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Student Recruitment in Higher Education

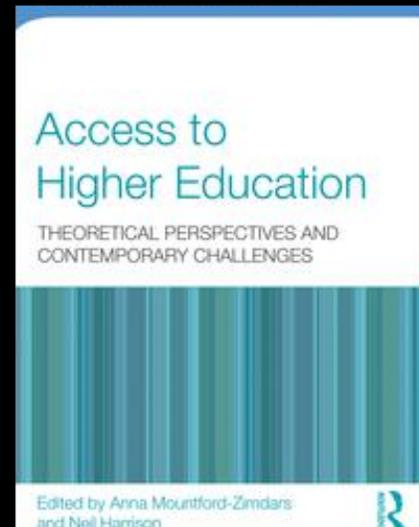
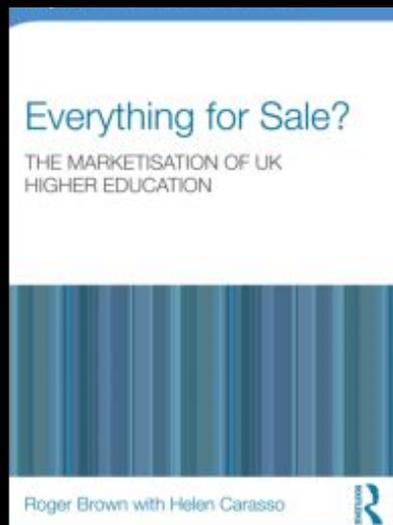
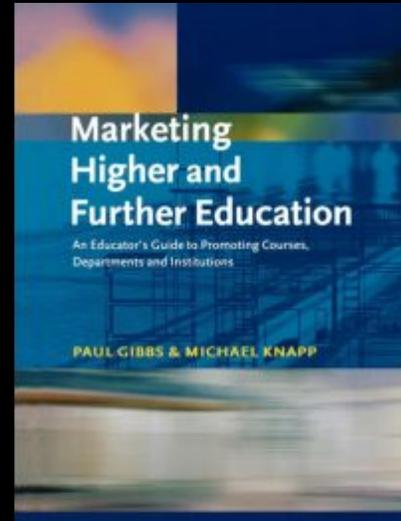
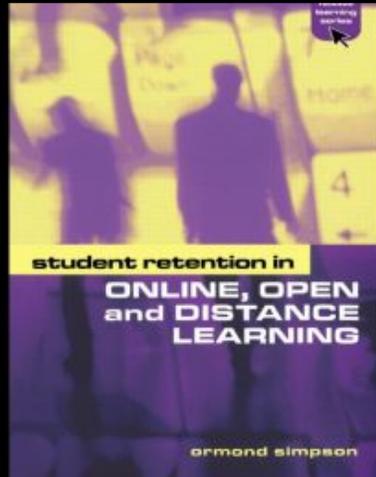
Resources for Faculty



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Introduction

Student recruitment has become a key issue for all further and higher education institutions and is a major concern among those working & entering the Higher education system. As universities look to improve the admission rates and tackle the decline in student numbers that has been seen in recent years.

This FreeBook has been created to highlight some of the main factors that influence student recruitment across the higher education sector. The FreeBook provides a selection of excerpts from a range of key titles in this area. The first chapter, *Recruitment and retention* excerpted from ***Student Retention in Online, Open and Distance Learning***, clear and accessible strategies for increasing retention, providing useful case studies and examples to illustrate how these strategies can change institutional policy and practice. Chapter 2, *Student recruitment* excerpted from ***Marketing Higher and Further Education***, provides a manual for anyone wishing to market higher or further education. It offers business-oriented guidance for readers whose main preoccupation may not be marketing itself, but who nonetheless need access to promotion skills, and it covers theory, practice and case studies. Chapter 3, *The funding of undergraduate education* excerpted from ***Everything for Sale? The Marketisation of UK Higher Education***, helps to explain the evolution of British higher education over the past thirty years, the book contains some important messages about the consequences of introducing or extending market competition in universities' core activities of teaching and research. Finally chapter 4, *Student choices under uncertainty* excerpted from ***Access to Higher Education***, highlights the contribution of social theory to issues of access to education, with chapters introducing and drawing on the works of key interdisciplinary thinkers and examines how theoretical perspectives can be applied to the contemporary challenges of forging more equal access.

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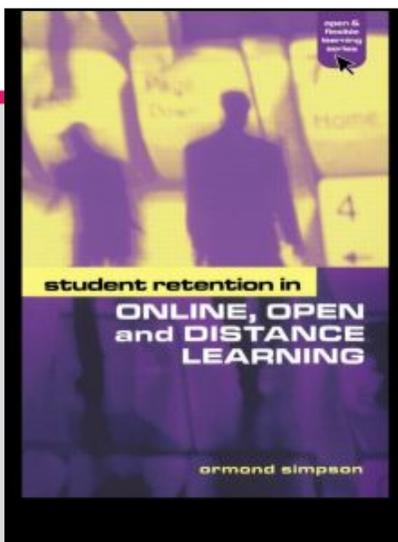
Note to readers: Bibliographies from the original chapters have not been included in this text. For a fully-referenced version of each chapter, please see the published title. Links to purchase each specific title can be found on the first page of each chapter. As you read through this FreeBook you will notice that some excerpts reference other chapters – please note that these are references to the original text and not the FreeBook.



CHAPTER

1

Recruitment and Retention



This chapter is excerpted from excerpted from **Student Retention in Online, Open and Distance Learning**

by Ormand Simpson.

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Recruitment and retention

Excerpted from Student Retention in Online, Open and Distance Learning

Chapter 3

Recruitment and retention

In order for e-learning to be effective the customer must have the ‘right’ content and the ‘right’ support system (Stevenson, 2002).

By ‘recruitment’ in this chapter I mean the processes by which potential students are attracted to the institution and got as far as course start. This will cover the processes of marketing and course registration, including induction and preparation.

Recruitment versus retention

This book is not about recruitment to online, open and distance learning, which would be a very large topic in itself. However recruitment is critically connected with retention although as Johnston (2002) points out recruitment, if not easy, is fairly widely understood in comparison with retention. There are several contrasts, as shown in Table 3.1.

But the most serious contrast—not to say conflict—between recruitment and retention is the simple dichotomy that the more successful recruitment is the higher the subsequent dropout is likely to be (see Figure 1.2). Unless the recruitment is very specifically targeted (which would largely nullify its effect), the more successful it is the more vulnerable students of various kinds will be drawn into the institution. Such students are more likely subsequently to drop out.

This is true not only for open learning but for more conventional education (see Figure 3.1—A level points are a measure of the numbers and grades of the qualifying exams for UK universities. There is similar evidence from the United States where there is a strong association between high school GPA (Grade Point Average) and persistence in higher education (Cambiano, Denny and De- Vore, 2000).

The pressures on these different areas of the institution may produce contradictory results. Thus a recruitment section may for example describe a course as rather more accessible than it is or suggest that online learning is easier than it is in a genuine attempt to encourage an unconfident potential student to enrol. There may then be a tension between the recruitment section and a retention section that is concerned to give a more accurate picture, as it sees it, so as to minimize subsequent dropout.



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Excerpted from *Student Retention in Online, Open and Distance learning* by Ormand Simpson

Table 3.1 Recruitment versus retention

Recruitment	Retention
Clear objectives.	Objectives not clearly defined.
Success easily measured.	Measurements of success are difficult to define.
Strategies largely contained in one area.	Strategies affect the whole institution.
Highly visible.	Diffuse and buried in institution.
External expertise available.	Expertise may have to be found largely within institution.

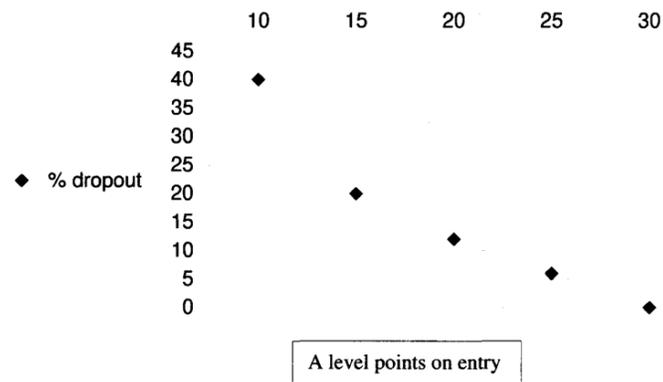


Figure 3.1 Impact of entry qualifications on subsequent dropout in UK universities
(adapted from *Times Higher Education Supplement*, 18 January 2002)

Student A was working abroad and enquired about enrolling on an online course in education. He was persuaded that online learning was the new and effective way of learning with many advantages such as being able to study from home, being able to work at his own pace and so on. Later he wrote:

What I had failed to consider was how alone I would feel, how difficult it was communicating by e-mail and how for me computer conferencing was no replacement for being able to interact with a physical person. Sometimes days



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would go by before messages were responded to and usually there were few postings and often by the same few people. Finally I ran out of time and gave up.

Student B enjoyed her hobby of scuba diving. She saw a course in oceanography advertised. The course description was mouth-watering and it sounded just what she wanted. It suggested that a ‘background in science would be helpful’ so she applied. Later she said: ‘In fact the course turned out to be really tough—it was very scientific and far too difficult for me.’

Student C had always been interested in ‘what makes people tick’. She had a good educational background, thought she would like to take her interest further and so she enrolled for a course in psychology. The course turned out to be far more academic than she had expected, much more about rats running through mazes than understanding people. Although she could understand it perfectly well, it wasn’t what she wanted and she withdrew.

Course and programme choice and retention

Yorke (1999) found in full-time higher education that ‘choosing the wrong field of study’ was the most common reason given for the decision to withdraw. Mclinden (2002) quoting the UK National Audit Office notes that ‘students need to be provided with clear, appropriate and accurate pre-registration information to ensure that their higher education experience matches their expectations’. Writing in an online context Stevenson (2002) notes: ‘E-learning...has been driven by vendors and suppliers. [There is] growing realisation within the e-learning market that in order for e-learning to be effective the customer must have the “right” content and the “right” support system.’

There are analogous findings from other situations—for example in a recent (2002) internal report the UK Ministry of Defence research arm Qinetiq found that a realistic job preview was an important factor in reducing withdrawal from military training.

There are many other studies that highlight the importance of ensuring that students are on the ‘right’ programmes or courses. It seems likely that effort put into course choice must be an effective retention strategy. But courses are complex entities. They are not just about content but about level, style, media and so on. So it is not clear whether merely providing information about courses is likely to be effective, particularly given that the students most likely to drop out may be those who are least able to interpret such information. It may be necessary to look at a variety of perspectives of courses to see which might be most appropriate in different circumstances.



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Course descriptions

Clearly the most usual entry point for new students will be the descriptions of the courses from which they are choosing. Such descriptions are likely to be the chief grounds for the recruitment versus retention dichotomy, caught between the desire to sell the course and yet be accurate. Generally such descriptions are reasonably competent at listing the topics in the course but much less effective at describing the level of the course and the skills needed to progress in the course. Typically for an academic course the authors are forced to rely on terms like 'look', 'explore', 'examine', 'illuminate' and 'introduce', which are inherently imprecise.

