at the institution has not been adjusted, so higher charging departments will not receive a higher unit of resource.

There is a merit basis to this HEIs scheme. Those who obtain a 2i grade at the end of each year will receive the whole award for the following year, whereas those falling below will not. However, should a student's performance improve and reach the standard at the end of year 2, they will receive the full award and the amount withheld in year 1. This is designed to encourage and reward achievement and drive up final degree classifications, thus stimulating a benefit to both the student (degree class) and the institution (reputation).

### **Top Up Fees – The Probable Impact on Market Demand**

Moving on from the internal planning and strategy issues, we asked the managers and professionals within the four case study institutions to reveal what they thought the possible consequences of the 2006 changes would have on the market and the size and shape of demand over the next few years.

#### **a) Probable impact on demand for 2006 and 2007**

On balance the view was that applications would be down in the region of 5-10% for 2006 but that EU applications might mask the UK figures somewhat as these might rise. Most of the case study institutions had seen a rise in applications but had remained cautious in their planning on the basis that the probability of conversion was hard to predict.

Because of problems at UCAS and the changed circumstances, comparisons with 2005 using interim data was thought to be unreliable and few reliable conclusions could be drawn until very late in the cycle.

Many HEIs share intelligence with others within networks, and they reported an uneven institutional pattern up to January 2006 and that results were not easy to explain. Some speculated that differential rises and falls might be related to the course portfolios and that as in every cycle there are winners and losers.

Uncertainty amongst health applicants due to lack of clarity from the Department of Health in the earlier part of the cycle regarding financial support was thought to have had some impact.

In terms of enrolments, a small decline is predicted for 2006 and 2007. There was thought to be confusion and uncertainty in the market which on balance was harming demand. The DfES advertising campaign was thought to have been too late, to have been overly defensive and its imagery inappropriate.

Some discounting (of fees) in Clearing was thought probable as any decline in the overall demand would squeeze some subjects and some HEIs, and they may not be able to afford to miss targets. However, there was a clear opinion that any discounting could seriously damage the image of the sector and would have a knock on impact in the 2007 cycle with more applicants holding back for “last minute bargains”.

Respondents anticipated that all HEIs will review the outcomes of 2006 very carefully but that given the nature of the recruitment cycle, decisions on fees and support for 2007 will have had to have been finalised without the benefit of that review. Whilst the fee levels may not change for 2007 or even 2008, more subtle or discrete cost reducing or value enhancing offers may be introduced, perhaps aimed at enquirers or applicants as a conversion tactic. Examples could include low cost laptops, lower accommodation prices, improved financial support, etc, for those making early commitments.

It was agreed that the impact of the new fees and student support system would be differential, with certain groups of students being more sensitive, including:

- Students from low cost low wage rural areas, less sure that a degree would lead to a graduate level salary
- The “poor middle classes” caught in a poverty trap (this group are probably going to be the most picky about where they choose to study and what)
- Mature students, who face higher opportunity costs

## **b) Pressure on PGT Recruitment - 2009**

There is concern that fewer students will progress to full-time postgraduate study than would have been the case if there had been no change to the undergraduate fees and financial support position. Unlike Australia, where HECS support is available to students regardless of mode or level for taught provision, income contingent loans will not be available for PGT study in the UK.

The interviewees described two very different PGT segments - better off young graduates who are able to extend their studies (the discretionary market) and those who need qualifications for entry to specified careers (the requirement market). It was thought that the latter would be attracted to courses that enable them to qualify in a shorter time than the norm and those delivered on a flexible basis enabling them to work and study.

The one-year full-time Masters programme will be under pressure, particularly in non-vocational subjects and in universities or departments that have no particular prestige. If more *undergraduates* shift to courses with a vocational or applied focus, there will be a corresponding fall in the demand (need) for conversion PGT.

It was widely agreed that a substitution effect, whereby PGT students switch to distance learning, for example, was unlikely for academic style Masters courses, as the social aspects of study would remain critical. However, for professional education, an accelerated shift to CPD and flexible models was likely, which was thought to favour modern universities and private providers. There was concern that those undergraduates who had received less support either from the state or from parents may be less inclined to continue – the aforementioned “poor middle classes”. These graduates could have sizeable debts on graduation.

### **c) Gap Years**

On balance it was thought that in future a larger minority of younger applicants will take time out before progressing to HE (a gap period) but higher fees were considered to be a minor contributory factor in this probable trend.

The overly negative publicity and political debate was thought to have created the perception that higher education is expensive and leads to debt. In this context, and given the desire of many applicants to enjoy a “full student lifestyle” more young people may spend time working before they enter university. However, any trend in this direction was predicted to be shallow and largely a function of other factors, not higher fees. The volume of assessment in secondary education and the loss of the traditional lower sixth year, might be a push factor in leading more 18 year-olds into a gap period. The rise of organised gap year activities, and the wider promotion by universities of the value of gap years (one of the case study HEIs makes this point strongly, saying such applicants are viewed favourably), are making this an easier choice. A counter argument – that students will be less likely to take a gap year because they will see this as extending the elapsed time until they are in a graduate job – was made.

In this context, those universities and colleges able to admit students in February might be able to play this card to their advantage – enabling applicants to take some time off but not a whole year. Some providers have made a greater effort to promote this in recent cycles, not least as a means of “beating the rises” by entering in February 2006 and not October.

### **d) Students and Paid Employment**

There has already been a significant rise in the number of students working in term time and the hours worked. This may have been fuelled in part by the introduction of up-front fees in the late 1990s but other variables were thought to be at play:

- More students are recruited locally and therefore able to maintain pre-established part-time employment.
- More students are recruited from less advantaged backgrounds where a tradition of part-time work was thought to be more evident.

- A rise in the culture of young people working to fund their independent lifestyles. Most who work whilst studying for a degree have worked before.
- HEIs have improved their “job shop” services and thus facilitated an “earn and learn” culture, and some market these as a point of advantage.

There was concern expressed that paid employment can damage academic performance and students cannot expect to have it all – earning, study and a student social lifestyle. Working more than 15 hours a week was thought to have a marked impact on academic performance.

It was agreed that although the market might wish higher education to be more flexible and support “opt in, opt out” study patterns (one semester on, one semester off) it is not in the sector’s interests to do so. It would add another dimension to the uncertainty of forecasting FTEs in any period (such an approach is more evident in Australia and UNSW reported to us that this created serious planning challenges).

There are other financial barriers to a more flexible pattern of earn and learn. Unless the financial support system changes, it was seen as unlikely that full-time students would change the intensity of their learning. The system would discriminate against such students as they would lose access to income contingent loans, grants and bursaries. HEIs would also fear losing students who contribute to their WP benchmarks, and these are restricted to those in FT mode.

Referring back to findings reported earlier, sandwich placements could become more popular as a means of addressing the need to earn within the framework that most universities and colleges can cope with, and in ways that contribute to both learning and employability.

### **e) A Shift to Career Related Study?**

It was agreed by all of the HEIs that employability will become the most important issue in the undergraduate recruitment market. Graduate level jobs, the proportion gaining career entry related to their subject of study, and achieved graduate salary levels will all become key performance indicators as applicants and parents increasingly seek data on these measures to inform and validate their choices.

There was a level of consensus, but not unanimity, that future students will be less likely to study courses/subjects with no obvious link to a career path or good career prospects. Some interviewees expressed the view that as parents might be less comfortable in financially supporting their children on arts and humanities programmes, this may shift demand towards law or business or other applied options. Arts and humanities might become the preserve of the better off.

The counter-argument was that the typical 18 year-old is not that sophisticated, and that by the time they come to consider university they have

a trajectory in mind or have made choices that constrain their study options in higher education. In Years 12 and 13 most students have still specialised to the extent that they cannot switch between humanities and engineering or arts and science at the point of completing their UCAS forms. Relatively few applicants are assigned to “no preferred subject group”.

Parental influence was considered by our interviewees to be less strong in terms of subject choice, but this may change. Currently parents are thought to be more concerned with the student obtaining a “good” degree from a “good” university and thus tend to support the individual’s subject choice, believing motivation and interest to be a key to degree performance.

It was pointed out that despite up-front fees since 1997 and a consistently hostile press, subjects such as media studies have grown and classic academic subjects such as English have remained a firm choice. One HEI in the sample had recorded a major increase in religious studies for 2006 despite the £3,000 fee, and attributes this to the exposure of young people to faith issues and debates on multiculturalism and religious tolerance.

Any analysis of a drift to vocationalism will rely upon a sound definition of a vocational subject and here we strike a note of caution. One interviewee remarked: *‘We need to market the fact that more FTSE 100 CEOs read history than business studies!’*. In a study for DFEE Roberts (1999) found an MA in Poetry to be a highly vocational programme with all the registered students motivated by specific career related factors.

Our interviews revealed that teaching, nursing and health-related courses were thought likely to become more popular options for those who are debt averse and not that confident about the graduate labour market. A concern was expressed that these are vocations, yet there was already evidence that due to the financial incentives, some students were choosing nursing as a low cost route to a degree, without a real intent to enter nursing as a career. This situation needs monitoring, with a switch to “golden hellos” perhaps a better strategy than real time financial study support.

#### **f) More International Competition in the Domestic Market?**

It was predicted that more UK students would consider studying abroad for their degree. However, this was seen as an issue for a small proportion of students and HEIs, and that “the trickle will become a larger trickle”. International universities may become more aggressive in their use of scholarships to poach the best UK students concerned about debt.

At current fee levels the UK was not thought to be an attractive mass market for overseas universities but if the cap was lifted it might develop into one. To counter this, UK universities offering a study year abroad in Australia or New Zealand might be attractive and appeal to those who are attracted by the gap year but are also concerned about the opportunity costs. International employment placements were also thought to be a probable counter-

attraction. However all of these enhancements would involve UK HEIs incurring costs or losing revenue.

### **g) The Rise of Parent Power**

Parents are predicted to play a greater role in higher education decision making and contribute more in subsidies to their offspring in the future. As such they will emerge as a major stakeholder group, both for the sector and politically. It was observed that parents are getting more engaged in many aspects of their child's life and "good parenting" is something of an observed social trend. With fewer children in the average household and older parents the norm, they can focus their support more easily.

Parental intervention within the HE market has been more overt in recent years and the HEI we engaged thought this might have been accelerated to some extent by fees being introduced in 1997. In the context of this project, the HEIs were convinced that it is parents, and not the applicants themselves, who are concerned about fees and student debt. The "poor middle classes" may be the most concerned about costs and debt and more sceptical about the financial returns from investment from higher education. This may make them more likely to influence applicants in terms of where and what they study.

Where parents can pay fees they will probably do so to protect their children from debt. Young people were not thought to be debt conscious at the point of entry to HE but the older generation is and is more fearful of the long-term consequences.

First generation parents were thought to be less engaged or influential. Indeed it was suggested that it is the HEIs themselves, with schools and colleges, who are "pulling WP students into higher education", often despite ambivalent parents. In contrast, students from less advantaged backgrounds were thought to be more influenced by parents in terms of career paths (and, by association, degree subject), with the preference being safe, secure, public sector careers in health, teaching and local government.

Parents are now seen as a stakeholder group by some universities and colleges and are catered for within marketing activities. At open days there are parent tracks, or talks. The incidence of parents attending events is high and has risen. One case study HEI is developing a parent website and some have dedicated parent pages. Parents are very vocal at events and are often asking all the questions they think their kids should be asking, further evidence some argue that it is they who are more conscious of the costs of HE. The main concerns are cost of living, security, accommodation and graduate employment. Based on Q+A sessions at events in the 2006 cycle, our case study HEIs conclude that the "learn now, pay later" message had not got through and there was a great deal of confusion even amongst otherwise informed parents.

Post-enrolment, parents are much more active than was the case previously, but are typically unaware that the legal relationship for the HEI is with the student and as such they have no rights themselves. It was agreed that HEIs cannot hide behind data protection or contractual limitations- or, more accurately, cannot be seen to be hiding, as this will be interpreted as being obstructive and evasive. More briefings to parents in the application phase were thought to be necessary, so as to moderate expectations, and students need to be better informed too.

A specific issue relating to fathers who pay to support their children was raised. Where the student has lived with their mother or stepfamily the father can feel even more disenfranchised during the period when HE choices are being made. It is claimed that 25% of applicants are from single parent families and in most cases the resident parent is the mother. This may in some way explain why mothers are thought to be the more influential and visible parent.

#### **h) From National to Regional Recruitment?**

It was agreed that more students are studying regionally, and that this pattern is likely to accelerate. As a result, fewer HEIs will be recruiting in a national market across all parts of their portfolio. However, higher fees and cost were not thought to be the key drivers underpinning this trend/forecast, but it was rather due to:

- The changing demographic profile of students - with more keen to remain local due to social networks, employment continuity and engagement with higher education through aspiration raising programmes. More students from black and minority ethnic backgrounds are entering HE and they are thought to be less mobile in part due to a stronger family orientation.
- Greater local provision means that fewer students now *have to* relocate save for those seeking specialist provision.
- A growing culture of staying closer to home as a positive choice. Mobile students were thought increasingly to be choosing to study in a nearby city rather than distant ones.

One of the consequences of these changes (which the HEIs thought would continue or accelerate) is that the traditional student campus community is being eroded. More students commute to study. Many more students have retained pre-existing social networks and are more likely to see university as a centre for learning and less as the centre of their life. More students are working and thus spend less time on campus. Also, the changing pattern of teaching and learning – less didactic and more based on the model of the independent learner – has also contributed to the demise of the campus-centric model of student life.

### **i) Fewer students will choose longer courses?**

While intuitively HEI managers felt that as the cost of HE rises fewer students will opt for longer courses, in the 2006 cycle the case study institutions had thus far not found this to be the case. However, there was concern that professions which insisted on longer courses might suffer from a lack of diversity in their future membership.

Longer courses of four or five years are likely to lead to higher rates of accumulated graduate debt. Students incur greater opportunity cost from the missed years in the labour market. However, many applicants are not thought to act intuitively and choose courses (and careers) without thorough research. It was also argued that longer programmes often lead to careers with high status, earning potential or kudos and thus rewards/costs remain in balance. It was noted that careers that do not have a high status such as Town Planning but which have traditionally required four years of study to enter have been suffering depressed demand and post-2006 this may be accelerated.

The traditional undergraduate route to qualified teacher status has been under pressure from the more flexible 'degree + PGCE' route. In one of our case studies the HEI was providing an additional £1,800 Year 1 bursary to all 4-year students to balance off the rise from £1,200 in 2005 and £3,000 2006.

Some universities with semesterised provision may decide to offer a "third semester" to reduce the elapsed study time, but the staffing issues and opportunity costs (e.g. the impact on RAE research) may be significant barriers. One of the four case study institutions already provides a fast track route to a degree and also thought that 2-year foundation degrees might become more popular in some fields if the jobs were available at the end.

It was agreed that longer courses must make more effort to sell the financial, status or employment benefits of the additional period of study.

### **j) Will Graduates be less Giving?**

Most of those interviewed believed that as debt increases so graduates will be less likely to donate to alumni appeals. The counter view was that the most important variable in graduate fundraising was actually "making the ask" and in creating appeals that linked directly to WP and aspects of the student experience. One of the case study institutions was taking this approach, raising funds to support student volunteering and Nightline advice services.

Those who felt graduates will be less supportive thought that in the short term graduates from 2009 will have paid higher fees but may not have benefited from many of the longer term investments that the increased income would be spent on – particularly facilities. Others pointed to a probable link between a student's experience or career acceleration post graduation, and their willingness to donate

There was scepticism that fundraising from individuals, and particularly alumni, was viable for many HEIs and that on a full cost basis, many activities made a net loss. Nonetheless, both case study universities were engaged in fundraising from alumni; one reported some success (with modest targets) and the other was just embarking on a pilot campaign. The colleges in the sample stressed that alumni relations was an area for development but linked to wider objectives and not fundraising.

### **k) The changing role of marketing**

Marketing in HEIs has been evolving from a peripheral to a core management activity, changing from its traditional focus on promotion to one that is more akin to strategic planning. The model in 'recruiting' HEIs is for larger and more integrated teams covering WP and outreach, promotion and admissions. This is less evident in 'selecting' universities but here there is a growing recognition that service standards and performance between enquiry and enrolment (conversion) is of increasing importance. Whilst in three cases conversion and outreach were of increasing priority, one stressed the need to improve brand awareness given the impact that the recent wave of new university titles (amongst its competitors) had created.

This will mean that universities have to tighten up their processes and take account of the market impact before making more decisions. In effect strategic planning will become a market-based activity as marketing and markets become a core strategic planning issue. There was also a strong consensus that portfolio management and market intelligence will become recognised as important contributors to institutional success. However the point was made that in research-led universities, the portfolio is driven primarily by academic interests and capacity. As such it is more product-led and less market-driven and this was not thought likely to change significantly or rapidly. However, research-led universities that do not have the reputation to sustain such an approach will come under pressure, particularly if they misread the strength of their reputation.

## **Speculating on the Future**

### **a) The future pattern of variable fees**

The majority of the senior staff interviewed believed the £3,000 cap will be lifted in the next Parliament, due to a combination of political and public sector financial factors. The probable modest impact of higher fees from 2006 would, it was predicted, take some of the politics out of the issue.

Unless the cap is lifted it was felt that some HEIs might be severely handicapped financially and strategically. The lack of a price differentiated market, with fees within a narrow band, is not thought to reflect the diversity of reputations or perceived quality within the sector. Without wider fee differentiation to moderate demand, the impending decline in the number of 18 year-olds post 2010 is likely to hit some HEIs sharply and quickly. Which

institutions are considered most vulnerable? The answer seems to be those that have traditionally found it hard to recruit, those in London (high cost) or in isolated locations and those more reliant on “HEFCE subjects”, rather than health or education.

The impact of the fee cap being lifted at a point when the core market of school-leavers starts to fall (for 15 years) will create a major challenge for HE managers. Most freely admitted to being concerned as to how they will be able to manage what amounts to a serious risk – the risk of setting the ‘next generation’ of fees at the wrong level. Unless a robust method of research is developed, this uncertainty is likely to depress fee rate increases as the fear of error is greater than the prize of higher marginal income – if not to the HEIs, then to those individuals charged with the decisions.

Although no Russell Group university was included in the research, the view expressed by the sample was that the market is perhaps more sensitive to price (cost) than the higher education sector has publicly expressed.

How far might fees rise in the absence of a cap? No one knows and few could see how this might be modelled with any certainty in advance. The consequences of getting it wrong and having unfilled places is rather easier to forecast. The policy of HEFCE might be critical – originally it was hawkish in statements about fees – that HEIs were free to gain or lose and it was their responsibility. Recent statements suggest that HEIs in trouble post 2006 may be treated sympathetically (not least because those in danger may be at the forefront of access).

A second factor will be the extent to which loans and grants keep pace with any fee rises. If they do not (and most think they cannot, as the Treasury would be committing to expenditure levels outside its control), then this will in effect set a new, if less transparent, ceiling. The alternative would be additional loan support funded privately or through fundraising.

A figure mentioned often in the interviews was £5,000 per year as the natural market ceiling. It is thought that only a handful of HEIs would be able to sustain a fee at that level or higher, save in certain subject areas.

Many thought that it was not marginal rises in fees that would be the most critical factor but the graduate labour market. If this remains strong, fees can be justified, but if the economy hits a problem most fear that even at £3,000 some institutions would struggle. There was awareness though that most of the new jobs that will be created will require Level 4 education.

For many HEIs there is the additional issue to consider – that of low HE fees in Scotland and Wales. Three of our case study HEI are based in regions adjacent to borders. They reported no marked impact on cross border applications. The Scottish impact was thought likely to be minimal. Scottish based students applying to England tend to apply disproportionately to selecting universities or specialist courses, and few have traditionally “border hopped”. In terms of northern English based students applying to Scottish

HEIs, the feeling was that Scottish HEIs were thought to be increasingly discriminating in favour of local candidates and that this had permeated into schools, thus depressing cross border demand. It was also thought that Scotland was considering adopting the English system soon in any case, so the differentiation might not last. Other factors cited were the general ignorance about the differential fees in the market and that the four year degree system in Scotland was perceived to be a barrier – even though English applicants might obtain advanced standing.

## **b) Student Expectations of Service**

It was widely agreed that student support was becoming recognised as a core part of the university or college “offer”. It was critical to a “student experience proposition” in the market and to pre enrolment advice and conversion. It was central to responding to growing demand from enrolled students requiring guidance and advice on employment, stress and financial management.

In most instances there has been an increased investment in staffing in these areas, in research on retention and experience issues, and in policy development and representation in senior management. One noticeable shift is towards an interventionist model designed to support students to succeed and away from what was described as “the A+E” approach.

From a business case HEIs appreciate that if more students achieve good degrees more will feel they have obtained value for money. Good retention and achievement also supports the building of reputation.

## **c) Consumerism**

Consumerist attitudes are considered to be widespread (if not prevalent) amongst students. However, rising fees and costs are considered to be only a minor contributory factor in this development. Respondents anticipate consumerism to escalate post 2006 somewhat but not dramatically or quickly.

It is thought that as a society we are becoming more used to questioning and complaining and are more aware of our rights, and students simply reflect this. Students are not consumerist as such but are more assertive and in some ways are more sophisticated than previous generations. Students use technology to maintain their networks of friends, often studying in other HEIs, and so have an increasing basis for comparing service levels and evaluating what is “typical” and thus acceptable. Word of mouth amongst and across student and parent communities was recognised to be growing. Informal channels are increasingly thought to be important in framing reputation and expectations.

## **d) Complaints**

Since the introduction of up-front fees an increase in the volume and strength of complaints has been observed, and some interviewees claimed that internal surveys to measure student satisfaction had also highlighted

persistent issues. Students were now more aware of their rights and less willing to accept poor service. This was considered a good thing by many as it put pressure on HEIs to “shape up” and place more emphasis on the student experience. It was argued that only with pressure from students, with the consequential loss of income or to reputation, would management and academic attitudes change.

More complaints had escalated into formal action, with parents playing a role (particularly those from legal and professional backgrounds, including education). However the volume remains very low. Complaints were primarily about academic delivery rather than support services or facilities, and in particular about:

- Assignments and supervision/personal tutoring
- Assessment feedback – timeliness and effectiveness of comments (particularly where assignments were integrated and thus feedback from one could aid performance in later coursework)
- Internal referral – staff not knowing to where a student with a specific issue should be referred (e.g. those with a disability).

School or department office staff, and those who provided learning support (librarians, IT, etc) were thought to be increasingly critical to the overall student experience, especially in universities where academics focussed on research. They were thought to be the personal “touch-points” for students. There was concern that such staff did not receive the training, support they needed or the recognition they deserved.

Mature students might be under the most financial pressure post 2006 but they are not thought to be the ones most likely to complain. Mature students were thought better able to manage situations and be willing to resolve them at source. However, they can be more liable to escalate a complaint if they feel a sense of injustice, particularly in relation to group assignments where they feel they made a stronger contribution than younger or overseas students did.

#### **e) Financial Issues in Pre Enrolment**

The consensus was that applicants seem less well informed than in the past, perhaps due to the demographic makeup of the applicant population or the nature of study in years 12 and 13.

It was reported that there has been more focus on financial issues this year than ever before but that this had been an evident trend over a number of years

- The cost of living and of accommodation had been a focus as well as fees and bursaries.
- Eligibility for financial support was a major area of questions.

- Parents had been to the fore in asking questions (reinforcing the view that they are more financially conscious and concerned than the applicants themselves are).
- Many of the enquiries are the result of confusion and complexity in the new system.

One HEI recorded a massive number of parental calls regarding finance in January (the volume described as “staggering”). Parents tend to use the telephone rather than email as they wish to get direct advice and to be able to clarify responses.

Parents are now more assertive through the whole cycle. They are seeking satisfaction and ensuring their family does not miss out. There is an expectation that decisions will be explained and where necessary justified.

Financial briefings and budgeting advice are now core components of many recruitment events. More downloadable advice is being created on websites as HEIs seek to win students through service provision. With more students working, and from a wider range of backgrounds, traditional student services functions are mutating into a financial and benefit advice services with questions being fielded on issues such as tax credits.

Awareness of the details of the institution’s fees and support schemes was surprisingly hazy amongst the non-advisory staff interviewed. We can only speculate if this lack of internal awareness has itself contributed to the wider confusion. It was also reported that there has been an increased incidence of questions from parents regarding financial issues post enrolment (i.e. 2005 entry students) and that many current students were concerned that the new fees would apply to them.

The whole internal community might therefore have benefited from an internally-focussed communications campaign. There was no evidence of such campaigns, other than training for those with obvious roles such as admissions, enquiries and student services. In one case, the lead manager for WP, who had been responsible for bursaries and the OFFA agreement, had left and there was concern that bursaries and support had not been effectively promoted, either externally or internally. The website still made no clear statements about fees or bursaries some months later.

## **f) Customer Service**

Customer service in the pre application and application phases is recognised as becoming more critical. Service episodes were thought to be used by prospects and parents to test the quality of the organisation through enquiry response, event organisation and interview processes. There has been an increase in service level agreements to try and assure and measure service standards and performance.

The speed and quality of offer communications and related information was thought to be making an impact on applicant choices. There was evidence

from research that a slow response to applications was damaging conversion (i.e. a reason for declining an offer). There was a sense of priority afforded to enquiry management and follow up, with generally greater effort to capture data for analysis and conversion targeting.

As reported above, financial and other advice has become an integral part of events such as open days, visit days for applicants and at fairs. This has implications for the choice of staff attending fairs, and for their training. More detailed questions relating to eligibility to loans, grants, bursaries and scholarships have been evident and are thought likely to escalate given the complexity of the system and variability of support within and between HEIs. Our research suggests that many staff likely to be on stands at fairs are not as informed as they should be.

One case study institution had created a project to map and then improve the whole transition of students (and parents) from school/college into and through the first year of higher education. Parents are now positively invited to the induction week along with students.