This for example is the description of a UKOU course taken from its brochure. Later in the chapter we can see different perspectives on this course from students and tutors to help us to see how far the course lives up to its description:

Human biology and health

This course presents human biology in a way that directly connects it with health. It uses the human life span to explain how the body grows and matures into a healthy individual, and looks at human beings in a social, cultural and environmental context. The approach is in part a developmental and holistic one, emphasizing the dynamic nature of the human body and its interactions with the environment. The course will suit you if you have a special interest in biology and health, but it also offers an introduction to human biology for those studying arts and social sciences.

There are other more detailed course descriptions sent to students after registering on the course. These contain more detailed descriptions and suggested entry behaviour and preparation. However the evidence suggests that once intending students have made a decision about a course they are surprisingly hard to shift (see 'Course choice—advice and guidance' below) and that further information tends to be assimilated into the decision the student has already made. In any case the extra descriptions often simply repeat the same generalities at greater length.

In addition it seems probable that course descriptions need to describe both entry and exit behaviour—the skills and qualifications that are expected of students at the beginning of the course and where the course might lead in terms of further courses, qualifications, employment and external recognition. As the parent of preuniversity entry children, I am surprised at how few UK universities have such information easily available,



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particularly the course exit information.

Course choice—advice and guidance

Most student advisers in online, open and distance education would say that ideally a student should go through a process of advice and guidance with a specialized adviser before selecting a course. Although in theory this could be carried out at a distance by phone or by e-mail for online courses, in practice the option is likely to be far too expensive for institutions that are relying on mass entry.

Some institutions attempt to identify intending students who may have made apparently poor choices and proactively contact them. However this identification is not an accurate process so may well miss many students who should be advised.

In any case there is evidence that students are resistant to advice even coming personally and directly from an adviser. Johnson (2000, unpublished) in a followup of students who had been given advice by advisers to change their courses found that the number of course changes resulting from direct advice was small. Advisers appeared to be more successful in persuading intending students to reduce their course commitments from (say) two courses to one but students would still maintain one of their original choices even where advisers thought it to be at the wrong level for them.

Given the cost and apparent relative ineffectiveness of personal advice it may be necessary to rely on course advisory materials delivered by correspondence or online. There are a number of possibilities.

Diagnostic materials

Diagnostic materials are an obvious resource for course choice. They can be externally assessed by the institution or self-assessed by the student.

Externally assessed diagnostic materials are likely to be too expensive for most institutions to use on any large scale. They do have one substantial advantage— they can cover a wide range of discursive skills in written media, which are hard to self-assess. On the other hand in open and online schemes they can look very much like entrance exams. Ashley (1986, unpublished) found with a voluntary diagnostic system that the most vulnerable students were the least likely to submit work and therefore the least likely to receive feedback. It may be that externally assessed diagnostic materials are most useful



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as ‘formative assessments’ (see Chapter 8).

Self-assessed diagnostic materials—materials sent to intending students for them to work through at their own time and pace—are much less threatening than externally assessed materials. However since they involve students ‘marking’ their own work it’s hard to devise materials for assessing the writing skills needed in arts and social science subjects, although it may be possible to devise self-assessed basic literacy tests—particularly using simple online quiz software to test vocabulary and structuring skills. So at the moment it seems that self-diagnostic materials are more appropriate to maths, science, technology and perhaps language courses.

This is an excerpt from a diagnostic quiz for the UKOU Human Biology and Health course:

Q1. Which one of the molecules listed below is not involved in protein synthesis

- Messenger RNA
- Ribosomal RNA
- DNA
- Lactic acid
- Transfer RNA
- Amino acids’

There are nine further similar questions. The rubric then runs:

‘If you find these questions difficult to understand or answer, this does not mean you should not attempt this course, but suggests that you might find it helpful to do some preparatory work around the core biological materiaJ in the course, or to review your basic study skills.’

This is another excerpt from a diagnostic quiz for a UKOU French language course:

‘Please mark what you think is the most suitable word or phrase to fill each of the gaps in the text below.

Colette revient avec une (1)



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dame, bizarrement (2)

pour la saison: elle porte une grande cape de (3) ?

The choices offered are:

a. pauvre b. vieille c. gracieuse d. seule

a. maquillée b. coiffée c. habillée d. colorée

a. bois b. riz c. feuilles d. laine

and so on with a score for each. After several similar tests the rubric runs:

'Score

- 70+ You are well above the level required for this course and should seek to do a higher level course.
- 60–70 You will have no problem completing this course.
- 40–60 This course is at the right level of challenge for you.
- 20–40 You will find this course challenging but you should be able to cope with it
- 0–20 You will have many problems and you would be well advised to seek an easier course before attempting to study this course.'

The contrast between these two tests appears to represent the recruitment versus retention dichotomy. In the science example the feedback offered as a result of doing the test is worded so that almost no one could be put off doing the course. Doubtless the authors would argue that giving too definite feedback (as in the French diagnostic quiz) would rule out students who are on the margin of being able to do the course. But by offering feedback that is not definite the authors of the quiz may render the quiz unhelpful to students.

Thus Williams (1998, unpublished) found that there was little evidence that these diagnostic quizzes in science produced substantial course changes amongst prospective students. Whether this is connected with the rather less definitive feedback on the science quiz as compared with the language quiz is not clear as the languages quiz has not been evaluated.



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Maths diagnostic quizzes have proved more successful, perhaps because they can be taken before a course choice is made and can work by directing intending students to courses—‘If you scored X on your test you should take course 1. If you scored Y you can safely start with course 2.’ However such tests can still have limitations as they generally only indicate the level of a course not the content.

Student M started a maths course and progressed well for a month or so. He then withdrew and when contacted reported: ‘I found the course OK for level but I hadn’t realized that it would be so pure—I was looking for a course on real-life mathematics and this wasn’t it.’

Self-assessed diagnostic materials are evidently attractive—they are cheap to produce and relatively easy to put online and make interactive. But the evidence for their success as a retention activity is still limited.

Course preview materials

‘Course previews’, ‘taster packs’, ‘samplers’ or whatever they are called are short ‘test drives’ of a course. Depending on the course they might contain:

- a short extract from the course;
- a sample assignment;
- a student’s answer to the assignment with tutor’s comments and grade;
- an exam paper, if appropriate;
- a study calendar for the course.

Thus an intending student can work through a pack either in hard copy or online and hopefully get a brief taste of what it’s like to be a student on that course. Of course this idea is hardly new—the concept of the ‘test drive’ is a very old one and has always applied to books, which is what browsing is all about. I note that book browsing is now available on the Internet, as Penguin Books now offer the possibility of downloading the first three chapters of their latest releases for free. Thus course previews may even be a sales initiative for institutions prepared to invest the time to put materials on the net.

There are a number of arguments against the course preview approach, the first of which is that it’s impossible to select a completely typical part of a course, which is clearly true.



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The second criticism is that extracts may be from parts of the course that intending students cannot understand, not having studied the preceding material. Intending students may therefore be unnecessarily put off by the material.

As far as is known the second criticism doesn't seem to apply—intending students seem able to appreciate that what they are reading is out of context and therefore not necessarily immediately explicable. Certainly Adams, Rand and Simpson (1989) found no evidence of intending students being unduly deterred. And course preview packs can be one of the few ways in which intending students can get an appreciation of how long it might take them to study—if a pack is selected to be roughly an hour's worth of study then intending students who take considerably longer than that should become aware that there may be a time issue in their studies.

Of course the material should itself be heavily caveated so that students are aware of these issues.

This is the introduction and 'health warning' that is used with the 'taster packs' issued by the UKOU:

Introduction

Welcome to the Taster Pack for the course you plan to study. This pack has been designed to give you a taste of what it is like to study with the Open University. It is made up of extracts taken directly from the course material. We hope that by browsing through the pack you'll get a feel for the level of the course, its general style and approach, the topics covered and the time you're likely to need for studying.

Health Warning!

We hope that this Taster Pack will be helpful to you but remember...

It's a tiny sample (rather less than 1%) of a large course and so can only give an approximate idea of content and level.

Because we have tried to represent the course as accurately as possible extracts may have been taken from part way through. We have tried to select material which does not rely too heavily on what has gone before but occasionally concepts may be used which were more fully explained earlier in the course.



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The Taster Pack is intended to give a general overview not to act as a preparatory pack. If after reading the pack you would like further advice on preparatory study please contact us.

What research there is into the use of preview materials suggests that students who use them are better aware of the course demands. In a survey of distance education in the UK further education sector Hawksley and Owen (2002) found that only 28 per cent of students had seen any examples of their course before starting but 76 per cent of those who had said that they had found it helpful.

Such materials are low-cost to produce as the material, whether in print or online, is already available but further research is still needed into their cost- effectiveness as retention activities.

Some distance learning institutions allow students to return their first mailing of course material within a short period with a refund of course fees. This may be good for retention if it prevents students embarking on a course that is not suitable for them. But if it is then too late for students to start another course they will still show up as dropouts.

Students' comments on courses

Another perspective on courses can be provided by students who've taken those courses previously. Such comments may carry a weight with intending students that material from the institution may not. There have been more or less unofficial students' comments on institutions and their courses in students' union brochures for many years but for online institutions it can be easy to collect and place such comments on the Web suitably edited.

This is an example of a Web page of students' comments on a UKOU course gathered through surveys and available on the www.open.ac.uk/courseviews Web site:

COURSE: Human Biology and Health

'This course was very interesting and challenging. Compared to other second level courses, the standard of assignment marking was pretty tough! Human biology is appreciated in a different perspective from in our school days. Throughout the course one is reminded that human beings influence, and are influenced by, their environment. In this respect, the course is refreshingly different—hard work, but enjoyable.'



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‘Very useful course; considerable workload. Holistic approach can be difficult to adapt to—but generally informative and directive, especially with respect to developments in healthcare. Good historical aspects, broad coverage—comprehensive—some new concepts. Word count limits for essays minimal—with hindsight possible to see why!!’

‘I found there was an awful lot of work The assignments took me 10–12 hours each. I would have liked five weeks’ revision, as I had to re-read books 1, 2 and 3 completely Given more time I think I could have done more justice to the course. However I found it really interesting, and well written and illustrated.’

‘A very interesting course. I enjoyed it immensely. Some medical/ nursing knowledge is helpful as there is a great deal of course work and detail for a 30– point course, and if you already have some terminology and definition in your vocabulary this helps. An understanding of basic chemistry is also useful. As a nurse I found this course helpful in explaining in greater depth some anatomy and physiology which I’d only ever looked at superficially. A great course.’

These comments are fairly positive although there is considerable agreement about the heavy workload of the course. And given that the course description outlined earlier in this chapter claims that the course is suitable for students from an arts and social science background, the last student comment about the usefulness of some medical and chemistry knowledge is interesting and suggests that there may be a recruitment/retention conflict around the course.

Such comments from consumers are likely to carry substantial weight with intending students and may be more likely to make them revise their study plans. Of course it will be necessary to caveat any selection of comments to remind readers that these are only a selection of views and that different students will have different perspectives.

Difficulties may also arise when the recruitment section or faculty responsible for the course take exception to any negative comments. But it is hard to see that comments can be effective if they just become advertising blurbs.

However there are few data as yet on the effectiveness of such materials for retention although the UK government recently indicated its interest in requiring institutions to set up such sites where graduates can place their comments on courses run by that institution.

An additional possibility in some institutions may be to collect comments from the tutors teaching courses.



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Here for example are some comments on the same course as before from tutors on the same Web site:

COURSE: Human Biology and Health

‘Challenging for those with no previous biological knowledge. Interesting and relevant to us all—what, after all, is more important than our own health? Includes conventional health areas such as nutrition and genetics, but also covers more unusual areas such as sexual dysfunction and sleep.’