#### **g) Support for ‘Earn and Learn’**

In real terms, the loss of Housing Benefit in the mid 1980s is thought to have had the biggest impact on student disposable income, plus the excessive inflation in the private student housing market, and not the introduction of tuition fees in the late 1990s.

There was broad agreement that more students will work during term but also that higher fees is not the driver for this – rather the desire to enjoy a certain lifestyle and a consequential need to fund it. As one student adviser concluded:

*Most students are not poor they simply over spend!*

Few students seem willing to compromise on cars, socialising or mobile phones, and thus would rather work to afford what they feel are necessities than go without (the parental generation is thought to view many of these as luxuries). As one interviewee indicated,

*Students work to feed their lifestyle habit – whatever that entails.  
They are part of the plastic society – buy now and hope to pay later*

It was thought that the so called “poor middle class students” may be the ones that are forced to work to support themselves more than those from WP or well-off backgrounds who have other financial sources.

More investment in services to support students was evident in two of the four case study institutions. More specialist money advisers were being appointed or are in place across the sample than had been the case a short time ago.

The HEIs in the sample all reported that retention was strong. Whilst being concerned that students might be working too many hours, most of the HEIs

were nonetheless making efforts to provide better services to enable students to earn and learn, including:

- Job shops
- Employment guidance earlier in the courses
- More placements that pay
- Ways of accrediting work within a degree to recognise skills

There was strong evidence that the HEIs were taking retention and achievement seriously, with research having been conducted in this field to inform policy and practice. Two quotations from our interviews emphasise this perspective:

*Students who are at the stage of dropping out are often emotional and irrational. They would not be able at that point to weigh up the financial cost of dropping out so it is unlikely to have an impact.*

*Awareness of the ability to transfer courses is higher than it used to be but is still low. Better awareness might relieve some pressure if the problem is course related.*

#### **h) Will the National Student Survey Results be a Major Choice Factor?**

Given the increased focus on the student experience, it might be reasonable to assume that the National Student Survey results would be a major factor in driving choice, but the interviewees were not convinced about this. It was thought that the NSS would probably be a factor in the final decision of CF/CI but not the early decisions on where to apply as it would take too much time and applicants appeared to be time poor.

The profile of the survey and its results is thought currently to be low. As results seem to fall within a narrow range, departments or HEIs will only suffer or be rewarded if they are at the top or bottom of a list or if the results fall significantly and thus attract media attention.

Overall it was felt that NSS Survey results will be another factor applicants take into account, but their importance will depend on whether they feed into league tables and what weight they are given.

Other factors will probably be much more important – for example, the city, the cost of living and graduate employment

#### **i) Student Stress**

The student advisers were not anticipating a rise in student stress due to the changes in fees from 2006. The deferred nature of the fees may indeed alleviate some of the financial stress currently observed.

The main group at risk of stress was thought to be young students from non traditional backgrounds who suffer from the culture shock of HE, and in some cases, the pressure of learning closer to the limits of their ability. They are

less able to cope with early failures or unanticipated issues. These students are more likely to have paid employment as parents cannot support them and working was often a feature of their pre HE lifestyle.

Concern was also expressed that many students will not be able to cope with large income payments early in their HE careers. The bulk payment of loans, grants and bursaries was a strong concern for those working in student advice roles. Examples of students from less advantaged backgrounds not being able to cope with being so cash-rich were cited. Many were thought not to come with a savings culture and thus spent the funds too quickly. Specific concerns included:

- At the extreme there was concern over exploitation for drugs and greater incidence of violence and threatening behaviour to extract cash.
- Students from some backgrounds are known to feel obliged to share this new income with their families but then fall into debt.
- The wider fear is that cash rich WP students will spend to win their way into friendship groups or to mirror the lifestyle of those from better off backgrounds.

There was, therefore, a desire to see payments paid into accounts monthly, in part to alleviate the problems above and in part to mirror what they will experience when they graduate. The point was made that budgeting monthly is not always common amongst young people. In at least one of our institutions, students have to see a financial advisor before being able to receive their support payments.

## **End Note**

Planning how to respond to the introduction of variable fees has clearly been challenging to HEIs. Most have, based more on political judgement than on market research, chosen to adopt the full £3000 fee level for full time undergraduate courses, resulting in almost no market differentiation by fee price. Hence differentiation still reflects admissions grade 'price' and student perceptions of quality and utility.

Some of the key expectations, including a decline of application numbers, and a shift towards more vocational programmes, have been difficult to identify in reality, and are hidden (if indeed they exist) by the 'normal' fluctuations in subject popularity over time. HEIs are expecting a strong shift towards a customer/client relationship with students and a greater engagement of parents in the choice process – but these may reflect an already existing rise of consumerism relating to demands for high standards of service rather than something which is a direct result of the fees regime.

The impact expected in relation to widening participation agendas is not yet clear, either. The limitation of the fees regime to full time undergraduate students seems likely to have an effect on part-time programmes and

postgraduate taught programmes. In addition there are some groups of students who may reflect more carefully on the returns from university education. Overall though HEIs are not expecting to see students change their views about the value of a university programme, and do expect that the debt element will not be a major constraint on participation. However, there is a clear feeling that the loan system could assist students to reduce debt problems by moving to a system of monthly payments.

In the next chapter we shall examine the views of the prospective students themselves.

## **5 The Prospective Student Perspective on Variable Fees**

### **The Perspectives of Potential HE Applicants**

While understanding the expectations and decisions of the HEIs in response to the new variable fees regime is important, it is in the decisions of potential students about how, when, where and whether to apply to university that the immediate impact of the new system will be observed. Their knowledge and understanding of the system and of what it means to them both in the short-term and in relation to longer term issues such as career, lifetime earnings and debt is critical to those choices. How they respond will determine whether the 'best' or 'worst' predictions of observers, supporters and critics of the new model come true – and will also influence how HEIs respond as the new system 'beds in' over the next 3-4 years.

A key part of this project, therefore, was to hear the 'student voice'. To do this the research team undertook focus groups of Y13 students in four UK schools/colleges. The students we spoke with were in the cohort who could consider applying for HE entry in 2006. By talking with them in focus groups we hoped to surface their awareness of, and attitudes to, higher education fees/bursaries, debt, HE and career prospects and how this was affecting their decision-making. Most importantly we wanted to know what they know of the new fees system and how far this was encouraging them or discouraging them from applying to university, or whether other factors were predominant in their decisions.

Four institutions were selected for the focus groups, two in the south of England and two in the north of England. The southern institutions (described here as Riverdale College and South East College) were both sixth form colleges serving diverse urban catchment areas and hence providing a wide range of potential higher education applicants from different socio-economic, cultural and ethnic backgrounds. The two northern institutions included a large general Further Education College (described here as Valley College) serving a mixed catchment with a significant population from ethnic minority groups; and an 11-18 comprehensive school (here called Dale Grammar) with a large sixth form and a good academic record, serving a predominantly working class town.

In each institution two focus groups of 8 students (mixed male and female) were conducted. In the two southern colleges and the northern school these comprised one group of students who had chosen to apply to university for admission in October 2006, and a second group of students who would be qualified for HE entry but were either unsure about applying or had decided not to do so. In the northern FE college one group comprised principally 17/18 year old applicants while the second group was of mature students studying on a Higher Education Access course.

The focus groups were conducted by members of the research team, during November and December 2005, using common scripts, and were taped for later transcription. The scripts took the students through discussions focused on what they knew about the new fees regime, where that knowledge had been derived from, what their own intentions were in relation to HE, and how these had been influenced by the fees regime. In addition to the focus group script, the students were asked to undertake a 'Brand Price Trade Off' (BPTO) exercise in which their willingness to change their choice of HE institution and programme in response to reduced fee levels was tested. This enabled the research team to investigate the responsiveness of students to 'fee price' in the undergraduate market place.

It is important to emphasise in our findings below that our sample of students is, inevitably, quite small (64). Hence it is not possible to analyse the data in any valid statistically way, and our summaries of findings therefore are descriptive, indicating only that views were those of all, the majority, a minority, or a few of the students. It is the broad description which provides the picture, therefore, rather than the detail, although some tentative generalisations have been drawn out of the data. Furthermore, the focus groups took place only part way through the annual university recruitment and applications cycle. The closing date for submitting applications through UCAS had not been reached (although internal college deadlines had mostly been passed), and students had not received any offers of places, nor had they been placed in the position of actually making final choices. Nevertheless, we feel that their views provide a useful insight into how the new fees system is being perceived.

Several themes emerged strongly from the material gathered at the focus groups in the four centres chosen for study. We consider below those themes and make comparisons between opinions and experiences of young people in the different centres where appropriate. In particular we make considerable use of direct quotations from the students, as it is in their words that their perceptions can best be found. We have, of course, anonymised both the students and their schools/colleges for the purpose of this report.

### **What did students know about the new fees regime?**

The focus groups were all asked initially to describe what they knew about fees and funding for university education – i.e. what they knew about the new fees regime. This was then extended to explore their perceptions of the quality and accuracy of that information.

Almost all of the students in the focus groups were aware of basic information regarding present and predicted levels of fees for tuition at university, with those who had definitely decided to go on to university being slightly better informed than their undecided counterparts. That is, they understood that fees would be around £3,000 a year although few realised this was a change to the current system. They knew that they would not have to pay their fees 'up front' and that they will be able to get loans from the government to cover the cost

of fees and living expenses. In addition most students understood the key concept that they would need to repay loans after graduating, Most knew, for example, that fees would be repaid once a graduate salary reached £15,000, that the repayments would probably be small and in any case written off after 25 years should that salary not be achieved. This indicates a good level of knowledge about the 'headline' characteristics of the fees system, and reflects too the main messages included in government promotional campaigns.

Beyond this basic information, little was understood, however, about the detail of the system. Few had any knowledge about exactly who qualifies for loans and who does not, and the conditions and limitations of how the loan system is administered. While most were aware that there will be a system of grants, bursaries and scholarships, in addition to loans, there was very limited knowledge about who might provide these additional forms of support, who would qualify for them or how they might obtain information about them. Potential applicants also had almost no understanding of why the new system was being introduced and why they were now to be asked to pay higher fees for higher education. As Jonathan, a student at the northern FE college indicated

*I don't know how it is now; all I'm interested in is how it's going to be .... At least 3 grand a year and you don't to pay it up front , you only pay it after you've left the uni, I think uni's this year want some money up front or something and after you've finished your course you've got 25 years to pay it back, as long as you're earning 15 grand a year or more*

This level of understanding may reflect, of course, the point in the application and admission process at which the focus groups were undertaken. At the point of application the detail of individual university scholarships, bursaries etc is not necessary in order to make an application through UCAS, and will only come into play when students need to make firm decisions to accept or reject particular offers. It also suggests that while the overall message of fee systems has been well promulgated, the detail and also the justification of the new system have not yet been widely understood.

### **How did students get their knowledge about the new fees regime?**

Most of the information the students held came from university open days and websites, summer schools and visits to college by outside agencies (e.g. Aim Higher). Parents, overall, were not seen as a good source of information, possibly because for many of the students theirs was the first generation accessing a university education. A small number of students found individual visits and organisations helpful and informative but, overall, students found the information they had received confusing erratic, incomplete, conflicting and not easy to access. For a small number, the complexity and difficulty related to accessing information was a significant deterrent to applying for HE. Arthur, from Valley College, indicated...

*we had a meeting in the village centre about how to apply for fees and student loans, because depending on what your household income is depends on how much money you get..... they were really helpful.*

However, the same student also said that following this he remained confused about the funding process

*I'm not confident at all about what they told me. I just thought I'll go to University, June or July time .....that's when I would think about finding out for sure well, for what I can apply for, what I'm entitled to and whatnot.*

Some students indicated that the advisors they were consulting within their college and in other services did not seem themselves to fully understand the system or know the detail

*We went, we queued up to see the student services guy, we're both in the same position, right, we asked him a question about finances...oh....he did not have a clue*

*(Elisabeth: Valley College, talking of her experience at a local university open day)*

*I don't know much really. The way I see it, you know the prospectuses and stuff, they don't explain much they basically just lay out their courses and entry requirements and stuff .... And if you go to the university and ask them something they're basically just there to tell you what the course is about if you ask them about student loans they don't tell you so*

*Soji:Riverdale College*

*I'm a single parent and the money I'm going to be getting if I get a place at university... I can't seem to make much sense of all the different allocations of the pots of money. It seems to be there's lots of bits of money available but from a lot of places it's not like one pot at all, it's like 4 or 5 different things make up your total.*

*Elisabeth: Valley College*

For some this complexity was enough to deter them from applying to Higher Education, although most refused to be put off. The following describes Elisabeth's experience in the local LEA office, and reveals how critical getting hold of the right information can be

*...when I went in and asked for any documentation they might have....she were really difficult with me she said 'it's all changing,' 'it's all changing,' she said 'you're not ready to apply yet' ....and I said I know that but have you got anything from last year, just so that I can get a rough outline, just summat, I was shooting blanks, I had nothing, no idea at all and she made it really really difficult for me.....for me to get the information book from last year. But...once I got back, before I was like 30% chance of applying to uni, but now I've read that information book from LEA I'm like 75% that I'm going to apply*

The overall picture that emerges is that students are seeking information from the well-established sources of prospectuses, websites, open days and HE advisors in school/college. What is also clear, though is that in this first year of the new system the level of detailed knowledge available has been problematical. This may of course reflect the newness of the system, but it is clear that in many cases advisors from the universities themselves were unable to provide the correct information. We would expect, of course, the knowledge gap to narrow substantially as the year progressed and as the system moves into its second year. Fortunately the information difficulties appear not to have been a major barrier to students choosing to apply to HE.