‘For a 30–point course, a lot of reading material to be covered in the five texts: however the work is well presented and well illustrated and very interesting. Should be regarded as a predominantly science-based course with some sociological and psychological input as it is 80% physiology and 20% health issues. No previous knowledge needed.’

‘Human biology (minus genetics). Be prepared to familiarise yourself with chemistry—the course books are very lucid and helpful, but remember this is a second level course, and if you managed to “escape” science at school, here is your chance—but needs extra time for novices.’

Such comments tend to be less valued by students as they are seen as part of the ‘sales pitch’. Nevertheless they may still carry some weight in terms of offering ‘competing perspectives’ on a course (see below).

Students’ online conferences on course choice

The Web pages described above are essentially read-only and do not allow intending students to discuss or ask questions of existing students. I have described in *Supporting Students in Online, Open and Distance Learning* (Simpson, 2002) a FirstClass™ computer conference for existing students where they can discuss their future course choice with each other. Of course intending students will probably not have access to such a conference until they register and gain access to the institution’s systems. Then again there are many freely available ‘chat rooms’ on the Web such as MSN, Yahoo, Smartgroups.com and so on that could be used for this purpose. I return to this idea in Chapter 4 as there are other implications of such a system.



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‘Taster’ courses

An old idea that may be worth reviewing in the context of course choice is the ‘taster course’ concept—a short, specimen, un-assessed course that gives a sample of not just the content of a course (like a course preview) but of the style and media that are used. Brightwell and Simpson (1983) set up a series of such courses and evaluated them. The courses consisted of a series of face-to-face tutorials on each of the then UKOU foundation courses. The tutorials were on topics selected from the courses by experienced tutors and offered through the facility of local adult learning centres as a series of evening classes. The content of the tutorials was selected to be accessible and the style was interactive.

The evaluation suggested that the taster courses were enjoyed by prospective students, who were enthusiastic about the prospect of going on to the particular foundation course that most appealed to them. However a later follow-up suggested that the initiators of the project had invented possibly the world’s most expensive recruitment exercise as the number of students who finally registered was quite small given the cost of laying on the courses. Neither was it possible to draw any safe conclusions about the retention rates of the students who did register as the element of ‘self-selection’ (see Chapter 9) was so great.

The opportunities for full-time education providers to run taster activities are much greater and there is considerable interest currently in ‘summer schools’ and other short taster courses especially aimed at potential students from underprivileged backgrounds as part of various widening participation activities. Whilst they are apparently successful as recruitment activities I have not seen any studies that evaluated the retention effect of such courses.

The advent of online courses has revived interest in the idea and there are a number of providers who offer short online experiences of their courses in a more interactive way than just providing taster materials online. The provision of such courses can be much cheaper online but again I am not aware at the time of writing of any research that links such courses with the eventual retention of the students who take them.

‘Competing perspectives’ on courses

I have dealt with different methods of helping students make the ‘right’ course choice at length, as course choice appears to be so critical to retention. There is insufficient research to establish how effective any one of these methods is in that respect but I



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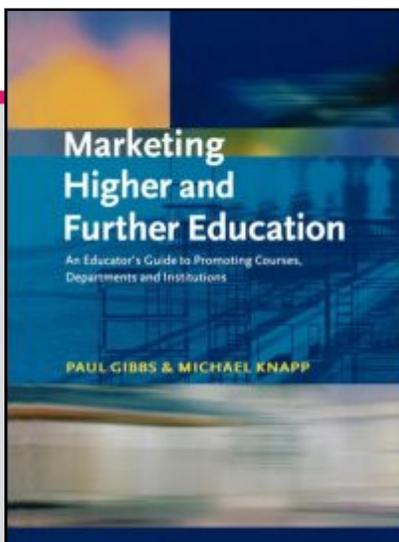
suspect that no one single method is suitable for all students at all times. Indeed a course may be like a work of art in that there is no single description or reaction that is correct—there is simply a set of competing perspectives, and different students will use different perspectives to make their choice.



CHAPTER

2

STUDENT RECRUITMENT



This chapter is excerpted from *Marketing Higher and Further Education*

by Paul Gibbs & Michael Knapp.

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STUDENT RECRUITMENT

Excerpted from *Marketing Higher and Further Education*

Student Recruitment

Kotler and Fox (1995: 393) state that: 'Students provide most educational institutions with their reason for being.'

Enrolment management encompasses both the recruitment of new students and the retention of continuing students. Often institutions have not used available data to understand who stays and who leaves or to develop retention strategies. In this chapter we will deal with the application of marketing principles and we will include examples and references to sources of help but, before you contact them, you need to formulate the questions that you need to have answered. You need to plan what kind of students you want, what the attributes that enhance the institution are, why you need the students, what you can offer them and how you are going to keep them.

The notion of diversity of college and university missions is very important to the richness of the sector but this is only true if the institutions live their mission. An open access institution that is found to have lower than average enrolments from a particular ethnic or socio-economic sector, or from mature or part-time students, is clearly not living up to its mission. The same may be said of an institution that favours research achievement over teaching. Distinctiveness in corporate mission is attractive to students but faking or deceit is not. The image of the institution needs to be clear to students so that they may have some idea of what they are buying with their time and money. So, the first point in the recruitment of students (and of research students and staff) is to plan what you want to become and then carry out the plan. For many that might mean throwing out the complex but beautifully bonded corporate strategy and starting from the reality of an existing position grounded in the market for students they have taken. Question why students are attending your institution, what you provide for them and how you could do it better. You can always change the position, course by course, department by department, but know first what you are now.

When we know what we are, we can begin to build a proposal to attract students. Many techniques have been tried from vice-chancellors photographed in public houses astride bucking broncos to cinema advertisements and local television slots. All of these can make a valuable contribution to the image of the institution and this message can be effectively delivered to your market via direct mailshots, school visits, department open days, and Web site development. The media can all be valuable provided we know what impact they have in contributing, directly or indirectly, to the attractiveness of the benefits we offer the potential student. They need to be targeted and evaluated.



STUDENT RECRUITMENT

Excerpted from *Marketing Higher and Further Education*

Attracting the Student

The design of an integrated market plan goes beyond a well-designed and delivered promotion plan. It goes into the realms of the institution as a product in itself. What are the core perceived attributes that help students decide to attend the institutions? They might include the scenic location or the city or campus location, but what these attributes are and how they influence decision makers needs to be unpacked.

Locality might be important for part-time students if they are even to be able to attend. Closeness to work or home is often important to them. Locality might also be important because it is close to a national centre not of learning but of nightlife! It might even be important, in the UK, that the local soccer team is doing well! Some of these factors are out of the control of the institution but others, such as expense and the style of accommodation offered to students, are within the control of the institution. Indeed the best attributes that the institution may have to offer is not its rated research team but its accommodation, bar and sports teams.

So if location is a crucial deciding factor for your potential student cohort then ensure that you understand what they desire and how they want to engage with it. Once you understand then, if possible, exceed their expectations. For the more mature student, the quality of your taught programmes might be the critical factor. The global move to performance indicators will make the institution's performance in these areas ever more transparent and resources need to be put behind those features that the institution is best able to influence. These then need to be marketed to those you feel have best competitive advantage. Securing student first choice status really does help planning and ensures that the whole institution uses its resource to its best advantage.

Also make sure you know who makes up the market. It might not just be the student who registers at the beginning of term. The student or staff member may often seek advice from others so it is important to understand whose endorsement they are seeking as well as the decision framework. If these attributes cannot be accommodated then dissonance occurs that delays decisions and causes concern after the decision is made. Post-purchase dissonance is likely to happen on any major purchase that involves considerable commitment.

Theories Of The Consumer

The question of 'who is the consumer of higher education' is complex. The education



STUDENT RECRUITMENT

Excerpted from *Marketing Higher and Further Education*

experience is undertaken by the student, who is usually considered the consumer, but it may not be the student who selects the experience or the institution, and it may not be the student who pays for it. If society's needs are considered, the student may be only one of the actual beneficiaries of the education product. Parents and family represent other possible consumers, particularly as purchasers. They often constrain the choice of institution and substantially underwrite its costs. The family is not generally a significant beneficiary of the student's education, except by sharing in whatever symbolic value it may provide. Society at large substantially underwrites much of the cost of the education experience and might be considered the consumer. Its interest is more generalized, but more utilitarian in that it wants an educated citizenry and an educated workforce of a certain magnitude and level of preparation.

It is important to observe and allow for alternative channels of communication and incentives to elicit responses from the market. Those with fewest monetary resources also have needs for consumption, some of which can be met in non-market exchanges through social networks. In other situations they may resort to using political channels rather than market interaction to communicate needs, resulting in various forms of government interaction in the market. Regulation may be used to modify some consumer barriers, for instance, or public agencies may be created to provide products in a way and at a price that the market does not, as in the case of public education at all levels. Such interventions assume a posture that is sometimes adversarial to the market and its participants.

In higher and further education, as with some other complex industries, communication through the market can be slow and highly ambiguous. In the market for student enrolments, the consumer and the product are not clearly identifiable. If the consumer is specified as the individual student, and if students were able to freely select the specific education experiences they desired, programmes would look different. Parents and society, as consumers, usually articulate much broader preferences. They want meaningful degrees, an assortment of skills, and distinguished achievement.

The market for students is highly segmented, suggesting that consumers are communicating their preferences. There are segments for a great many individual programmes and degrees, and for a wide range of institution sizes and types. American higher education, for instance, is considered the most diverse in the world. This array of choices has occurred through entrepreneurial entry and identification of niche demand, and through consumer choices expressed through the market. Where consumers have lacked access to desired programmes because of cost or other barriers, they have moved



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politically to have those programmes implemented at some public cost, or have passed laws requiring removal of particular barriers, such as prejudicial admissions and disability barriers.

Society is concerned about the number and qualifications of graduates, but the interaction with the community is more complex. Institutions and those who use them both assume roles of producer and consumer, and often the community is unaware of the nature of this relationship with an institution, or is unaware that it may be participating in a market exchange. The institution must work harder to determine the value aspects of its offering in the exchange, because the community is less adept at revealing them. The shaping of an offering on the part of the producer requires an understanding of consumer needs. This calls upon the producer to consider the implications of the offering for the experience of the consumer.

The Consuming Experience

One approach to the consumer is to examine the experience of consuming, rather than simply the decision to purchase (Holbrook, 1987). The idea of separating the purchase decision from the act of consuming has less relevance perhaps, for retail oriented marketers, but it is significant for service marketing and instructive in considering the consumer in higher education. Consumers are primarily engaged in consuming behaviour rather than buying behaviour, and consuming is not a decision or brand choice activity. The behaviour of consuming focuses on intangible factors rather than tangible ones, and represents investment of time, effort, and ability, as opposed to money. There are also complex emotional components in the experience of consuming. Finally, whereas decision behaviour regarding product choice is conveniently bounded in time, consuming behaviour may not be.

The decision experience for the traditional student, including campus visits and other preparatory activities, may extend over the space of a year, but the consuming experience is substantially longer and more intensive. The investment involved for the consumer is monetary, to be sure, but higher education is consummately experiential. The consuming experience may be attached to objects and activities, which are tangible and directly observable phenomena, but the objective of the experience is quite intangible and barely measurable in many of its important dimensions. The real consuming activity is the engagement of some cognitive and affective change. The durability factor also suggests that the consuming behaviour - the use of the education experience - does not end with



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conferral of an award. It extends to some degree throughout one's entire life.

The consuming experience for grant and contract funders is more structurally bound, but the experience for donors does extend beyond the decision to bestow. Donors receive recognition and certain benefits, many of them intangible, from their beneficence. Successful appeals to donors are known to give particular attention to donor experiences.

Informed Consumers?

We have avoided much standard textbook marketing in this book but, having introduced consumer behaviour, we want to consider two critical elements: informed consumers and the degree of involvement in the decision made. Informed consumers, because of their knowledge, are assumed to make rational decisions about their consumption behaviour, seeking to satisfy their needs and desires. However, those who pass for informed consumers in many sectors clearly make decisions with incomplete information. Educational institutions have made major strides in providing information for students, enabling donors and other stakeholders to realize the consequences of their choice and this is good. The brash advertising for chocolate bars is acceptable for this product group for in most cases the consequences of a wrong decision are minimal. Consumer education, is different and great restraint is required.

A high degree of involvement in the decision assists good decision making. If something is important to you, you are more likely to put more resources (particularly time) into making the right decision. For the student this is not as obvious as it might seem, given that the student's future is at stake. It might seem that following in father's or mother's footsteps is 'the only real option open' - or better than the other alternatives. Or a student might choose a short course for social rather than scholastic reasons. High-involvement decision-makers are often the ones most institutions want to attract for they have consciously investigated their options and made their informed decision, and in doing so are more likely to stick with the course or institution they have chosen. High-involvement decisions are usually those that reflect upon the self-image of the decision maker (hence the change of name from 'polytechnics' to 'universities' in the UK in 1992). They can involve personal or economic sacrifices and often carry a risk of getting it wrong. All these attributes are present in the less long-term decisions about which logo to wear on a pair of shorts or which team to support or which books to say you have read. Education is not outside the power of the brand/self-esteem interaction.



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So how do students make the decision about an appropriate institution for themselves? Table 9.1 gives some clues.

Table 9.1 On what information source students decide on their Colleges and Universities, USA and UK

USA (1998)		UK (1999)	
Internet	3%	Current students	75%
Current students	16%	Guides	65%
Alumni	7%	Internet	31%
Campus visit	24%	League tables	40%
Publications/ mail	21%	Parents	89%
Parents	15%	Teachers	85%
Reference book	10%	Uni. prospectus	97%
Teachers	15%	Visits	90%

THE EFFECT OF EXPERIENCE

Another influence on the decision-making process will be experience. Those with experience of making a particular or similar decision will make quicker choices than those with no experience. But don't underestimate the speed of choice. Often, the quicker the decisions are made, the smaller the number of attributes that contribute to the choice. This has little to do with the amount of information available or even how accessible it is. The content of the selected and restricted number of options that are usually used to make decisions is what is important. Indeed, if we did not reduce our complicated and complex world into small chunks, knowing we are forgoing opportunities, we would be hard-pressed to take any action at all. Being in this 'choice set' for the target student groups is really important. If you are not in it, you are not even considered. This is one of the real problems that the Oxford and Cambridge colleges suffer from when they attempt to widen participation. Once you are in the choice set, it then becomes important to know who else is in it in order to position your proposal to its best advantage. It is even more important to recognize that you will not always be chosen but that you must remain within the set for your desired students. This argues for targeted marketing, shaping your communication to the attributes of the students you want. This sophisticated marketing is missing from much university and college literature, which seems to treat the whole of the potential student market as a homogeneous mass.



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Target Marketing

Selection criteria vary considerably between individuals and organizations, those who are buying courses for themselves and those buying for their employees' benefit. Taking the individual student first, getting into a particular choice set requires understanding of both the direct and the indirect influences on the decision-makers. As Figure 9.1 shows, some of the different contributors to the purchase decision can be:

- the initiator who suggests a reason for learning and for taking a programme;
- the influencer - the one who carries the authority of special advisor in the reference group the student consults;
- the decider - usually the one who pays, either in terms of time or some other resource (in organizational purchases this might be the human resource manager rather than the student);
- the user, who takes the programme.

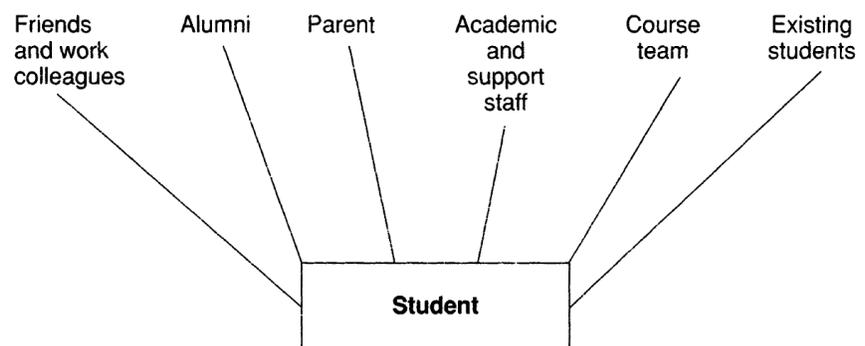


Figure 9.1

In Figure 9.1 many people might play one or any of the roles in the decision-making process and so the institution ought to have strategies to influence the impact of each of the groups.

Influencing these groups first requires understanding about what their perceptions of you are on the criteria upon which they make their choices when asked for advice. This is not



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an easy task. You must then change the reality and perception of the key attributes upon which the selecting group make their judgements. This might involve absolute or relative changes linked to others in the choice set. It might even mean trying to move the decision timetable. In the UK, universities offer unconditional offers only to students who have obtained the final entry requirements to an institution. Offers are usually made before the quantifying qualification is obtained and are conditional on them. Some colleges might decide to make unconditional offers on the findings of other assessment criteria from earlier qualifications such as the UK AS levels. This might change the image held of the institution by the student, for it could be interpreted as showing that the institution really wants the student. This might be appealing because it would reduce the pressure on achieving specific grades in final examinations and so might make the student more disposed to the institution. It might very well enable some institutions to be more successful at recruiting appropriately qualified student than is currently the case.

We have tended so far to concentrate on students purchasing programmes of study to achieve large substantial awards such as degrees at undergraduate and postgraduate level. Colleges and universities offer much more to their adult markets. The development of work-based learning, continuing professional development and just-in-time training and advisory programmes is becoming ever more important. The way in which the consumer buys, however, is likely to involve the same issues as discussed above.

The marketing process does differ where the transaction is not with individual learners but with other organizations. Organizations buy goods and services to make a profit, so the interest in a programme that you might be proposing to run ought to have a benefit that secures or increases their profit, or helps them to realize their societal and legal obligations. Here the decision-making is longer and is usually more complex. More people are involved in the actual decisions - this is particularly true as the size and cost of the training, consultancy or educational contract increases. It will often require more energy and time to secure success and it means adopting the commercial template of behaviour that is familiar to the purchaser. The critical success factor will include professionalism, flexibility, location and speed of delivery. The reputation of the institution will be important but secondary to the outcomes required of the training or consultant project. In business-to-business transactions, ensure that the value gained by the consumer is explicit and measurable, talk business and behave within your mission.



CHAPTER

3

THE FUNDING OF UNDERGRADUATE EDUCATION



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by Roger Brown with Helen Carasso.

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THE FUNDING OF UNDERGRADUATE EDUCATION

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The funding of undergraduate education

But there is also a third challenge. To make the system for supporting students fairer. Having a university education brings big benefits and while the Government will continue to pay most of the cost involved in studying for a degree, it is also reasonable to ask students to contribute to this (DFES, 2003, p. 2).

Currently, one of the barriers to alternative providers is the teaching grant we pay to publicly-funded HEIs. This enables HEIs to charge fees at a level that private providers could not match, and so gives publicly-funded HEIs a significant advantage. Our funding reforms will remove this barrier, because all HEIs will – in future – receive most of their income from students via fees. This reform, of itself, opens up the system (Willetts, 2011, p. 2).

Introduction

The costs incurred in studying for a degree are conventionally considered as falling into two categories: the funding of teaching and the funding of student support, i.e., living costs (what in the United States is called ‘aid’ and what is here called ‘maintenance’). These distinctions will be used here as we consider both the marketisation of the funding of undergraduate courses (fees – paid directly by the student or from a scholarship fund – have always been a major means of funding postgraduate study), and changes in the funding of student support. Most of this chapter will refer to the situation in England, but we will also look more briefly at changes in the funding of undergraduate education in Scotland, Wales and Northern Ireland since these began to diverge from England after 2000. Except where indicated, no distinction is made between full- and part-time courses. Historically, the main difference has been that subsidies for part-time courses have usually been lower than those for full-time ones. However, the new student funding regime from 2012 extends income-contingent fee loans to part-time students for the first time, although the terms are not quite the same.

The main issues in the funding of teaching include:

- The balance between tuition fees (‘fees’) and government grants (‘grants’ or ‘block grants’) as the means by which institutions fund their teaching.
- (Linked to this) the proportion that fees represent of the cost of provision.



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- Whether the fee varies by provider.
- The extent to which the student is required to meet the fee costs (a) from his/ her own pocket and (b) up-front, in advance of embarking on the course.
- The balance between public and private contributions to tuition and maintenance costs, what has become known internationally as 'cost sharing' (Johnstone, 1986).

In the funding of student support the main issues include:

The extent to which non-repayable means-tested support (whether through grants, the new National Scholarship Programme or institutions' own bursaries) is available to cover costs, and thus reduce any financial barriers to participation.

The basis on which loans for student support are subsidised and the terms on which they are to be repaid – with the principal contrasting models often referred to as 'income contingent' and 'mortgage-style'. Within this debate, there is particular interest in the extent to which different models of subsidy may, or may not, be considered regressive (i.e., favouring those who are already better off, possibly at the expense of those from lower-income groups).

Historically, British universities received a significant proportion of their income from fees. But with the post-war expansion, block grants came to replace them. By the 1960s, fees represented only a small part of institutions' income for teaching, and there was no fee competition. Moreover, the fee was usually paid by the Government: Halsey (1995, p.12) even described full-time university students at this period as 'state pensioners'. In the case of maintenance also, the UK has historically had one of the most generous regimes, especially for those not studying from home (Johnstone, 1986). Following the 1960 report of the Anderson Committee (Anderson, 1960), a means-tested maintenance grant payable by local education authorities to students on most full-time courses was introduced in place of the previous mish-mash of county and state scholarships. Half a century later, the position has changed almost completely. Fees and maintenance continue to receive a subsidy but this is much reduced and is mainly delivered indirectly, through favourable terms offered for student loans. Fees are intended to cover all or most of the cost of teaching most subjects, and the level of fee varies by provider.



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The key developments that took place between 1979 and 2012 to achieve this significant shift in the sources of funding for the teaching of undergraduates and for their living costs were:

- The Government's decision in 1979 that fees for overseas students should no longer be subsidised, so that in future they should be charged full-cost fees.
- The Government's decision in 1989 that the fee level for Home/EU students should be substantially increased, so that a higher proportion of the cost of teaching would be met from the (still subsidised) fee.
- The freezing of the student grant in 1990, and with this the introduction of subsidised, mortgage-style loans to cover an increasing share of living costs.
- The introduction in 1998 of a means-tested, up-front, fee of £1,000. In parallel, although generating surprisingly little comment at the time, the abolition of maintenance grants, so that even those from the lowest income families had to fund their living costs through student loans, albeit operating under a subsidised, income-contingent scheme. Grants were reintroduced in a more limited form in 2004.