### **Did potential students think the new system was fair and equitable?**

Students were asked their opinion about whether the new system would be fair, to encourage applications to HE from those from diverse socio-economic, cultural and educational backgrounds. Opinions were divided.

A slight minority of students supported the idea of loans and said that any financial assistance would be welcome, and this would make HE more widely available and not limited by parental income. Most of the students in this group felt that the terms of repayment were quite favourable. Within this group, though, many were opposed to the idea of fee increases relative to previous years rather than the loan itself, and were unclear about why the fee increase had been implemented.

A larger group, however, thought that loans were not fair as a general principle, in that they regarded education as a right and as a 'free good' that government should provide for all. These students expressed the view that they would prefer grants instead of loans. Many students within this group thought both the current and proposed systems unfair, although there was a difference of opinion as to which economic or social groups experienced this unfairness.....

*Well I think in a way they put prices up for some things and then they offer so many bursaries to lower income families so in a way they have the better deal because they can get so much paid for. If you earn under....if you're really low income you can get absolutely everything paid for you basically.*

*Rebecca: South East College*

*Have you heard of the level zero entry to medical school? Which I missed by two boxes. All you need is 3 C's to get into med school if your parents earn under a certain amount a year, and you don't even need chemistry. And it's not fair.*

*Daniel: South East College*

Mostly, however, the system was seen as not favouring lower income families, and additionally, that university education had been more accessible to lower income families under previous regimes

*I think it's going back to the old ways. Like you have to be middle class to go to University, isn't it. It's a bit like "Oh you have to have money to go to university". It's going back to the old ways....there's not many families that can afford 3 thousand pounds extra a year.*

*Daniel: South East College*

*I personally think they make it harder for poorer people .....Working class really can't afford to do it....all my sisters have gone to uni, and got their degree, and my parents were probably worse off in those days than they are now and yet they were able to do it, and yet come to me and my other sister and we two are the ones that are well 'we can't fit this financial pressure'.*

*Helen:Valley College*

*It was an inclusive system before whereas now it's exclusive.*

*Elisabeth: Valley College*

There was a clear view from across almost all of the students that whatever the system used it needed to ensure that access to HE was in theory open to all. This idea was an important benchmark for them in reflecting on whether the new regime was in itself a 'good' or 'bad' thing.

### **What should the additional fees be used for?**

We explored with students in the focus groups the question of what they felt the additional fee income should be used for by the universities.

Many suggestions were made, but all involved the students themselves benefiting either directly or indirectly. The most frequently mentioned areas of spending were improved student services, better accommodation, more ICT facilities, exchange programmes and, less frequently, employing better qualified university staff.

*Making the halls better .... Or maybe like bigger, because student halls like the room you get some of them are quite nice but some of them are quite small or maybe every room has a computer in it or maybe every student that goes to the unit gets a laptop .....I mean if you're paying that much money*

*Rebecca: South East College*

*I think it should go on the students. The students are paying, it should go back to the students ... educational trips, stuff like that.*

*Ikran: Riverdale College*

*5 out of ten need a laptop, so why not sell them at a discounted price or even for free*

*Ravi: Riverdale College*

This reflects a clear perception that the enhanced fees are providing additional funding in a system that is already adequately resourced, rather than an understanding of the historical funding decline in HE. This inevitably reflects the spin placed on the new fee regime by government, but raises the

possibility of disappointment from students that the enhancement from fee income is really only about improving basic provision and salaries.

### **Would students still choose to go to university despite the financial issues?**

In the context of their broad knowledge and understanding of the new fee system, but their lack of detailed knowledge and their concerns about equity, a key question was how far this knowledge was encouraging or discouraging them in deciding to go to university.

Most students felt that a university experience was vital for future job prospects. Even amongst those who had reservations about going to university immediately there was a strong view that accessing HE remained a strong possibility or necessity for them in the future. We found very few students who believed that they would never go to university, for they recognised that they may change their minds or the careers they wanted to pursue might push them to need a degree at some stage. Clear differences existed, though, between those determined to go to university in 2006 or 2007 and those prevaricating in their decisions.

For those young people determined to go to university the introduction of variable fees was not particularly off-putting as they perceived the long term benefits would outweigh the short-term financial burden. For some, debt was seen as a normal way of life, and loans were seen as positively contributing to what was described as a 'student life style'. Others felt that loans would eradicate student poverty and contribute towards making their lives more respectable. Most were very positive about the repayment terms, describing them as well considered, appropriate and manageable.

*If you're really set on it then it doesn't really affect your decision but it's a bit of a pain them going up.*

*Jarrold: South East College*

*I think I've messed up enough in college to know that regardless of how much they're going to be asking me for money wise or whatever I'm going to university. You have to do it... to have a good job at the end.*

*Jonathon: Valley College*

*I am so skint now and the future's so bleak at the moment, there's like no way out of it. I can cope... with being just as skint or even a little bit skinter for the next 4 or 5 years to like have a pot of gold at the end of it, know what I mean? I can live on jam sandwiches for the next 3 years*

*Elisabeth: Valley College*

For those determined to apply to university, the fact that loans would be paid back at a later date, on low interest and in small monthly amounts was also seen as reassuring. In addition, there was a high level of confidence amongst the students who had decided to access higher education that a degree would increase the chances of greater rewards ultimately, and hence

would be worth the initial cost. This view was confirmed by the Brand Price Trade Off exercise, in which all students calculated a graduate salary to be higher than a post-A level salary. There was, however, also recognition that a degree is not an absolutely guaranteed pathway to a successful career

*If they said you're going to find it hard to get a job after going to university, I'd be thinking twice about going to university ..... You go to university to get a good job, if someone's told you that the chance of getting a job is highly unlikely why would you go to university when you can spend those four years working and earning 15 grand.*

*Arthur: Valley College*

*But if you had a degree there's more chance of you getting a job.*

*Aisha: Valley College*

*It's going to give you a ticket to earning like 20 or 30 grand a year*

*Jonathon: Valley College*

The measures of success in life seen as important varied between students aspiring to HE. For some, being successful was measured in terms of material possessions such as cars, houses and other material indicators. For others success was the ability to become flexible in life and being marketable in the job market. They saw a university education as offering this opportunity more than anything else, with university coming first before considering a career, and acting as a career enabler into more prestigious careers in medicine, law, teaching and engineering. A university education was also seen by some as offering life choice and demonstrating commitment

*The thing about a degree is it keeps your options wide open. If you get a law degree you don't necessarily have to get a law job. It shows that commitment you had for 3 years.*

*Frederik: Riverdale College*

Delayed decision makers were a little more debt averse, and there was clear evidence of debt aversion particularly in those young people who were unsure or undecided about going to university. The minority who indicated that they had chosen not to go into HE said they would not go because they thought it was taking too much of a risk, accumulating a huge debt with no guarantee of employment afterwards and little prospect of well paid jobs. Some thought they would not be able ever to afford HE. A few considered the loans to be insufficient to cater for all the needs of students, yet still enough to leave them in serious debt at the end of study. An extreme, although minority view, was that university time would be spent on drinking and excessive socialising, and that they did not want to get into debt on account of what they described as unsavoury activities.

*I wouldn't be able to afford it either. I just doesn't appeal to me. I don't want to get myself into debt and especially not at eighteen years old.*

*Belinda: Riverdale College*

*Not having money while you're at college is bad enough but then getting yourself in debt and still not earning enough money, it's just not worth it*  
*Jocelyn: Riverdale College*

*I did want to go. I did want to go to university. But just getting here and realising how difficult it's been, working part time and studying. I just wouldn't want to try paying fees every month.*

*Felicity: Valley College*

*It could be (a waste) because obviously you' could get a good qualification out of it but then you know you've got to work in this country if you want to make anything of yourself. You can't just sit around and learn and drink and do all that - you have to have had to work at it.*

*Polly: South East College*

Financial reasons were clearly being used as a justification for some elements of the decision not to go into HE. However, for those definitely not going to university, the rise in fees was not the sole or even main reason they had chosen other career pathways.

*It was kind of a factor a bit. I wasn't too sure if going to uni and paying all that money would benefit me in my career whether it would help me get higher or not and then I just thought 'well I could work my way up easier and earn money while I'm doing it' and I want to do other things and well...it didn't appeal to me, paying all that money and if I was going to go there I'd do event organising and it'd be like two years or three at the most and I thought what's the point me paying 12 grand or 15 just to go and do a course I can go somewhere and do and work my way up.*

*Amelia: Riverdale College*

For some of this group, lack of confidence that university would provide a fast track to a well-paid job compounded the financial issue.

*Well you hear all these stories about people spending like 12 thousand pounds and although you pay it back in very small payments it's still only wasted money if you end up working in Tesco's because you can't find employment and I'd rather take a few years out and try and earn some money and then later on if I did need it to enhance a career I'd go and study for it.*

*Polly: South East College*

*....and I just think I can work my way up and have the experience and come out at the same level as the university students but the money definitely did affect my decision.*

*Ella: Riverdale College*

Several students who had decided not to go on to university, specifically declared the change in fees to have little to do with their decision.

*I haven't been influenced very much by it at all. I kind of am of the opinion that if I wanted to go to university then I'd find a way of affording it anyway and I'd*

*come to the financial hurdles as and when I get to it. It wouldn't have bothered me if whether was top up fees or last years system. I'd have paid it and got on with it.*

*Sarah: South East College*

*I don't really think it's influenced me. If I had decided to go to University and wasn't sure because of the money then had I seen or heard what the information about the financing and bursaries was I probably would have been 'oh yeah then I'll go because you pay so little back' but because I have other reasons for not wanting to go at the moment then that's why I haven't*

*Polly: South East College*

Those not going to university had made up their minds, not principally as a consequence of fees and loans, but because they considered themselves as ready to embark on a career path. While most of this group saw the value of university they did not believe it would enable them to improve their career performance or enhance promotion chances within their chosen careers. The careers they choose also reflected those of their immediate families who they saw as broadly successful despite not having university education. For these young people, the value of job experience over higher education was clear

*They don't look for how many A levels you've got, or whatever, they look for how much experience you've got in the job you're applying for*

*Amelia: Riverdale College*

*I just think I can work my way up and have the experience and come out at the same level as the university students but the money definitely did affect my decision.*

*Ella: Riverdale College*

This view was often underlined by examples within their families of career success achieved via commitment and promotion rather than education

*I see my parents as like quite successful and my brother I know is doing extremely well and I just think university is presented to be the kind of be all and end all, like you need it but I know in my family there's like 3 good examples and I think that's kind of influenced me a bit but my parents are quite happy for me to make my own choice about university and because it's like a new thing and none of them have really experienced it then they don't have many views on it really*

*Jordan: South East College*

*My family- I think it was only my uncle that went to college for 6 months because he's quite brainy and he's doing well for himself and didn't go to university or anything. And my step dad and my granddad they've done really well in life*

*Claire: South East College*

This uncertainty of the necessity for higher education for career success was also seen in some young people who *had* definitely decided to go on to university.

*I want to do law, If I want to be a solicitor doing a law degree ain't the only option, I can do something like that without even going to university- it would take a couple of years more but it would still take you to the law profession and I'm more likely to get a job because at the same time I've been working in the firm and you build up the experience.*

*Soji: Riverdale College*

All of the students we interviewed were likely to achieve Level 3 qualifications that would enable them to enter university if they chose to do so. The experience of 13 years of education, though, had left a few eager to move into the world of work simply because they were tired of education and wanted to 'get on with their lives'.

*I just want the experience of full time work . I've been in education for so long now and I'm planning on working for a year and go travelling.*

*Ella: Riverdale College*

Overall, therefore, there emerged a picture of a strong view of the value of higher education by most, with a belief that while the funding regime would make HE challenging it was not sufficient of an issue to deter them from applying and going. For those who had decided not to apply to HE the influence of concern about finance and debt was an element of their decision but not a major one. Rather, it emerged as yet another post-hoc justification factor for the decision not to go to university rather than as a primary and decisive factor in the decision.

### **How do potential applicants believe they will manage student life financially in the new environment?**

In the context of loans and the accumulation of debt to be repaid after graduation the focus groups explored how the young people felt they would cope with the financial constraints of student life.

Students committed to higher education had evolved several different strategies for managing the financial side of university life. These included taking part time jobs whilst at university; earning to save before going to university; and applying to universities that charged less.

Part time jobs were seen as the most viable way of managing the financial side of university life. Many already had part time jobs and assumed they would continue with them whilst at university. Typically they felt that this would contribute to building up their portfolios of experience needed in the real job market. Some, however, were a little pessimistic about the compatibility of these two activities, seeing part-time work as compromising the quality of their learning experience.