The introduction in 2006 (in England) of a variable fee regime under which institutions were allowed to charge up to £3,000, with the fee backed by a government-subsidised, income-contingent loan (so that the cost of the fee would not need to be found initially from the student's own resources). Block grants linked to student numbers continued to be available towards teaching costs, but now represented only about 60 per cent of the institutions' funding for teaching, compared with nearly three-quarters before 2006. Institutions charging the full £3,000 – which turned out to be the vast majority – were obliged to make at least £300 available in the form of annual bursaries for students from low-income households; this and other measures to increase participation were included in institutional Access Agreements, policed by a new regulatory body, the Office for Fair Access (OFFA). The means tested grant scheme was also enhanced.

The introduction in 2012 (in England) of a variable, full-cost fee regime under which institutions are allowed to charge up to £9,000; at the same time block grants for teaching will be removed for all but the so-called SIVS ('strategically important and vulnerable subjects' – laboratory sciences, mathematics, quantitative social sciences, area studies and modern foreign languages) and a number of other priority areas. Income-contingent



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loans to cover fees and maintenance continue to be available at subsidised rates, although for high-earning graduates the rates of subsidy are lower.

The rest of this chapter considers these milestones and the wider context in which they occurred in more detail, beginning with the introduction of full-cost fees for overseas students in 1980.

Overseas student fees

As far back as 1963, the Robbins Committee had drawn attention to the historic subsidies for overseas university students as a form of foreign aid. It recommended an increased fee for both Home and overseas students as well as a fund to help needy overseas students (Committee on Higher Education, 1963).

In December 1967, the Labour Government did introduce a differential fee for overseas students, but one that was still well below cost. Then, in 1969, as one of Mrs Williams's '13 Points' (see p. 78), the Government proposed a more restrictive admissions policy for overseas students; yet in spite of government requests to universities and education authorities to stabilise recruitment, numbers continued to grow.

With this pattern of admissions nationally, it seems almost certain that any administration after 1979 would have returned to the issue, although the complete removal of the state subsidy does not appear to have been contemplated until then (Williams, P., 1981). In November 1979 the new Conservative Government published *The Government's Expenditure Plans for 1980/81* (HMT, 1979). Given the overriding need to reduce public expenditure and the political pressure to give priority to Home students, the Government considered it right to remove progressively the subsidy in the education budget of around a £100 million a year on provision for overseas students. From the start of the academic year 1980–81, all overseas students beginning courses of higher and further education in Great Britain would be expected to pay a fee covering the full cost of tuition (Williams, P., 1981). Accordingly, the 'minimum recommended' fees for new overseas students were raised from £940 (undergraduate) and £1,230 (postgraduate) to £2,000 for arts courses, £3,000 for science courses and £5,000 for medicine (the same fees applied to both under- and postgraduate courses). This was an average increase of nearly 300 per cent (Williams, L., 1987).

The November 1979 announcement was criticised by a wide range of bodies, the main concern being that the wider educational, commercial and political benefits of an open



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policy towards overseas students were being put at risk. There were also protests from overseas governments and their local representatives. In response, the Government made a number of concessions, excluding EU students (other than Greece before September/October 1981) and introducing an over-seas postgraduate research scheme for students of high calibre to enable them to study at the same fee level as British ones. However, the full-cost fees regime remained in place. Overseas student numbers fell for a few years but then resumed their upward trajectory (Greenaway, 1995).

Commenting on institutions' responses to the new regime a few years afterwards, Peter Williams wrote:

For almost the first time British public education institutions had been aware of being in a market in which the customer calls the tune. Instead of the selective supply-oriented system in which institutions would choose from a queue of applicants, the course designers have had to look hard at what students want (Williams, P., 1984, p. 271).

He speculated on the strains that might arise from a dual pricing system:

In an essentially competitive situation, can competition be confined and differential costs and quality be glossed over by maintaining the present regime of minimum recommended fees? Or are we about to see a disintegration of the long-proclaimed uniformity of quality and standards in the UK higher education system? The fact that all of these questions are increasingly being asked underlines the point that overseas student policy, while ostensibly primarily a dimension of overseas relations, has profound implications for the operation of the domestic education system, particularly where – as in the British case – an attempt is made to run a dual regime, with all its inherent contradictions (Williams, P., 1984, pp. 273–274).

The increase in the overseas fee was a harbinger of further changes in university funding. The March 1981 Public Expenditure White Paper (HMT, 1981) proposed a sharp reduction in public expenditure on institutions. There was to be a 15 per cent cut in current higher education expenditure between that year (1980–81) and the final year of the planning period (1983–84). Whilst university capital expenditure would continue almost



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unchanged, other funding for the sector would be reduced by 35 per cent. Johnes and Taylor (1990) estimated that there was an 8.7 per cent cut in Exchequer funding of universities (real recurrent income) between 1980–81 and 1984–85. Almost as significant as the scale of the cuts was the fact that the UGC applied them selectively. At one extreme, Salford suffered a real terms cut in funding of 36 per cent between 1980–81 and 1984–85; Keele (26 per cent), Bradford (24 per cent), UMIST (22 per cent) and Aston (20 per cent) were the other principal sufferers. However, York received 8 per cent more funding and Cardiff 4 per cent more. There can be little doubt that, although highly controversial at the time, the selective application of the cuts reduced the difficulties associated with selectivity and thus helped to pave the way for research assessment.²

Sir Keith Joseph and student funding

In 1984, wanting to protect the science budget from further cuts, the Secretary of State, Sir Keith Joseph, decided that the minimum student grant of £205 per year, awarded to those from the most affluent families, should be scrapped. The contributions to maintenance due from others ‘in the middle and upper reaches of the income scale’ would be increased, and the richest would have to pay up to £520 per year towards tuition. This breached the long-standing principle that teaching should be provided free of charge whatever the parental contribution toward living expenses. The overall saving was estimated at around £40 million. Half of this would be put towards protecting the worst-off students from earlier grant cuts, with the rest going to science.

Perhaps unsurprisingly, the package was agreed with Treasury without much difficulty. But there was Conservative backbench fury as soon as the changes were announced, on 12 November 1984. A motion deploring the new policy was tabled, and eventually signed by 180 Members, more than half the Parliamentary party. There was a difficult meeting with the Backbench Education Committee where matters were not helped when Joseph told them, in an aside, that in his view the way ahead lay in partial loans for maintenance. The Prime Minister and the Chancellor, Nigel (now Lord) Lawson, were prepared to come to terms (Joseph privately offered his resignation, which the Prime Minister declined). At a meeting at Number 10 on 5 December a face-saving formula was devised. As a result, Joseph told the House later that day that the proposal to charge tuition fees would be withdrawn, at a cost to the Treasury of £21 million. But he stood by the rest of his package, and more than half of the cost of his concession would be covered by additional cuts: the scientific community would lose £3 million from their augmented research budget (Denham and Garnett, 2001; Lawson, 1992).³



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The raising of the Home/EU fee

In April 1989, the Government proposed that the by now £607 tuition fee should be raised to £1,600 with effect from the 1990–91 academic year, and that from 1991–92 a system of differentiated fees should be introduced which reflected the costs of teaching different subjects (Baker, 1989). The fee would continue to be met from public funds. The differentiated fees, announced in November 1990, were from £1,725 for classroom-based subjects to £2,650 for laboratory and workshop-based subjects, and £4,770 for medicine, dentistry and veterinary science. In order not to increase total direct public expenditure on teaching, corresponding transfers would be made from the moneys given in block grant to the funding councils. This would mean that by 1991–92 about 30 per cent of each university's income would come from fees, compared with only 8 per cent in 1989–90. The block grant share would fall to 70 per cent, compared with 92 per cent previously (DES, 1989).

The Government saw two advantages in increasing the fee. First, by making institutions' income dependent in large measure on their ability to attract and satisfy student demand, it would improve the effectiveness of marketing and teaching. Second, to the extent that the higher fee income covered marginal costs, it would encourage institutions to exploit spare capacity by taking in additional students, increasing participation while reducing unit costs. The Government also wanted to see the universities becoming more independent of the state by diversifying their sources of income.

The rationale for these changes – and so far as can be seen, the first explicit government reference to a market in higher education – was set out in a speech by the Secretary of State, Kenneth (now Lord) Baker, at Lancaster University in January 1989. After unfavourably contrasting the British system with American diversity, flexibility and accessibility, Baker said that we might be approaching 'a fundamental choice between two different patterns of evolution':

One route towards mass higher education could be through an increasingly state funded and therefore state organised 'system' of higher education. There is a real possibility that this will be the course followed on the Continent. If this is the path we follow, the difficulty which the institutions of higher education will face is that the expansion of provision by the State – with taxpayers' money – will be expected to take place without substantially increasing the burden of public expenditure and taxation, and in the absence of mechanisms for engaging private funding. The other route, which I have already indicated that I would prefer, would see the movement towards mass higher education accompanied by greater institutional differentiation and diversification in a market-led



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and multi-funded setting.

In the first scenario, the structures of mass higher education will tend to be increasingly rationalised, under pressure to stretch public funding as far as it will go. The effect will be to offer a limited variety of institutional structures and missions, providing a range of broadly similar experiences to all, and producing a range of similar outcomes for all. In the second scenario, the structures of mass higher education will be much more diversified, as they are in the United States. The traditional modes of provision will still, of course, be cultivated: but there will be a much greater emphasis on the variety of approaches better able to meet the needs of different types of students.

Why do I prefer that we in Britain should take the second of these two routes, that of expansion through diversification and differentiation? Most profoundly, because it seems to me to be the one which is natural to us. Historically, traditionally, Britain is a bottom-up, not a top-down society. We should build on our national genius, and what comes naturally to us (Baker, 1989, pp. 11–12).

Even with a tuition fee of £607, institutions had some incentive to recruit ‘fees only’ students because the £607 represented a cash bounty over and on top of the block grant, perhaps equating to marginal cost in some institutions. At £1,600 and above, institutions had a still greater incentive to do so. Thus, in the early 1990s, a number of former public sector institutions effectively gorged themselves on ‘fees only’ students, demand having increased chiefly as a result of changes on the supply side, notably the integration of GCE O Levels with the Certificate of Secondary Education to form the new GCSE (ironically, under threat at the time of writing this book from one of Baker’s Conservative successors), and the consequential increases in the numbers of sixth-formers. Moreover, since under the then existing Public Expenditure Survey rules, fees unlike the block grants to the institutions – were not cash limited, Treasury was effectively underwriting the additional enrolments by not clawing back the extra cash to which the expansion of student numbers would commit it (for both teaching and student support). This was on the basis that whilst overall expenditure might go up, cost per student would go down, as indeed it did. As we shall shortly see, these rapid increases in student numbers (and the resultant additional call on the public purse) were only brought to an end with the introduction of institutional quotas in 1994–95.⁴

The introduction of maintenance loans

As we have already noted, from 1962, as well as having their tuition fees fully covered by



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the state, British students had had their living costs met by a system of means-tested maintenance grants, which remained virtually unchanged although their real value had declined. Nevertheless, they became an increasing item of public expenditure as participation in higher education increased. It is not therefore totally surprising that the reduction or removal of grants, together with a system of loans, was one of the '13 Points' (essentially, ideas for reducing costs) that the Secretary of State, Shirley (later, Lady) Williams put to the vice-chancellors in 1969 (Kogan and Hanney, 2000).