*Basically I think college and university are two different things. College, yeah, I've got a part time job and everything but the way I see it is college is totally different to university., I just about manage to fit in my part time job with college but they're always offering me overtime but I can't fit it in with the college work, I've got coursework and stuff to do , but once you get to university it's more independent study - you've got to work on your own it's not like the teacher saying 'do this, do that' in the lectures and that you may get notes and stuff... I've got mates at university, they're finding it hard to do a part time job. What are you going to do? Are you going to do your study or are you going to do your part time job?*

*Soji: Riverdale College*

Others considered a part time job to provide a welcome break from academic study, though.

*I wouldn't have to but I think I'd need a break from like coursework and stuff so I think a job would be a good break Adrian: Dale Grammar School*

For those young people that had decided to go into HE, the rise in fees was seen as an incentive to earn some money before going to university, either through vacation work or by taking a gap year. Those choosing the latter option saw that taking a year immediately after their A levels to earn money was the best way to prepare themselves for university later. They indicated they would much prefer a debt free life and would like to pull resources together first and learn later.

Choosing a lower cost option was seen as a possibility by a very small number of students. Going to university part time as a way of managing finances was seen as sensible for some young people, while some mentioned the possibility of applying to a Scottish university where variable fees are not charged,

*So I'm thinking of concentrating on Glasgow University.....I'd rather live in the cold than pay 3 or 4 thousand pound a year.....I'd rather buy a jacket for a hundred pounds that'd keep me warm than pay 3 thousand pounds..*

*Soji: Riverdale College*

The expense of living in some places, notably London was also seen as a negative feature of choice by several students, and it was recognised that avoiding going to London might be one of the ways of keeping the cost of student life down

*About the only thing that affected me I didn't apply to any of the big London colleges, the cost of living in London is so much greater.*

*Neil: Dale Grammar School*

*I wouldn't want to go to London, primarily because of the cost but also I don't fancy going somewhere that huge*

*Adrian: Dale Grammar School*

The majority of potential applicants, therefore, had given some initial thought about how to cope financially with life at university and recognised that this could be a challenging aspect of doing a degree. The Brand Price Trade Off exercise provided an interesting perspective on this. The exercise tests what discount would persuade a student to switch from choosing one particular programme to a similar one at another university. The exercise demonstrated very strongly that fee level is not a factor in choosing between two courses or universities perceived as of differing quality, in that all students chose to stay with their higher quality choice even if the fee at the lower quality choice programme/university was reduced to zero. However, a choice between two courses deemed equal in quality in every respect could be influenced by fee reduction, on the basis that in this way a student could get the same quality for a lower price. Students recognised, therefore, that the quality of the programme and its impact on long term employability, for example, was more important than short term issues of fees and price. This suggests that the new undergraduate market may well not be one in which fee price is a significant element.

### ***Will the new fees system increase independence?***

A theme that emerged strongly within the discussions with students was the idea of, and importance of, independence, and many of the young people expressed a strong desire for independence. Mostly this related to financial independence, but various forms of financial independence were identified:

- Reduced parental involvement in financial aspects of their HE experience and aspirations
- Becoming fully responsible for repaying any financial loans since it was they who would be benefiting, not their parents
- Just knowing that parents will be there when the things get tough but without making this an obligation on their part

Financial independence was seen as being an equally important goal by those choosing to go to university and those as yet undecided or definitely committed to pursuing a career immediately after A levels. With the exception of one student, all those choosing to go to university were determined to pay back loans themselves – their decision, their debt.

*I've already got a part time job. But it's basically going to be student loans....and little things, I'm sure my mum and dad will help me out, but the majority of it will be myself because it's me that wants to do it*

*Jessica: Riverdale College.*

This was expressed particularly strongly by another student whose mother had recently completed a degree herself

*My mum's contributing an amount towards the living expenses and that kind of stuff but I've decided to pay my own way through because my mum only*

*went to Uni like 5 or 6 years ago and she paid her own way through and I'm like 'I'm not going to scab off you now, when you've just started earning lots of money for yourself, I'm not going to be that kind of person'.... I've decided that it's my choice to go to university and she's had to go through having no money herself and now that she's got to the highest ranks of being a teacher and she's like a consultant a couple of days a week, and I don't think it's fair, that she's now got money for herself, that she should have to pay for me.*

*Daniel: South East College*

For the majority of those young people committed to going to university, there was a high level of confidence of the practical, emotional and financial help their parents would give

*They have said they're going to support me but obviously if there are ways of decreasing the overall debt...then I'm going to take it but either way they've said that the financial help's going to be there*

*Peter: Valley College*

However, parents were most often seen as making contributions, paying for extras and being there as a backup in times of extreme financial crisis, rather than shouldering the entire expense of their child's university careers

*I'll be paying it back myself. I'll have good prospects.*

*Henry: South East College*

*Yes, my parents earn enough to live but they don't earn enough to pay another loan*

*Jarrod: South East College*

For one female student, who had decided not to go to university anyway, her parents offer to pay her way through was not sufficient incentive to place that financial burden on them

*I was quite lucky like that, but I didn't want to put the extra pressure on my family. But it was just university...I think I could have done it and I know I would have come out all right but my whole heart wasn't in it so I didn't think there was any point investing that much money, if you're not totally sure that you want to do it.*

*Harriet: Riverdale College*

Independence is clearly a significant issue for those contemplating HE. Most perceive the new loans regime as helping them to meet their independence aspirations and to become independent from their parents. In this way the new fee system has blurred the distinction between the independence traditionally associated with getting a job at 18 and the continuing dependence of going to university.

## **The influence of parents, teachers and advisors in the decision-making process**

Research into student choice (see Chapter 2) has stressed the importance of parents, teachers and advisors in schools and universities in providing support and information and thereby shaping choice. Within the focus groups we wanted to explore how far these key influencers were shaping choice in the context of the new fee regime, and whether their influence, either in terms of strength or in terms of the sorts of support they provide, was changing in any way.

Parents were seen as having significant but not necessarily final voices in the decision of students. Overall, parents appeared to be both supportive and influential for students in each of the contexts we examined. For many of the students interviewed, theirs would be the first generation attending university, although several had seen siblings precede them. Reporting of parents' lack of knowledge of the whole university process and its attendant financial issues was widespread.

*I think why my parents don't talk about these fees because they haven't got a clue about the educational system basically .....they're like you go to college you go to university but they won't have the knowledge about the steps you have to take.. they're not much help and I've conquered this issue due to my own actions.*

*Soji: Riverdale College*

Many students, whether their parents had been through HE themselves or not, reported that parents would support their decisions whatever they chose to do. Many parents appeared to be pro-university even, and perhaps especially, if they hadn't been in HE themselves. Mothers, more than fathers featured more in the discourses relating to parental influence in HE decisions

*My mum came out of school with like 2 GCSE's. and went straight into work. She wants me to do it. Well my parents do encourage me to go. And my mum says I should do it because she never had any qualifications and she wants me to do well and have a good job. And I want to do it anyway. I just want a good job really.*

*Rebecca: South East College*

*My mum said "whatever you do, you're going to university. Doesn't matter what course you're doing. You're not going to get anywhere without a degree nowadays". It's not like you're forced into it but it's the best life.*

*Daniel: South East College*

Despite students perceiving unbiased support from parents, in those families where the culture centred around 'success without higher education', there was clear evidence of the influence this had on the students

*My mum's sort of pushed me away from really going to uni.*

*Amelia: Riverdale College*

Teachers in schools were seen as influential especially when it came to subject and course choices. The colleges were seen, also, as having an overt desire to push students to university often casting students who lack this desire as wasting valuable time and resources.

*I think I've felt quite a lot of pressure from college teachers. Every teacher they've said 'oh you should push your grade up and get your UCAS points and stuff , my teacher said to me, he said 'we're not disappointed, we're not annoyed but it just seems like a bit of a waste of someone who is quite clever and is not going to go to university'*

*Polly: South East College*

*I think at college and I think it's probably the case at all colleges, there's quite an expectation of you to go to university. And I feel like sometimes if I did go it would be for the sake of it. And the whole money thing, there's no point doing that if I'm not going to use the degree that I get or if I just go for the sake of it.*

*Jordan: South East College*

The role of parents and teachers is clear, therefore, from the students we met. Parental influence may be applied either for or against HE, while the direction of 'push' of schools and colleges is clearly towards HE. However, there is a common perception that while they are helpful with the principles and the high level argument about whether or not to apply to university, both teachers and parents have very limited detailed knowledge to assist the choice.

### **What factors are important in choosing a university and degree programme?**

While the focus of the research has been the influence of the new fees regime we also examined the broader components of choice that the students in the study revealed in the focus groups. For those students who were committed to going on to university, factors affecting choices of course and university were explored.

Location of university was a big factor in the choice of university. 'The closer to home the better' was a predominant view, as a way to utilise already established links in the labour market, while retaining the prospect of reduced accommodation costs. Students in all four institutions expressed a widespread preference for local universities, although there were examples of applicants wishing to go further afield in both geographical locations. The overall perspective was a need for independence whilst retaining the safety and proximity of home,

*I've looked at mostly the London Universities cos I love London. I want to be far enough away from home that my mum can't just pop in but still quite close.*

*Daniel: South East College*

*(I want to go to university x) 'cos it's close. I don't want to live so many miles away. It's just as easy for me to stay here. I know the area. I know what it's like; I know what I'm doing around the area. It's such a good uni as well, which is also quite good.*

*Jarrold: South East College*

*It depends who you are really. Because when I was looking to go to university my main focus was local universities. I was more interested in where it was than what course it offered and stuff... I wouldn't worry about the teaching standards or what the building looked like you know so it wouldn't affect me personally but I think some people if they're not bothered about moving away from home or travelling then I think it probably would.*

*Polly: South East College*

Students were questioned during the focus group discussions as to whether they would be willing to pay more for a university or course of their choice. Some students indicated that they would be prepared to pay more for a university close by,

Although proximity was a powerful factor in choice of university, other factors were also involved in these decisions, such as availability of the best courses and facilities, and availability of places for competitive courses. Students who intended to study in a Russell Group university were not swayed by any financial considerations implying that the perceived benefits associated with studying in a prestigious university outweighed other advantages that may be brought in by reduced study costs at less prestigious universities. Subject rankings were used as a proxy for university choice rather than overall university ranking.

*Well, I always knew I wanted to work in health care, ....and I want to do it at (University x) ideally but if not I quite like (university y) as well. It's wherever I can get in as well because Physiotherapy's so competitive.*

*Rebecca: South East College*

*Well I really like the area. I like (city and university z). And the course seemed what I wanted there's not many universities that do that course*

*Flora: South East College*

There were, however, mixed opinions on whether the "Higher Status" universities would be worth paying higher fees for. Some students, including some of those not going to university, thought that Oxford and Cambridge would be worth paying more for

*Nothing tangible but .... 'you probably might have more chance for certain jobs and especially certain careers like the foreign office but I think the main thing is it'd be quite nice to say you've got a degree from one of the world's finest universities'*

*Henry: South East College*

*If I was an employer and I had a student from Oxford and a student from (university y) I'd go for that one from Oxford, because of the reputation of Oxford.*

*Jessica: Riverdale College*

Others could see that paying more for these universities could be justified for other reasons, such as having to pay tutors higher salaries in prestigious universities. However other students were not impressed by the lure of the higher ranking places

*Well if you look at the kind of thing like medicine, Oxford's about 6<sup>th</sup> on the list I think. Oxford and Cambridge are well known, but you get that same degree going to (university x) so why bother going to Oxford,*

*Daniel: South East College*

*They're just overrated really.*

*Rebecca: South East College*

The quality of education that they would receive was an important factor in students' views about individual universities. Many expressed a strong view about the relationship between quality and price as expressed by fee levels, and students had clear and fairly consistent ideas about the message that universities charging less than the full £3000 tuition fees were imparting

*They're not as good as the other ones*

*Jessica: Riverdale College*

*Well that's common sense. For example (Russell Group university x) says yeah we want 3 grand and then somewhere like (new university, former university college y) comes up saying 'yes, come for free, you are welcome' come for free, But nothings for free, why are they saying come for free there's something going wrong there.*

*Soji: Riverdale College*

*A different message depending on who you are you could think they're not good enough to get everyone to want to pay 3 thousand pounds. Or you could view it as open doorways for people who may not have 3 thousand pounds. So you could view it in several different ways*

*Rachel: South East College*

## **End Note**

From the focus groups with Year 13 potential HE applicants a number of significant headline findings have emerged

### ***Year 13 potential applicants knew that..***

- They will be paying fees of £3,000 from September 2006
- They will not have to pay the fees 'up-front'
- They can get loans to cover the cost of study and living expenses

- They do not have to pay back the loan until they are in employment and have an annual salary of at least £15000

***What they didn't know, though, was...***

- Whether they personally qualify for loans
- Under what conditions the loans are administered
- Why they are being asked to pay fees
- What other financial assistance is available to them such as grants, bursaries and scholarships

***Attitudes to HE amongst Year 13 students indicated that...***

- Most felt that a university experience was vital for future job prospects, irrespective of the cost of loans etc
- HE is a big part of students' "subconscious plans" even if they have doubts – those with doubts about going to HE now expect they will need to do so at some stage in their life
- However, for some HE was seen as too big a risk (a huge debt with no guarantee of employment and little prospect of well paid jobs)
- Others felt that university time would be too focussed on excessive socialising to warrant the financial investment of a loan

***Attitudes to Debt amongst Year 13s showed that***

- For some, debt was a normal way of life so loans would make little difference to them
- Loans for some are an easy means of financing a student life style
- Others felt that loans would eradicate student poverty and contribute to making their lives more respectable
- Most were very positive about the repayment terms, describing them as well considered, appropriate and manageable.
- However, some thought they would not be able ever to afford to repay the loans
- A few considered the loans to be insufficient to cater for all their needs
- Concerns remain about serious debt at the end of study

In summary, for those students committed to going on to Higher Education after leaving school or college, the proposed change in the fees system was not enough to deter them, but for those who were undecided at the time of the study, the changes were a significant, though not necessarily the most significant, or the only factor in influencing their decision.