Although student loans were not introduced until 1990, according to Lord Lawson (1992), Sir Keith Joseph had talked to him shortly after he became Chancellor in June 1983 about maintenance loans. There was no formal contact until 1985. The idea was that the loans would be interest-free but with repayments linked to inflation. However, whilst Lawson was receptive, the Prime Minister, Margaret Thatcher, was opposed; this is confirmed by Lord Baker (1993) and by Denham and Garnett (2001). When Baker succeeded Joseph as Secretary of State in 1986, he persuaded the PM that the issue should be reopened.

An internal departmental review group was therefore established to look at the costs of student support. It was chaired by the Minister for Higher Education, George Walden. Two years later, the Government published a consultative paper (DES, 1988a) based on the work of the review, and proposing that from 1990–91 a loan facility at nil real interest for £420 (average) in a full year should be introduced (£310 in a student's final year). The existing parental contribution and the maintenance grant would be held steady in cash terms: in effect, grants were being phased out. The loan facility would be increased each year until it was equal to the value of the grant and the parental contribution together.

The reasons given for the proposals were:

- to share the cost of student maintenance more equitably between students themselves, their parents and the taxpayer.
- to increase the resources available to students.
- to reduce, over time, the contribution to students' maintenance which is expected from parents.
- to reduce, over time, direct public expenditure on grants.
- to implement the Government's decision to reduce the students' dependency by removing them from the social security benefits system.



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- to increase economic awareness among students, and their self-reliance.

(DES, 1988a, p. 1)

Legislation to give effect to the new system of support was enacted in 1990, the Education (Student Loans) Act. Loans subsequently accounted for an increasing proportion of student support. Students' eligibility for social security benefits like housing benefit and income support during vacations was removed. However, a small amount of additional funding (£25 million) was made available for Access Funds for students facing financial hardship (Woodhall and Richards, 2006). This amount was subsequently doubled.

Although repayments could be deferred where a graduate's income was low, the Government rejected a fully income-contingent repayment scheme along the lines advocated by Nicholas Barr and actually introduced in Australia in 1989 (Chapman, 2006). Barr first proposed such a scheme at a meeting with the Higher Education Minister, Robert (now Lord) Jackson, in July 1988 (Nicholas Barr, personal communication). Barr's first publications on the subject appeared the following year (Barr, 1989a, b and c). As we shall see, income contingency was not accepted for maintenance loans until 1998, and for fee loans not until 2006.

Contractual funding and bidding for numbers

The increase in the undergraduate fee and the introduction of student loans were just two of a number of reforms introduced by the Government at this time, with the declared aim of increasing competition and reducing costs; others included increased selectivity in the funding of research (discussed in Chapter 4) and the abolition of tenure for newly appointed academic staff. The reforms were implemented by two new funding agencies – UFC and PCFC – that were more directly accountable to government than their predecessors, UGC and NAB.

Another important move was to introduce 'contractual' funding and institutional competition for teaching funds. The 1987 White Paper Higher Education: Meeting the Challenge (DES, 1987) announced that, instead of grants, the two new agencies would operate a new system of 'contracting' with institutions. The Government's intention was to:

- Encourage institutions to be more enterprising in attracting contracts from other sources, particularly the private sector, and thereby to lessen their present degree



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of dependence on public funding.

- Sharpen accountability for the use of the public funds which will continue to be required.
- Strengthen the commitment of institutions to the delivery of the educational services which it is agreed with the new planning and funding body they should provide (DES, 1987, paragraph 4.17).

This approach was reflected in the initial guidance letters to the new agencies (DES, 1988a and b).

Although the UFC and PCFC began operations in the autumn of 1988, they did not take over the functions of their predecessors until April 1989. In the UFC's case, the transition should have been eased by the fact that the last Chairman of the UGC, Sir Peter Swinnerton-Dyer, was also the first Chief Executive of the UFC. In accordance with the requirement that funds should only be provided in return for a 'product' – the 'something for something' principle – both councils introduced a system whereby institutions had to bid for grants to cover a fixed number of student places, the aim being to encourage the provision of higher education at a lower cost to the Exchequer. But there were significant differences in their approaches.

The PCFC:

- Aimed to cover only the first year of the new planning period (1991–92).
- Invited bids for up to 5 per cent of existing places.
- Proposed no 'guide price'.

The UFC:

- Attempted to cover the whole of the planning period.
- Expected bids to cover the whole of an institution's teaching.
- Proposed a set of 'offer prices' based on the average unit cost in each subject in 1989–90.



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The PCFC's methodology achieved a 6.5 per cent increase in funded places in 1990–91, together with a reduction on funding per student of 2.6 per cent (Turner and Pratt, 1990). The UFC's exercise was a fiasco. The Council was well behind the PCFC, the guide prices only being announced in January 1990, far too late to take effect later that year. Only a small proportion of the bids submitted (13 per cent) was below the guide price. The Council had therefore to abandon its methodology so that in 1991–92, as well as in 1990–91, universities received funding based on their historic allocations but with an imposed 1.5 per cent efficiency gain as their reward (for a fuller account, see Taggart, 2004; see also Johnes, 1992). As we noted in Chapter 3, the existing universities' unwillingness to bid, coming on top of similar 'failures' to expand numbers in the 1980s, helped to 'cook their goose' in the Government's eyes and was one of the factors that contributed to the Government's decision to abolish the binary line.⁵

The introduction of top-up fees

An important development in the regulation of public expenditure on universities was the Government's decision in late 1993 that, with effect from 1994–95, institutions should be set student number limits: Maximum Aggregate Student Numbers or MASNs. Any institution recruiting more than 1 per cent above its quota would incur a financial penalty. The change of policy ('consolidation'), which also involved a 45 per cent cut in the level of the fee, was announced in a statement by the Secretary of State, John Patten, on 30 November (DES, 1993). The Funding Council subsequently explained how the new policy would be applied: as well as maximum and minimum numbers of full-time and sandwich places for each institution, there would be no marginal funding for growth in full-time or sandwich students (HEFCE, 1993b).⁶

As the minister made clear, this was a response to the expansion which had occurred since the late 1980s in the context of the public expenditure crisis which accompanied Britain's departure from the Exchange Rate Mechanism of the European Monetary System in September 1992. Student numbers in fact increased from 937,000 in 1985–86 to 1.72 million in 1995–96, a substantial proportion of the latter having entered before the MASNs took effect. A particular consideration was the cost of maintenance grants, which had not been 'cash limited' under the Baker expansion. In the meantime, the unit of funding for teaching had continued to decline: the Dearing Committee found that public funding per student for higher education had declined from a value of 100 in 1976 and 79 in 1989 to 60 in 1994 (National Committee of Inquiry into Higher Education, 1997).⁷



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A senior civil servant involved at the time has confirmed that the expansion policy had succeeded so well that Treasury began to be alarmed almost as soon as it was launched. However, there was also the difficulty of reconciling actual non-cash limited expenditure with plans, the nature of such expenditure being that such discrepancies are almost certain to arise. Eventually, in 1993, Treasury insisted that more vigorous steps were taken to control spending and MASNs were born.

Two years later, in November 1995, the universities received outline information about the funding settlement for 1996–97 (DES, 1995). This meant a real terms reduction in capital and recurrent funding of 7 per cent in a year. It was discussed at the Main Committee of the Committee of Vice-Chancellors and Principals (CVCP) in December. The committee had already, in September 1993, and following a review of funding options, accepted that a student contribution to the cost of teaching was inevitable, alongside increased public funding, preferably through an income-contingent loan scheme. The Budget statement was received with a mixture of horror and incredulity. It was suggested that consideration should be given to a possible charge of a top-up fee, a standard fee payable at all institutions which would include a contribution for scholarships. It should be made clear that such a move was a response to the Budget statement. The fee could be increased in line with future funding cuts. The discussion also referred to a possible withdrawal of cooperation with regulation. It was agreed to return to the matter early in the New Year. In the meantime the committee reaffirmed its commitment to a graduate contribution to fees and maintenance through an income-contingent loan scheme (CVCP Main Committee minutes, 8 December 1995).

At its next meeting, in February 1996, the committee considered a paper setting out options for a collective response. The paper recommended that unless by the end of the year there was movement towards a new system of funding, a special levy should be introduced on all full-time Home and EU undergraduate entrants from 1997–98. The amount of the levy would depend on the scale of the cuts for 1997–98, so that government spending plans would trigger the levy. The committee agreed to consider this with the institutions, with a view to decisions being taken at the September conference. The impost would be called the ‘government deficiency levy’ (CVCP Main Committee minutes, 2 February 1996). By this time, however, the Government was looking at various ways of taking higher education funding off the agenda, and in particular keeping fees out of the General Election due by the following year. It had already approached Sir Ron Dearing, former Chair of PCFC and HEFCE, and a well known government ‘fixer’, about conducting an inquiry. This was eventually announced in May 1996 after consultation with the



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Opposition Front Bench.8

It is interesting to speculate why these pressures did not surface sooner. Watson and Bowden (1999) suggested two main reasons. First, there was undoubtedly room for efficiency gains within the system. Second, until the really significant expansion of the late 1980s, the two former sectors consciously behaved differently. The university sector resisted the temptation to grow by enrolling students at the marginal cost of tuition fees. The public sector met the challenge as if growth had no end, with institutions like Ealing (later Thames Valley University, now the University of West London), and Dorset (now Bournemouth University), expanding with the objective of enhancing their status.

The Dearing Committee

The Dearing Committee's terms of reference were couched in very broad terms:

To make recommendations on how the purposes, shape, structure, size and funding of higher education, including support for students, should develop to meet the needs of the United Kingdom over the next 20 years, recognising that higher education embraces teaching, learning, scholarship and research (National Committee of Inquiry into Higher Education, 1997, p. 3).

However, there was little doubt in most people's minds that the central task was to find a politically acceptable way of getting more private financial support for university teaching. Moreover, there was a very tight timescale, the committee being required to report by the summer of the following year.

The committee – which was composed of a wide range of members but where representatives of higher education and large companies predominated – reported in July 1997, two months after a General Election which had brought 'New' Labour into Government, with Tony Blair as Prime Minister. The report acknowledged and confirmed the wider public benefits of higher education which justified continuing state involvement in funding:

Society as a whole has a direct interest in ensuring that the United Kingdom has the level of participation in higher education which it needs for sustained economic and social viability, and, therefore, to match those of its competitors. This has been a recurring theme in our report. This means that the state needs to ensure that higher education provision is adequate and receives the level of funds needed to support the necessary levels of participation. Whilst the measurable financial benefits from higher



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education qualifications accrue largely to individuals, the costs of a shortfall in the numbers of those obtaining such qualifications will fall to the UK as a whole and its citizens.

Firms and individuals are most likely to engage primarily in training specific to their immediate needs. There is therefore a danger that, if left to employers or individuals, the nature and level of higher education will not best serve the long term needs of the economy as a whole; and there will be under- investment. The state alone is able to ensure that tomorrow's workforce is equipped with the widest range of skills and attributes.

The state must also ensure that access to higher education is socially just, and that talent is not wasted (National Committee of Inquiry into Higher Education, 1997, p. 288).

But the committee also considered that graduates in employment should make a greater contribution to future costs. It therefore recommended that the Government should shift the balance of funding, in a planned way, away from the block grant towards a system in which funding followed the student, with a target of distributing at least 60 per cent of total public funding to institutions according to student choice by 2003 (National Committee of Inquiry into Higher Education, 1997, p. 297).

At the same time, the committee rejected – at least for the short to medium term – the market-based approach advocated by the Confederation of British Industry. This would have seen qualified applicants issued with cash credits equivalent to current funding, and institutions able to charge fees above the value of the credit where they felt able and wished to do so. Instead, the committee recommended that the Government should introduce arrangements for graduates in work to make a flat-rate contribution which over time would equate to around a quarter of the average cost of tuition. The contribution, of about £1,000, should be made through an income-contingent mechanism which should also be applied to student maintenance, in place of the mortgage-style loan arrangements introduced in 1990. The proportion of tuition costs met in this way should not be increased without an independent review and an affirmative resolution of both Houses of Parliament. The proceeds of the graduate contributions should be reserved for meeting the needs of higher education.

The abolition of maintenance grants

The Dearing Committee noted the 'almost universal' view among those it consulted that



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maintenance loans, with their fixed-term mortgage-style repayments, should be replaced by an income-contingent system, where payments were based on a percentage of a graduate's income:

The main advantage of such schemes ... is that they fix monthly payments at a level charged to be affordable in relation to an individual graduate's income. Instead of all graduates with an outstanding loan of a certain size paying the same monthly amount once their income has reached a threshold, those on the lowest incomes pay the least each month and those on higher incomes pay more. The higher the graduate's income, the sooner he or she will complete their payment. Unlike the current arrangements, income contingent schemes provide reassurance to those entering higher education that they will not face unmanageable repayment burdens, whatever their post- graduation income (National Committee of Inquiry into Higher Education, 1997, p. 309).

The committee recommended that such income contingency should apply to both maintenance and fee loans.

In response, the Government accepted the principle that a greater proportion of funding should follow the student. But the committee's proposal for an income-contingent contribution paid after graduation was replaced by a contribution of the same amount from students at the start of their course: a 'top-up' fee. To assuage concerns about the possible disincentive effects on access, and to mollify the National Union of Students, the contribution would be means tested. Students from lower-income families who would previously have been eligible for a maximum maintenance grant would pay no fee at all. As a result, around one in three of all students in England and Wales (in Scotland, over 40 per cent) whose parental income was assessed would receive free tuition, and another third would not have to pay the full amount.

Instead of maintenance grants, additional subsidised maintenance loans were to be provided on an income-contingent basis, with a threshold of £10,000 to ensure that no student, parent or family need be worse off than under the previous arrangements. Hence the expected parental contribution towards fees and maintenance would be no greater in real terms than the current expected contribution to maintenance costs for students. The Government would monitor the impact of the arrangements on participation. Finally, the Government accepted the committee's recommendation that any increase in the proportion of tuition costs met privately should be subject to Parliamentary approval



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(DFEE, 1998). The necessary changes were enacted in the Teaching and Higher Education Act 1998, and came into force in autumn 1998.

It seems clear that the main reason for the Government's rejection of the Dearing recommendation was the need to keep higher education expenditure within the limits set, in effect, by the previous administration (the new Government having pledged to keep within the previous Government's spending plans). The legislative process was rushed, with changes to fees and funding introduced which would affect students who had already applied to university for entry in 1998, creating difficulties for individuals, and administrative problems for institutions.

As we have seen, the Government rejected the principle of income contingency for fee loans. Whilst accepting it for maintenance loans, it also abolished maintenance grants although a number of special provisions, such as Hardship Funds for specially needy (but generally full-time students), were introduced (Woodhall and Richards, 2006). Although initially not the subject of much attention or protest, over time the abolition of maintenance grants, alongside the introduction of up-front tuition fees, was a significant contributor to the almost universal unpopularity of the post-1998 funding regime.

The fact that within a few years a further review was set in train by the same Government was an early acknowledgment that the changes generated longer-term problems too, not least the fact that the increased level of debt was seen as a particular problem for low-income students. Indeed, it was only a few months after the first students who had paid tuition fees under the changes introduced by the 1998 Act had graduated that the Secretary of State, Estelle Morris (2001), said:

Four years ago we took the brave and right decision to expand higher education by changing the way we funded student support. However, it was clear during the General Election that student debt was a major issue. I recognise that for many lower-income families the fear of debt is a real worry and could act as a bar to higher education. I want to make sure that our future reform tackles this problem. Our aim is to get more children from less privileged backgrounds into higher education and we hope to better achieve this by changing the combination of family, student and state contributions.

Watson and Bowden's (2005) verdict seems just:

Essentially, New Labour was too greedy. They took the Dearing recommendation of a student contribution to course costs and ignored what the Report said about living



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costs, especially for poorer students. Simultaneously, they completed a Conservative project of turning all student grants into loans. This precipitate decision has become the Achilles heel of subsequent New Labour policy for higher education. Almost every major policy initiative, and certainly every discussion of how the system should be funded overall, has been drawn back into a kind of maelstrom of misunderstanding, of posturing and of bad faith about costs and charges to students, exacerbated by an aggrieved middle class sense of entitlement (Watson and Bowden, 2005, p. 2).

The introduction of variable fees in England

In spite of the introduction of MASNs and top-up fees, student numbers continued to increase. The Government had in the meantime committed itself to increasing 18–30-year-old participation in higher education to 50 per cent by 2010 (Blair, 1999). Tuition fees (and the abolition of maintenance grants) were unpopular and among the most frequently raised issues on the doorstep during the 2001 General Election. Accordingly, Prime Minister Tony Blair's speech to the October 2001 Labour Party Conference (Blair, 2001) mentioned that there would be a review of student support. The financial position of the institutions had again worsened and there remained the substantial backlog of under-investment highlighted by Dear- ing, which had estimated an annual shortfall of £250 million in capital funding (National Committee of Inquiry into Higher Education, 1997, p. 277).⁹

Almost as soon as the ink was dry on the new regime, in fact, there began to be lobbying by the most prestigious universities to be allowed to charge higher fees, for example, the report by Greenaway and Haynes (2000) for the Russell Group. Major Parliamentarians such as Lord Jenkins of Hillhead (also Chancellor of Oxford), influential commentators like the Financial Times's Martin Wolf, and leaders of major institutions such as Sir Richard Sykes (Imperial College) and Anthony (now Lord) Giddens (LSE) added their voices to the throng.

UUK published a series of reports on funding options. The final report stated:

Significant damage has been done by many years of underfunded expansion, which since 1989 have seen resources per student fall by 38 per cent, following a decrease of 20 per cent between 1976 and 1989; staff-student ratios decline to an average of 1 to 17 (1 to 23 if funding for research which is included in the average unit of funding is excluded); the academic labour market made uncompetitive by institutions' inability to pay their staff adequately; the quality of the teaching and learning infrastructure



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diminished by insufficient investment; increasing levels of non-completion experienced particularly by universities offering access to the disadvantaged; and a realisation that without additional funds the cost of legislation on disability and on equal pay for work of equal value will not be met (UUK, 2001, p. 1).

The report identified four ways in which (in addition to voluntary contributions from alumni, employers and other benefactors) an estimated gap of £370 million in 2004–5 (or £272 per student in 2001–2 prices) could be plugged: increased public funding through the block grant; additional (but not full-cost) fees; an income-contingent graduate contribution; or institutional endowments through the sale of public assets. It did not express any preference for the strategy that should be adopted.

In January 2003 the Government published a White Paper *The Future of Higher Education* (DFES, 2003). The document began with a sharp critique of the effects of previous policies:

- Higher education must expand to meet rising skill needs.
- The social class gap among those entering university remains too wide.
- Many of our economic competitors invest more in higher education.
- Universities are struggling to recruit and retain the best academics.
- Funding per student fell 36 percent between 1989 and 1997.
- The investment backlog in teaching and research facilities is estimated at £8bn.
- Universities need stronger links with business and [the] economy.

(DFES, 2003, p. 4)

This appears to have been the first explicit recognition by the Government of the significant underfunding of investment in higher education (Tony Bruce, personal communication).

The Government envisaged a three-pronged strategy to meet the sector's financial needs.

First, there would continue to be an increase in public support. Spending on higher education would increase from around £7.5 billion in 2002–3 to almost £10 billion in 2005–6, a real terms increase of over 6 per cent each year. Within this, expenditure on



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teaching and learning would increase from £3.9 billion to £4.9 billion.

Second, the Government would encourage universities to build up their endowments. However, the only concrete proposal was for the establishment of a ‘time limited, matched endowment fund’, to which any university could apply. The matched funding would ‘incentivise university fund-raising from individuals, companies and other sources such as the disposal of underused assets’ (DFES, 2003, p. 82).¹⁰

Third, the Government would introduce a new Graduate Contribution Scheme. Universities would be allowed to seek a contribution of up to £3,000 per year for each course. Up-front payment of tuition fees would be abolished. Every student would be allowed to defer payment until after they had graduated. Payments would be made through the tax system and be linked to the ability to pay, with the lower threshold, for both fee contribution and maintenance loan repayment, raised to £15,000. Maintenance grants for up to £1,000 a year for students from lower-income families would be reintroduced, and the Government would also pay the first £1,100 of fees for such students.

The White Paper justified the decision to allow fees to vary by institution and course in the following terms:

It is absolutely clear that students get different returns from different courses. The graph below shows the different earnings premia obtained by women students taking different degree subjects. More recent research found a 44 percentage point difference in average returns between graduates and institutions at the two extremes of the graduate pay scale. We believe that a revised contribution system should recognise these differences properly, and not ask students who can’t expect such big prospects in the labour market to subsidise those that can, through a flat fee. This also means that institutions will be able to reap rewards for offering courses that serve students well. This will make student choice a much more powerful force, and help choice drive quality (DFES, 2003, pp. 83–84).¹¹

The Government did, however, recognise that a wholly unregulated fee scheme posed dangers to access, with some institutions setting fee levels that some students might not be able to afford and which could deter others. Thus institutions wishing to introduce a contribution higher than the current standard fee (by now, £1,100) would first need an



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Access Agreement approved by a new access regulator (OFFA). This would outline the plans of the university or college for student financial support (bursaries and scholarships) and for outreach activities designed to widen participation; it would also contain milestones that the institution had set itself to monitor progress in improving access.

The legislation to implement the new policy was enacted as the Higher Education Act 2004 and came into effect in 2006. In order to get the legislation through Parliament, the Government was forced to make a number of concessions. Three of the most important were:

A requirement that institutions charging fees of over £2,700 should provide bursaries worth at least the difference between their fee and £3,000 (i.e., up to a maximum of £300) to students receiving the full state maintenance grant, although in practice the large majority established more generous bursaries. This condition was set so that, together, the maximum grant of £2,700 (increased, under Parliamentary pressure, from the £1,000 a year originally proposed) and this specified minimum bursary covered the fees of these students. Such students could therefore choose not to take out a fee loan, and would only need to borrow money to cover maintenance costs. Presentationally, therefore, students from the lowest income families could be considered to have the costs of their fees covered from non-repayable funds; notwithstanding the fact that this argument conflated grants, that had traditionally been seen as a contribution towards living costs, with a means to fund tuition.

Acceptance on the part of the Government that the monies raised by institutions from higher fees should be additional to the monies provided to support teaching through the block grant. Grants now represented about 60 per cent of institutions' funding for teaching, as compared with nearly three-quarters before 2006 (Nigel Brown, personal communication).

An assurance that any increase in the maximum fee (beyond annual index-linking) would require a vote in Parliament and agreement that the new regime, and especially the impact on access, should be the subject of an independent review before any proposal to increase the real value of the fee/contribution was made (this was established in November 2009, see below).