## 6 In Conclusion

This research project was established to examine some of the key underpinning issues and assumptions about one of the most significant changes to the higher education environment in England for many years, the introduction of variable fees from September 2006. Its overall aim has been to provide evidence of the impact of the introduction of the new variable HE fees regime on the decision-making of young people about HE admission and on the shape and organisation of the HE undergraduate market place.

To achieve this aim the project identified a number of key questions to frame the research programme, and these have been explored in the preceding chapters of this report:

6. What evidence is there from previous research about the impact of fees and fee regimes on the nature and processes of HE applications? **(Chapter 2)**
7. What evidence is there from the implementation of variable fee regimes in Australia and New Zealand to inform our understanding of the possible impacts of the new fee regime in England? **(Chapter 3)**
8. What has been the response of HEIs in England to the new fee model in terms of their operational processes and admissions policies and practices? **(Chapter 4)**
9. How do the HEIs in England expect the university admissions market place to change in the short term and medium term following the introduction of variable fees, and how do they expect to respond to those changes? **(Chapter 4)**
10. What do potential applicants know and understand about the new fee regime, and how is this impacting upon their processes of decision-making and application and on their expectations about the nature of and value of higher education? **(Chapter 5)**

In this final chapter we shall revisit some of the evidence from research on fee systems internationally, comment briefly on how the findings in the current research reflect those wider experiences and then provide some comments on the overall findings of our research.

### The Global Picture

The charging of fees directly to students for higher education is the norm rather than the exception internationally, although the format and *modus operandi* of fee regimes has changed significantly in the last two decades towards loans and away from grants. The rationale for introducing fees into HE has been based on arguments of equity, efficiency and economy. With the introduction of fees a wide range of models of student finance has emerged, but most are based on loans with repayment systems, which themselves are of two main types: the fixed schedule mortgage type, and the income contingent type.

Our review of countries in both the developed and developing world which have introduced loans suggest student loans do not reduce HE participation, although the weight of evidence suggests that economically disadvantaged groups are likely to be more adversely affected than other groups. In early years, there may be a slight decrease in participation but this levels off and shows increases in subsequent years as students and parents become used to the idea of loans.

In detail, though there are a number of sub-patterns that have emerged from research internationally which have provided a range of concerns in the debate about variable student fees in England. More focused research in England, Australia, Canada and the USA shows that:

- Significant differences exist in attitudes to debt between social classes with lower income students being most debt averse
- Debt aversion is not an important factor for middle and upper class students
- Financial reasons are the most commonly cited reason for dropping out of HE
- Lower social class students spend more time working part time during their time as HE students
- Ethnic minorities need most support to engage with HE yet they are the least likely to take up student loans (value debt aversion)
- Students, especially females, tend to overestimate the cost of HE, and a significant proportion believe that post A level salaries are better than graduate salaries

Two other aspects of HE fees also emerge from the existing research. Firstly, a key issue with most existing systems is that information inadequacies handicap students desire to participate and are a real barrier to students' aspirations. Schemes are complex, and inevitably novel when first introduced, and add another dimension to an already challenging HE choice and decision-making system for students and their families (Foskett and Hemsley-Brown, 2001). Johnstone (2005) has developed a model for successful student loans which incorporates seven criteria; eligibility criteria, source of capital, originator and lender, bearer of ultimate risk, loan amounts, amount of subsidisation, and the shape and duration of the repayment period. However, while this model is a helpful construct in the design of effective systems it does not include the importance of a carefully-planned communications strategy. Our observations would suggest that this needs to be added to Johnstone's model to provide a fuller perspective on the requirements of an effective HE fees and loans scheme.

Secondly, it is clear that students tend to become more consumer oriented when they have to pay fees, and expect the service levels and quality of their experience to increase as a result of increases in fees. This provides a management challenge for HEIs to ensure high levels of service for students in their experiences through from initial contact to enrolment to their time at university and beyond graduation. There are clear expectations that fees should ensure such provision, and this may be challenging where the

introduction of fees still does not provide a high level of per capita income to universities.

### **The Evidence from Australia and New Zealand**

Our choice to examine the Australian and New Zealand systems of HE student funding and fees reflects the view that their systems closely resemble the model introduced into England but that their experience of the system over several years will provide useful transferable insights.

The analysis shows that experiences in Australia and New Zealand do not contradict the evidence from fee systems elsewhere in the world. Participation has continued to rise and social class proportions have remained broadly static despite the introduction of a variable fees and student loans system. There was a boost to applicants in 1997 when HECs were increased followed by a decline the next year, reflecting experience elsewhere in the world. In 2005 when universities in Australia were allowed to increase HECs by 25% almost all chose to increase their fees all did. Those that did not increase fees did not witness any benefit in terms of increased market share, and changes in patterns of applications between universities and disciplines were much more influenced by national economic and social trends rather than fee levels. One university decreased its fees to zero but no significant increase in participation was noted.

Research in Australia suggests that the key factors in the undergraduate market are reputation for quality reflected in entry grades rather than by price or fee levels. The level of fees and the relatively low cost of repayment on graduation mean that the impact on employment prospects of going to a high status high quality institution is much greater in financial terms than any difference in fee levels at HE entry point.

Overall it is clear that the fee regimes in Australia and New Zealand have had few negative impacts on patterns of recruitment, demand for HE or issues of social diversity and equity, and have rapidly become embedded within the cultural norms of the educational scene there.

### **The Perspective of HEIs in England**

Universities and other HEIs in England have been planning their responses to the new fees regime for some two years. Many of their plans and expectations reflect a sound understanding of experience in other countries combined with an awareness of the specific impacts of particular distinctive features of the English scheme.

The key expectations from HEIs were that student application numbers might stagnate in the short term, but not lead to substantial decline in the medium or long term. However, they expect that local participation in HE is likely to grow given that it provides an attractive formula that ensures quality student life style while cutting the costs of HE experience. Ultimately the regionalisation of HE study is likely to accelerate as a result of the new fees, with most students

seeking to go to regional / local HEIs and the national market existing primarily in specialist subjects and for admission to elite providers in particular disciplines.

Most universities seem not to expect a market to emerge based substantially on fee differentials. By indicating a maximum fee that can be charged government has created an environment where few institutions will risk not charging the full fee. Charging a uniform fee across HEIs was seen both as making sense in terms of the value associated with products but equally as potentially self incriminating especially for smaller institutions competing with bigger and more established institutions. Differentiation, therefore, will be on the basis of quality not formal price, with quality expressed in price terms as entry grade requirements. The perceived impact of quality on long term employability and earning potential will be seen as much greater than any differentiation on fee price during the course.

Three other important expectations emerged from the study. Firstly, there is a strong concern that there will be a negative impact on postgraduate applications as a result of accumulated debt during undergraduate studies. In Australia loans are available for PG studies just as they are for UG, but this is not the case in the English system.

Secondly HEIs expect students (and their parents) to demand tangible evidence that increased financial status delivers benefits to the students in a direct way for example through improved students services. The wider social trend towards consumerism will accelerate in the context of HE and there will be an expectation of high standards of service and experience, with increasingly litigious approaches to deficiencies. Students are more likely to see themselves as purchasing a qualification not as partners in the development of their professional knowledge, attitude and skills. Recognising the importance of service and customer relations will therefore have to be a higher priority in the context of the new fees regime.

Thirdly, HEIs expect to see a changing relationship between student and campus. This reflects the increasingly regional student market with more students preferring to maintain their pre-existing social networks, but will also reflect the higher proportions of students with employment to finance their studies. The social significance of the campus and its wider role may decline in future therefore.

### **The Perspective of Prospective Students**

Our evidence from focus groups with prospective students suggests that the experience of the introduction of a new fees regime in Australia will be played out in England. Most students felt that a university experience was vital for future job prospects, and even those who had reservations about going to university immediately recognised that they may choose to go into HE at some later stage in their life if their job/career demands it.

For the majority, who expected to go to university, there was a clear perception that debt was a normal way of life, and while it would provide some constraints was not in itself a factor to deter them from applying.. These students felt that loans would help to reduce student poverty and contribute towards making their lives more respectable. Most were very positive about the repayment terms, describing them as well considered, appropriate and manageable.

Delayed decision makers were a little more debt averse. Some thought they would not be able to afford it ever. A few considered the loans to be insufficient to cater for all needs of students, yet still enough to leave them in serious debt at the end of their studies. Some had decided not to go to university because they thought it was taking too much of a risk, accumulating a huge debt with no guarantee of employment afterwards and little prospect of well paid jobs. However, it was also clear that for almost all students finance was not a critical factor in persuading them not to go into HE. Such decisions were made on the basis of other factors, such as a desire to leave formal education or to start earning. Student debt factors were then added to the list of reasons to justify that decision, but with a clear recognition that they were not in themselves critical. Those not going to university had made up their minds, not as a consequence of fees and loans, but simply because they consider themselves as ready to embark on a career path.

Two other important features emerged from the student voice. Firstly, part time jobs were seen as the most viable way of managing the financial side of university life. Many already had part time jobs and would continue with them whilst at university, although some were doubtful about the compatibility of these two activities, seeing part time work as compromising the quality of their learning experience. Others felt that it would contribute to building up their portfolios of experience needed in the real job market.

Secondly, most of the students we talked with emphasised the importance of independence, which they often related to financial independence. Independence was seen as reduced parental involvement in financial aspects of their HE experience and aspirations and becoming fully responsible for repaying any financial loans since it was they who would be benefiting, not their parents. Loans were seen as an important way of facilitating this independence, and were welcomed in this respect by students.

## **Conclusions**

The introduction of higher fees for full time undergraduate students from 2006 raises serious issues for the UK HE sector, including the impact on demand, participation and student and parent expectations. Our research has sought to identify the likely impact of the new fees regimes, gathering its evidence from a diverse range of respondents including A level students who were considering to join HE in 2006, interviews with senior staff involved with strategic recruitment level decisions in four HEI s, interviews with and analysis of data from Australia and New Zealand locating trends in issues of access

and participation following the introduction of fees in those countries. On the basis of this evidence we would offer the following overall conclusions:

- Students are likely to be rational about the proposed fees increase in 2006 with the expectation that they will translate into better services and support for them during their years of study
- Students are unlikely to base their decision to go to university primarily on the issue of fees; some are strongly inclined towards accessing HE first and using HE as a career enhancement strategy rather than as career finding strategy
- There does not seem to be any substantial evidence in the literature and interviews with staff in Australia and New Zealand which suggests that increasing fees reduces participation in HE
- There is a likelihood that students will engage more with part time work as a coping strategy, not only to reduce the likely impact of increased fees, but also as a way to support a decent student life style and gain required employability skills
- Although students seemed pleased with the Income Contingent Loan (ICL) system, they express some insecurity about their financial and debt management skills
- Our research suggests that, beyond the three forms of debt aversion (Finnie, 2005 (see Chapter 2)) a fourth category appears to exist. This is 'lifestyle perception debt aversion' which describes a fear of debt arising from a perception of university lifestyle as decadent, which some potential students believe is an image encouraged by the universities in their marketing.
- Students had a meagre understanding of the detailed issues related to funding their study, expressing little understanding of arrangements about various institutional support available to them
- There is a likelihood of greater local participation in HE as a strategy to cushion students from increased costs of study. Alongside this will be a strong likelihood of parental involvement in the HE decision making of their children

While evidence from international research in countries where HE has been funded through loan systems does not suggest that this system of funding students' HE experience negatively impacts on participation rates, it remains vital for the UK government and HEIs to recognise the potential impact debt may have on students' short and long term decisions, their current experience of HE and their future progression decisions. Hence there are a number of specific recommendations we would make for government and HEI to consider as they plan for the future environment of fees.

1. Government must recognise the importance of the development and implementation of a communication strategy to sell the benefits of the ICL being introduced this September While the framework for introducing student loans in HE in England appears at face value to be in line with Johnstone's eligibility criteria for managing HE loans, the critical issue of a communication strategy appears not to have been adequately developed. It is important for government and HEIs to develop a communication and information

dissemination framework to support potential students' decision making. Headline concepts have been understood but the development of understanding beyond that is very limited.

2. Both government and HEIs must strengthen the strategies for cushioning the impact of fees on vulnerable groups. It is important to recognise the various types and forms of debt aversion students may have as a basis for developing appropriate strategies at various levels for ameliorating their fears and apprehensions.

3. There must be an acknowledgement of the fact that students will out of necessity become more involved in part time work. HE campuses will probably have a reduced socialising role as students spend more and more of their free time in the work environment than on the campus. This may impact negatively on the business budgets of Student Unions. In addition HEIs will need to enhance flexibility in curriculum provision to facilitate students in terms of employment

4. Linked to this issue, schools, colleges and student advisors must seek to raise students' understanding of financial austerity, budgeting and money management through life skills and career guidance type of programmes

5. We would encourage government to consider moving to a funding system which makes payments to students on a monthly basis rather than termly, to assist students in managing income in a model which is more comparable with salary from employment.

6. There will need to be a greater investment in employment related training through stronger employability programmes in HEIs and also during the last two years of secondary schooling

7. The introduction of student loans in HE will further enhance the consumerist culture where value for money will be uppermost in assessing and evaluating the institutional offering and services. This will require the development of customer service and customer care at all levels of HE provision, with greater investment in student services and support to demonstrate visibly the positive impact that increased fees can have on the quality of student lives and experience.



## References

- Andrews, L. (1997), *The Effect of HECS on Interest in Undertaking Higher Education*, Occasional Paper Series, DETYA
- Andrews, L. (1999) *Does HECS Deter? Factors affecting participation by low SES groups*, Occasional Paper Series, DETYA,
- Aungles, P., Buchanan, I., Karmel, T., and MacLachlan, M. (2005) *HECS and Opportunities in Higher Education: A paper investigating the impact of the Higher Education Contributions Scheme (HECS) on the higher education system* DEST
- Baldwin, G. and James, R. (2002) The market in Australian Higher Education and the concept of student as informed customer *Journal of Higher Education and Policy Management*, Vol. 22 (20) pp.139-148.
- Callender, C. (2003) *Attitudes to debt: School leavers and further education students' attitudes to debt and their impact on participation in HE*, London:Universities UK,.
- Callender, C. and Kemp,J. (2000) *Changing Students Finances: Income, expenditure and take up of students loans among full time and part time Higher Education students in 1998/9*, London: Department for Education and Employment.
- Callender, C. et al. (2005) *Survey of Higher Education students attitudes to debt and term time working and their impact on attainment*, A report to Universities UK and HEFCE by the Centre of HE Research and Information (CHERI) South Bank University.
- Canadian Federation of Students (2002) *Increasing the burden: loan repayment schemes to privatise Higher Education*. Ottawa: Canadian Federation of Students
- Chapman, B. and Ryan, C. (2002) Income contingent financing of student charges for HE: assessing the Australian innovation, *Special International Perspective of the Welsh Journal of Education*, Vol. 11 (1) pp.64-81.
- Chapman, B and Ryan, C, (2003) *Higher Education Financing and Student Access: A Review of the Literature*, Research School of Social Sciences, ANU,
- Department for Education and Skills (2003) *The Future of HE* London: DfES .
- Department of Employment, Education, Training and Youth Affairs (DETYA) (1996a) *Higher Education Budget Statement*, Canberra: AGPS,.
- DEST (2004) *Selected Higher Education Student Statistics (AVCC Key Statistics)*  
DEST
- DEST (2005) *Higher Education Attrition Rates 1994-2002: A Brief Overview* DEST
- Finnie, R. (2004) *The case for students Loans: why, when and how*, Canada:..Queens' University,
- Foskett, N.H. and Hemsley-Brown, J.V. (2001) *Choosing Futures: Young People's Decision-making in Education, Training and Careers Markets* London: RoutledgeFalmer
- Griffith University (2005) *Internal Student Fees Issues Paper*. Queensland:..Griffith University
- Harrison, M. (1997) Government Financing of Higher Education in Australia: Rationale and performance, *The Australian Economic Review*, Vol.30 (2) pp. 225-239.

Hesketh, A. J. (1999) Towards an economic sociology of the student financial experience of Higher education, *Journal of Education Policy*, Vol. 14, (4) pp. 385-410.

Higher Education Council (1991) *Higher Education Council Report on Higher Education Contribution Scheme* Canberra: Higher Education Council

Illing, D. (2005) 'Fees study to aid UK transition' *The Australian* 3<sup>rd</sup> August 2005

James, R. Baldwin, G. and McInnis, C. (1999) *Which University: the factors influencing choices of prospective undergraduates*, Australia: Evaluations and Investigations Programme, Higher Education Division:

Johnstone, D. B. (2005) Fear and loathing of tuition fees: an American perspective on HE education finance in England, *Perspectives* Vol. 9, (1) pp.12-16.

Johnstone, D. B. (2005) *Higher Education Accessibility and financial viability: the role of students' loans*, World Report on Higher Education: the financing of HE 2<sup>nd</sup> International conference Barcelona.

Long, P. and Hayden, J. (2000) *Paying their way – a survey of Australian undergraduates university student finances* Canberra; AVCC

Mahmed, A. A. S. (2004) *Cost sharing and access to Higher Education in Morocco: what's wrong?* UNESCO forum on HE, Paris 1-3 December.

Marks, G. (2005) *Unmet Demand - Characteristics and Activities of University Applicants Not Offered a Place*

McMillan, J. (2005) *Course change and attrition from higher education*, Canberra: ACER/ Australian Department of Education Science and Training (DEST).

Ministry of Higher Education (MHE) (2004) *The development of Education: National Report of Zimbabwe paper* presented at the 47<sup>th</sup> session of the International conference on Education, Geneva 8-11 September.

National Union of Students (NUS) (1999) *Student Hardship Survey*, London: NUS.

Protapenko, M. (2002) *Student Loans in Russia*, Buffalo, NY: Centre for Comparative and Global Studies in Education.

Ramsey E., Tranter, D., Charlton, S. and Sumner, R. (1998) *Higher Education Access and Equity for Low SES School Leavers*, Canberra, Australian Government Publishing Service,

Roberts, D. (1999) *Student fees - their impact on student decision-making and institutional behaviour*. Leeds: Heist

Roberts D (1999) *The Marketing of Vocational Part-time Higher Education*. Leeds: Heist

Robertson, F, Sloan, J, and Bardsley, N, (1990) *The Impact of the Higher Education Contribution Scheme (HECS)*, Canberra: DEET

Ryan, A. (2005) New Labour and Higher Education *Oxford Review of Education*, Vol. 31 (1) pp.87-100.

Scott, A. Lewis, A and Lea, S. (2001) Student Loans: the development of a new dependence culture? In A. Scott, A Lewis and S. Lea (eds.) *Student debt: the causes and consequences of undergraduate borrowing in England*, Bristol: Policy Press

Shen, H and Li, W. (2003) *A review of student loans in China*, Bangkok: UNESCO.

- Smith, N. and Taylor, P. (1999) Not for lipstick and lager: students and part time work, *Scottish Affairs Journal* 28 (Summer) pp. 147-163.
- Soutar, N. G. and Turner, J. P. (1999) Student preferences of university, a conjoint analysis, *The International Journal of Educational Management*, Vol. 16 (1) pp.40-45.
- The Age, (2003): *Howard's university fees don't look so bad* 28 May 2003
- The Age (2006): *University fees a challenge to Australia's egalitarianism* 16 January 2006
- The Australian (2006): *Unis struggle as students opt out* 8 January 2006
- Usher, A. (2005) A little Knowledge is a dangerous thing, *Canadian Education Report series: Educational Policy Institute*.
- Woodhall, M. (1989) British Higher Education overseas: the response to the introduction of full cost fees, *Higher Education Quarterly*, Vol. 43, (2) pp.142-159.
- Woodhall, M. (1992) *Cost-benefit analysis in educational planning*, Paris: International Institute for Educational Planning.



# Appendices

## Appendix 1

### Higher Education Fees – the Case of New Zealand

This appendix provides a brief summary of the evidence we have gathered from New Zealand.

#### Historic Developments

Until 1990 degree-level programs were offered *only* by universities. As a result of the recent education reforms, polytechnics, colleges of education, Wananga and private training establishments are now able to offer degree programmes. (Wananga are tertiary institutions which carry out teaching and research designed to promote knowledge of Maori tradition and custom.)

#### Student Loans

Student Allowance is financial assistance for full-time students who are enrolled on a “recognized” course of study or programme at an approved institution. It is paid to help students with living expenses. There is no upper age limit for Student Allowances, however generally students can only receive a maximum of 200 weeks of Student Allowance in a lifetime.

A Bursary is a lump sum paid once a year if a Student achieved an A or B pass in the University Bursaries exam.

The Student Loan Scheme is available for students studying at accredited tertiary education providers (including those in the private sector).

The Student Loan has three components, which provide finance for:

- Compulsory fees (within limits set by central government)
- Course related costs (up to NZ\$1,000 per annum)
- Living costs (up to NZ\$150 per week)

Interest is charged on student loans from the time they are taken out, at a rate which has been capped at 7% per annum. This rate is reviewed annually, and is made up of a base rate charged by government (4.2%) and an interest adjustment rate (2.8%) based on the previous year’s price index. Interest on the loan is “written off” (i.e. does not accrue) while the person is studying and earning less than NZ\$26,799 a year before tax. Interest is charged daily from the first day that the loan is used until it is repaid in full

Repayment is income-contingent. Repayments of the loan commence when studies are completed and taxable income exceeds NZ\$16,588 per annum. Repayments are at a rate of 10 cents in the dollar for all income above that threshold. Given a business students would pay fees of c\$12,000 over three years including non tuition payments, this threshold equates to 72% of the fees

There are no discounts for upfront payment of fees or for early repayments of the student loan. The amount to pay back is called an "annual repayment obligation" and is managed by the Inland Revenue Department. The annual repayment obligation is calculated on the graduate's own income, not his/her partner's or parents' income.

The government announced changes to the student loan scheme that will take effect from 1 April 2006. No borrower living in New Zealand will pay interest on their loan. The second change provides an amnesty period on penalties for borrowers living overseas who are in arrears with their payments.

### **Scholarships**

There are scholarships available to cover fees that apply only to students who are studying either a human or animal health degree course, or a science or technology course which has been approved for the purposes of scholarship and has a course fee of at least NZ\$3,000.

Bonded merit scholarships were introduced from 2006. The scholarship is designed to recognise and reward New Zealand's most academically capable students, and to provide them with an additional incentive to remain in New Zealand after they have completed their study. It will help to pay compulsory fees by paying up to \$3000 of the course fees per year, for up to 4 years, from the second year of their first Bachelor's Degree. The student needs to complete the first year of their degree at their own cost.

As with Australian universities, NZ universities offer a wide variety of scholarships with the same aims and aspirations. For example, Massey University lists over 100 scholarships for first year undergraduates.

### **Debt Aversion**

The New Zealand student loan scheme has been the subject of intense domestic and international criticism.

In 1999, economic modelling in New Zealand revealed that it would take the average male university student 17 years to repay a loan of \$20,000, while it would take the average female student 51 years to repay a loan of the same size.

A survey of New Zealand bank managers and loans officers in 2002 found that 51% of those who had received applications from clients with student loans had cited student loans as a contributing factor in declining finance and, of these respondents, mortgages were the most likely to be declined (34%).

The debt aversion of equity groups is not unfounded. An income-contingent repayment scheme necessitates that those groups in society who earn less will take longer to pay back their debt.

In 2001, the New Zealand Ministry of Education calculated that it would take the average Maori university student 12 per cent longer to repay a student debt than the average European student, while it would take other ethnic groups (predominantly of Asian and Pacific Island origin) 43 per cent longer to repay a student debt than the average European student (source 3).

These figures are calculated using the average New Zealand student debt of \$12,413. In 2001, European students took an average of 11.9 years to repay a debt of this size, while Maori and 'other' ethnic groups took an average of 13.3 and 17 years respectively.

### **Student Fees**

Course subsidies are typically 50% or more of course costs. We have presented data from two established universities to provide examples of the level of fees and the degree of differentiation across the portfolio and between universities.

#### Example 1: Massey University – Fees 2006

| <b>Subject</b>          | <b>UG</b> | <b>PG</b> |
|-------------------------|-----------|-----------|
| Veterinary              | \$7,110   | \$7,271   |
| Midwifery               | \$4,256   | \$4,935   |
| Technology              | \$4,251   | \$4,950   |
| Information Science     | \$4,094   | \$4,935   |
| Applied Science         | \$4,067   | \$4,935   |
| Arts and social science | \$3,443   | \$4,464   |
| Business and economics  | \$3,443   | \$4,464   |
| Teaching                | \$3,175   | \$3,408   |

Excluding veterinary the fees are not markedly differentiated across the portfolio, within a range of c\$1,100. The basis for the difference would seem to be cost rather than any estimate of earnings or returns.

Example 2: Victoria University of Wellington

Fees are again set within a narrow band. Other than law PGT fees are very similar to UG fees.

| <b>Subject</b>                                    | <b>UG</b> | <b>PG</b> |
|---|-----------|-----------|
| Chemical, Physical, Biological and Earth Sciences | 4,056     | 4,554     |
| Architecture and Design                           | 4,020     | 4,020     |
| Psychology and Computer Science                   | 4,020     | 4,020     |
| Mathematics and Statistics                        | 3,918     | 3,918     |
| Commerce  | 3,780     | 3,780     |
| Law   | 3,780     | 4,494     |
| Teaching  | 3,228     | 3,246     |
| Humanities and Social Sciences                    | 3,216     | 3,228     |

The differentiation between the two universities is small – \$2-300 or £100-£150.

**University Graduate Destinations 2003**

Graduate debt does not appear to be depressing demand for full-time postgraduate study (in time or level).

The proportion of NZ respondents in full-time employment in New Zealand or overseas in 2003 was 62.9 per cent, an increase of 1.5 per cent of the proportion recorded in the 2000 survey.

21.9 per cent of NZ graduates were undertaking further full-time study (11.7 per cent in 2000). Females are more likely than males to have continued in study

**Graduate Salaries**

The average salary for females employed full-time in New Zealand was \$36,761 (\$35,189 in 2000). The equivalent average salary for males was \$40,626 (\$37,917 in 2000).

There is clear evidence of an upward progression of salaries for first-degree graduates.

The top ranked fields in terms of average starting salary for men and women were Health and Commerce/Business (same as in 2000). There is no clear correlation between increasing numbers of students by subject and trends in graduate salaries.

Student fees for a degree as a proportion of graduate salaries are hard to evaluate given the data but appear to be lower than in Australia and England (from 2006) at c25%. However, the repayment terms have been less favourable.

### **Work and study**

The census showed that there are now more students combining study and employment. The proportion of full-time students aged 16-25 (secondary and tertiary) not in the labour force decreased from 66.4 percent in 1986 to 46.8 percent in 1996. Conversely, the proportion employed part time rose markedly.

This coincided with an increase in fees suggesting many students are working part-time to fund their studies. Fees (including universities', normal polytechnics' and open polytechnics') increased by over 50 percent between March 1993 and March 1996.

Of the four main ethnic groups, all except the Asian group experienced a four-fold increase in the number of full-time students working part time over the 1986-1996 period. European students aged 16-25 were the group most likely to be working part time in 1996 (43.7 percent), followed by Māori (29.0 percent), Pacific (25.8 percent) and Asian students (16.4 percent).

### **Participation**

There has been an increase in participation in tertiary education but this has been at FE/sub degree level. Numbers on degree programmes appear to be under pressure despite a rising youth population. Postgraduate numbers have increased.

The New Zealand population growing and school leaver numbers rising since 1996-2005 but forecast to decline as in UK.

More than 50% of school leavers now go on to further study, while students aged 25 and above make up over half of all students, and are participating well above OECD mean levels. Some 57% of tertiary students are women.

Whilst New Zealanders are participating in tertiary education at higher levels than ever before (around 400,000 people - an increase of 30% since

1999) the number of domestic students in polytechnics and universities 1999-2003 grew by less than 5%. In 2003 the numbers in universities fell. Numbers in private training provider numbers have grown but these too declined in 2003. Most of this growth has been in Wananga and international students.

About a third of all tertiary students are studying at degree level and about 7% at postgraduate level.

In 2002 43% of the qualifications completed at public tertiary institutions were awarded at the certificate level, 15% at the diploma level, 30% at the degree level and 12% at the post-graduate level.

Qualifications completed at the degree level have decreased slightly (1.2%) since 2001. Awards at post-graduate level have increased by 7%.

Since 2001 the awarding of certificates has increased by 40% and diplomas have increased by 52%. The large increase in qualifications being completed at the certificate and diploma level can be attributed to the increased number of students completing qualifications at Wananga.

### **Field of Study**

Recent changes in the field of study show significant growth in health, food hospitality and personal services society and culture and creative arts. There has been a decline in physical science and engineering. Teaching has remained stable.

The conclusion is that fees have not dented non-vocational courses and that the pattern is similar to that in the UK and Australia.

### **Age Profile**

The age profile of graduates has changed over the last six years. In 1997, 48% of students who completed qualifications were aged 18-24. Only 36% of graduates were in this age group in 2002. Around 63% of graduates in 2002 were 25 years of age or older, this is approximately an increase of 10 percentage points since 2001. This change is likely to be a function of students taking longer to complete their studies to degree level and deferring entry.

## Appendix 2

### The Emergence of Variable Fees in Australian Universities

| Band  | Band Maximum | ANU    | UNSW   | Deakin | % Differential |
|---|--------------|--------|--------|--------|----------------|
| Band 3<br>(law, dentistry, medicine, vet science)   | A\$8,170     | \$6535 | \$6414 | \$8170 | 21%            |
| Band 2<br>(accounting, commerce, administration, economics, maths, statistics, computing, engineering, science, surveying, agriculture) | A\$6,979     | \$5583 | \$5479 | \$6979 | 21%            |
| Band 1<br>(humanities, arts, behavioural science, social studies, foreign languages, visual & performing arts)                          | A\$4,899     | \$3920 | \$3845 | \$4899 | 22%            |
| National priorities<br>(education & nursing)  | A\$3,920     | N/A    | \$3847 | \$3920 | 2%             |



## Appendix 3

### Queensland First Preferences by Subject 2005

|              | Natural Science | IT    | Engineering | Architecture & Building | Agriculture, Environmental | Health | Education | Management, Commerce | Society and Culture | Creative Arts | Food, Hospitality and Personal Service | Total         |
|--------------|-----------------|-------|-------------|-------------------------|----------------------------|--------|-----------|----------------------|---------------------|---------------|--|---------------|
| <b>2005</b>  | 3,196           | 1,783 | 2,752       | 1,785                   | 959                        | 9,751  | 7,115     | 8,176                | 10,855              | 5,569         | 286                                    | <b>52,227</b> |
| <b>Share</b> | 6.1             | 3.4   | 5.3         | 3.4                     | 1.8                        | 18.7   | 13.6      | 15.7                 | 20.8                | 10.7          | 0.5                                    |               |
| <b>2004</b>  | 3,573           | 2,239 | 2,848       | 1,848                   | 1,277                      | 9,596  | 6,304     | 9,115                | 12,069              | 5,532         | 231                                    | <b>54,632</b> |
| <b>Share</b> | 6.5             | 4.1   | 5.2         | 3.4                     | 2.3                        | 17.6   | 11.5      | 16.7                 | 22.1                | 10.1          | 0.4                                    |               |
| <b>2003</b>  | 3,411           | 2,785 | 2,886       | 1,593                   | 1,522                      | 9,798  | 6,404     | 9,319                | 12,311              | 5,576         | 167                                    | <b>55,772</b> |
| <b>Share</b> | 6.1             | 5.0   | 5.2         | 2.9                     | 2.7                        | 17.6   | 11.5      | 16.7                 | 22.0                | 10.0          | 0.3                                    |               |
| <b>2002</b>  | 3,254           | 3,587 | 2,687       | 1,596                   | 1,667                      | 9,192  | 6,271     | 9,315                | 11,811              | 5,929         | 203                                    | <b>55,512</b> |
| <b>Share</b> | 5.9             | 6.5   | 4.8         | 2.9                     | 3.0                        | 16.6   | 11.3      | 16.7                 | 21.3                | 10.7          | 0.4                                    |               |
| <b>2001</b>  | 2,898           | 4,440 | 3,009       | 1,508                   | 1,703                      | 8,307  | 6,139     | 9,771                | 11,500              | 5,426         | 141                                    | <b>54,842</b> |
| <b>Share</b> | 5.3             | 8.1   | 5.5         | 2.7                     | 3.1                        | 15.1   | 11.2      | 17.8                 | 21.0                | 9.9           | 0.3                                    |               |



## Appendix 4

### 2005 Australian Graduate Salaries by Subject of Study

| <b>Discipline</b>       | <b>Median Salary (A\$k)</b> |
|-------------------------|-----------------------------|
| Dentistry               | 65.0                        |
| Optometry               | 52.0                        |
| Medicine                | 50.0                        |
| Engineering             | 44.0                        |
| Education               | 43.0                        |
| Mathematics             | 43.0                        |
| Social Work             | 40.0                        |
| Law                     | 40.0                        |
| Earth Sci.              | 40.0                        |
| Paramedical Studies     | 40.0                        |
| All Fields              | 40.0                        |
| Computer Sci.           | 39.9                        |
| Physical Sci.           | 38.7                        |
| Psychology              | 38.5                        |
| Biological Sci.         | 38.0                        |
| Economics, Business     | 37.0                        |
| Agricultural Sci.       | 37.0                        |
| Veterinary Sci.         | 37.0                        |
| Accounting              | 35.5                        |
| Architecture & Building | 35.5                        |
| Social Sciences         | 35.4                        |
| Humanities              | 35.0                        |
| Art & Design            | 32.0                        |
| Pharmacy (pre-reg)      | 30.0                        |

Source Graduate Careers Australia 2005



## Appendix 5

### Fees and Admissions Griffith and CQU Universities

Griffith University: Increased their HECS fees by 25% in 2005

| Selected field of education        | 2003 and 2004 Fees | 2003 Recruitment | 2004 Recruitment | 2004/2003 Change % | 2005 Fees | 2005 Recruitment | 2005/2004 |
|------------------------------------|--------------------|------------------|------------------|--------------------|-----------|------------------|-----------|
| Natural & Physical Sciences        | A\$5,583           | 499              | 868              | 74%                | A\$6,979  | 567              | -35%      |
| Engineering & related technologies | A\$5,583           | 364              | 443              | 22%                | A\$6,979  | 365              | -18%      |
| Management, Commerce               | A\$5,583           | 1963             | 1915             | -2.5%              | A\$6,979  | 1624             | -15%      |
| Society & Culture                  | A\$3,920           | 2102             | 2120             | 1%                 | A\$4,899  | 1869             | -12%      |
| Health*                            | A\$3,920           | 1334             | 1386             | 4%                 | A\$3,920  | 1265             | -9%       |
| Education*                         | A\$3,920           | 1793             | 1713             | -4.5%              | A\$3,920  | 1544             | -10%      |

\* National Priority areas

Central Queensland University (CQU) – 15% increase in HECS fees in 2005

| <b>Selected field of education</b> | <b>2003 and 2004 Fees</b> | <b>2003 Recruitment</b> | <b>2004 Recruitment</b> | <b>2004/2003 Change %</b> | <b>2005 Fees</b> | <b>2005 Recruitment</b> | <b>2005/2004</b> |
|------------------------------------|---------------------------|-------------------------|-------------------------|---------------------------|------------------|-------------------------|------------------|
| Natural & Physical Sciences        | A\$5,583                  | 136                     | 157                     | 15%                       | A\$6,420         | 173                     | 10%              |
| Engineering & related technologies | A\$5,583                  | 199                     | 189                     | -5%                       | A\$6,420         | 213                     | 13%              |
| Management, Commerce               | A\$5,583                  | 523                     | 531                     | 1.5%                      | A\$6,420         | 476                     | -10%             |
| Society & Culture                  | A\$3,920                  | 484                     | 419                     | -13%                      | A\$4,508         | 438                     | 5%               |
| Health                             | A\$3,920                  | 606                     | 623                     | 3%                        | A\$3,920         | 614                     | -1.5%            |
| Education                          | A\$3,920                  | 816                     | 950                     | 16%                       | A\$3,920         | 784                     | -17%             |

## Appendix 6

### Access Data

#### Access Measures Under 25

|      | Access Rate | Participation Ratio | Retention | Success |
|------|-------------|---------------------|-----------|---------|
| 1997 | 16.22%      | 0.42                | 84.11%    | 82.77%  |
| 1998 | 16.35%      | 0.42                | 81.93%    | 82.90%  |
| 1999 | 16.49%      | 0.42                | 83.66%    | 82.65%  |
| 2000 | 16.24%      | 0.42                | 83.38%    | 83.40%  |
| 2001 | 16.21%      | 0.44                | 83.43%    | 85.23%  |
| 2002 | 16.07%      | 0.41                | 85.23%    | 85.56%  |
| 2003 | 15.77%      | 0.40                | 84.71%    | 86.09%  |
| 2004 | 15.70%      | 0.39                | 84.89%    |         |

#### Access Measures 25 and Over

|      |        |      |        |        |
|------|--------|------|--------|--------|
| 1997 | 13.68% | 0.35 | 72.52% | 82.98% |
| 1998 | 13.83% | 0.36 | 69.51% | 82.82% |
| 1999 | 13.97% | 0.36 | 71.46% | 82.25% |
| 2000 | 14.16% | 0.37 | 70.75% | 83.27% |
| 2001 | 14.09% | 0.34 | 70.63% | 82.74% |
| 2002 | 14.19% | 0.34 | 69.95% | 83.37% |
| 2003 | 13.77% | 0.34 | 70.67% | 84.01% |
| 2004 | 13.72% | 0.34 | 70.49% |        |