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It appears to have been accepted quite early on in the 2001 Labour administration and in spite of its 2001 manifesto pledge not to introduce top-up fees – that an increased student (or graduate) contribution to the cost of teaching was unavoidable. However, the actual form of such a contribution was an issue between the Prime Minister and the Chancellor, with the former favouring an increased fee and the latter a graduate tax (where the graduate contribution was not limited to the cost of the course). There was also a prolonged debate about the level of the fee, the Times Higher finding under a Freedom of Information request in 2005 that until quite close to the publication of the White Paper the intended maximum was £5,000, as sought by the Russell Group (Baty, 2005).

There can be little doubt that the figure was reduced because of nervousness on the part of the Government Whips, a nervousness that proved to be well founded: even with the concessions, the draft legislation passed its crucial Second Reading in the House of Commons on 27 January 2004 with a majority of just five, even though the Labour Government's Parliamentary majority at that time was 161. Among that majority were more than five MPs representing constituencies in Scotland, a region of the Kingdom to which the provisions of the resulting Higher Education Act (2004) did not apply, the West Lothian issue in earnest.¹² Once the resulting changes to undergraduate fees and funding had been introduced in 2006 – other than a small peak in admissions in 2005, followed by a slight drop in 2006 – there was little evidence that they had affected participation, a point we shall revert to in Chapter 7. However, the Government was keen to ensure that maintenance grants were available to a significant proportion of undergraduates. In January 2007 the Minister for Higher Education, Bill Rammell announced that from 2008–9 onwards the eligibility thresholds for grants would be changed, the objective being to increase the proportions of students receiving maximum or partial grants to a third each (Rammell, 2007). So from 2008–9 students with residual household incomes of up to £60,000 (as compared with £37,500 in 2007–8) would receive a partial grant, while those with a residual household income of up to £25,000 (as opposed to £17,500 in 2007–8) would receive a full grant. However, it soon became apparent that this extension of eligibility had resulted in a higher proportion of students than intended receiving at least partial grants. The Secretary of State, John Denham, therefore announced in October 2008 that from 2009–10 the upper limit of residual family income for receiving some grant would be reduced to £50,020, with students from families with income of up to £25,000 still getting the maximum grant (Denham, 2008). On this basis, about 40 per cent of undergraduates would receive a full grant, with a further 26 per cent receiving a partial grant (Carasso, 2010).



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A full-cost fee regime in England

The independent review conceded by the Government was established on 9 November 2009. It published its report a year later. The review was conducted by a committee chaired by Lord Browne of Madingley, former Chief Executive of British Petroleum. The small committee included two serving vice-chancellors, one of whom had also been Chief Executive of HEFCE. By this time, a new Conservative/Liberal Democrat Coalition Government had succeeded the Labour administration that had established the review, and the country was undergoing an economic crisis with big cuts in public expenditure from May 2009 onwards.

The terms of reference were to:

Analyse the challenges and opportunities facing higher education and their implications for student financing and support. It will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers. Its primary task is to make recommendations to Government on the future of fees policy and financial support for full- and part-time undergraduate and postgraduate students (Independent Review of Higher Education Funding and Student Finance, 2010, p. 57).

Like the Dearing Committee before it, the Browne Committee argued that more investment was needed for the sector. But unlike Dearing, the Browne group believed that the student/graduate contribution should be increased so that for all but a small group of 'priority subjects', the tuition fee should be met wholly from private sources, albeit with the continuation of publicly subsidised income-contingent loans (which should for the first time be extended to part-time students). The priority subjects might include science and technology, clinical medicine, nursing and other health care degrees, and 'strategically important and vulnerable' language courses, a group now referred to as 'SIVS'. Institutions would continue to receive block grants for teaching only in these cases.

Moreover, other than through consumer resistance, there should be no limit to the fees institutions could charge, although there should be levies on institutions charging fees of over £6,000, which would in effect claw back most of the additional revenue: at £9,000 and above, institutions could retain £7,500 with the rest used to subsidise student support. The overall costs to public expenditure would be contained through centrally



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regulated minimum entry standards laid down each year by the Government and based on the UCAS Tariff (a system of 'equivalences' between different types of entry qualification). Candidates admitted with lower qualifications would not be eligible for state support, whether directly through grants or indirectly through subsidised loans. The new regime would be controlled by a new Higher Education Council bringing together and integrating the funding and regulatory responsibilities of HEFCE, the QAA, OFFA and the OIA.

The committee claimed three main benefits for these proposals.

First, there would be financial scope for the sector to expand. There should be a 10 per cent increase in the number of places as well as increased support for part-time and low-income students.

Second, quality would be improved:

Our proposals are designed to create genuine competition for students between HEIs, of a kind that cannot take place under the current system. There will be more investment available for the HEIs that are able to convince students that it is worthwhile. This is in our view a surer way to drive up quality than any attempt at central planning. To safeguard this approach, we recommend that the Higher Education Council enforces baseline standards of quality; and that students receive high quality information to help them choose the HEI and course which best matches [sic] their aspirations (Independent Review of Higher Education Funding and Student Finance, 2010, p. 8).

Third, higher education would be put on a better long-term financial basis:

In our proposals, the system is put on a more sustainable footing by seeking higher contributions from those that can afford to make them, and removing the blanket subsidy for all courses – without losing vital public investment in priority courses. These measures create the potential to allow the numbers of student places to increase by 10 per cent and enhance support for living costs whilst still allowing public spending reductions to be made (Independent Review of Higher Education Funding and Student Finance, 2010, p. 8).

Considering student support, the Browne Committee recommended that the loan system for the cost of living should be simplified so as to create one flat-rate entitlement of



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£3,750. This would mean that anyone applying for a loan would know exactly how much funding they were eligible for, and that no means test would be needed if they were only seeking a loan. Maintenance loans would be repaid on the same terms as fee loans. The maximum grant for living costs for students from low- income backgrounds on top of the loan should be raised to £3,250, with the full grant available up to a household income of £25,000 (very close to the national median income), and a partial grant up to a household income of £50,000 (about double the median income). All students should receive at least as much cash in hand as at present (total of grant and maintenance loan).

The Government welcomed the thrust of the report (DBIS, 2010) but indicated its intention to continue to limit fees. There would be a new 'graduate contribution threshold' of £6,000 a year. 'In exceptional cases', universities could charge up to £9,000 if they met 'much tougher conditions on widening participation and fair access'. Universities and colleges charging above £6,000 would have to meet conditions set by OFFA, demonstrating how they would spend some of the additional income to make progress in widening participation and fair access. These proposals would be set out in annual Access Agreements for which OFFA's approval would be needed if the institutions and their students were to access public funding. The Government agreed that fee loans should be extended to part- time students studying at the rate of at least 25 per cent of a full-time course.

The Government also announced that graduates would not need to make a contribution towards tuition costs until they were earning at least £21,000, up from the previous £15,000. The annual repayment would be set at 9 per cent of income above the £21,000 threshold. All outstanding repayments (which the Government estimated at some 30 per cent of all loans taken out) would be written off after 30 years. To make the system financially sustainable, a real rate of interest would be charged on loan repayments, but with a progressive taper up to a maximum of inflation plus 3 per cent. The net result would be that between 25 and 30 per cent of graduates with the lowest lifetime earnings would pay less than under the existing system.

As regards support, the Government agreed that maintenance loans should be increased for students from families with incomes of up to £60,000. Students from families with incomes up to £25,000 should be entitled to a more generous student maintenance grant of up to £3,250, and those from families with incomes up to £42,000 should be entitled to a partial grant (DBIS, 2010). The 2011 White Paper (DBIS, 2011a) confirmed that students from families with a household income of £25,000 or less would receive a full grant of £3,250 together with access to a maintenance loan of £3,875 (if they were studying away



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from home outside London). Those with household incomes below £25,000 might also be eligible for help under the new National Scholarship Programme, co-funded by the Government and individual institutions, which would guarantee for 'bright potential students from poor backgrounds' benefits in kind such as a free first year or a foundation year (DBIS, 2010).

Implementing the 2012 reforms

The House of Commons voted in favour of the new fee cap of £9,000 (effective from 2012–13) in December 2010, with significantly less Parliamentary controversy than had preceded the vote six years earlier to introduce variable fees. However, given that during the General Election Campaign earlier that year, one of the partners in the Coalition – the Liberal Democrat party – had made a manifesto pledge to abolish university tuition fees, there was inevitably critical comment in the media. There were also a number of protests around the country, some of which turned violent, including one on 10 November 2010, when some 200 of an estimated 52,000 marchers broke into Conservative Party Headquarters in London.

Most comment at the time focussed on the fee increases and whether the loan repayment terms were more or less equitable than those they superseded. However, in the context of the argument in this book, the critical issue was the switch away from subsidising institutions to subsidising students. This reflected the view, also held by the Browne Committee, that student education was now essentially a private good, as it had been adjusted to be for non-EU students since 1980. Moreover, the increase in the fee cap was only one element of the Government's planned reforms. In June 2011 the Government issued a White Paper Higher Education. Students at the Heart of the System (DBIS, 2011a) justifying its package of proposals. Whilst the £9,000 limit would remain, institutions' core student number allocations would be reduced in order to create a margin for redistribution. Those core student numbers would exclude places filled with students whose entry grades were at least AAB in A levels (or equivalent, known as 'AAB+'), an estimated 65,000 entrants. Student places in this category were to be uncapped - creating an element of the system in which it was hoped that provision would adjust to satisfy demand (whether those universities that recruit the majority of their students with AAB+ qualifications will actually expand their undergraduate provision is something we shall consider in Chapter 7).



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From the remaining core student numbers, a 'margin' of 20,000 places was to be created, by a proportional reduction across institutions. Those charging fees averaging no more than £7,500 (after any fee waivers) would then be free to bid for an allocation from those 20,000 places. This created an incentive for the provision of additional places at the lower end of the expected range of fees to be charged. This was a clear response to the large number of institutions that had indicated their intention to charge the maximum fee or very close to it; indeed, once the details of this policy had been announced, 24 universities and one college took the opportunity that was offered to revise their Access Agreements, and lower their fees, to enable them to bid for places from the margin (OFFA, 2011). The details of the new funding methodology were the subject of consultation, the outcomes of which were announced in October 2011 (HEFCE, 2011c and g). The main change from the White Paper was that the SIVS would be exempted from the cut to create the margin. Direct HEFCE funding will continue to be available for these subjects, for small and specialist institutions, and for the additional costs of attracting and retaining students from disadvantaged backgrounds.

The funding allocations for 2012–13 were published in March 2012 (HEFCE, 2012b). Alongside the grant allocations, the Funding Council published the student number control limits for 2012–13. These include estimates of the total number of undergraduates each institution will be likely to recruit and the likely year-on-year change. Some 34 institutions have seen their number limits cut by 10 per cent or more, the overall reduction being 3 per cent. Those hit hardest were those that have lost places under core-and-margin, were unable to successfully bid them back, and are unlikely to be able to increase significantly their numbers of AAB+ students. Many are large metropolitan universities. The medium to longer-term likelihood is that, depending on what happens with student demand, these providers will reduce their fees, downsize or merge with others. Even before the implications of the AAB+ policy were clear, the Government announced (Willets, 2012b) that the removal of the numbers cap would be extended to ABB+. The structural implications of the new funding regime are considered further in Chapters 7 and 9.

The other countries of the UK

During the period under consideration, responsibility for higher education policy has increasingly been devolved to Scotland, Wales and Northern Ireland. Where policies did not apply across the whole of the UK, those described above applied to England. By the time the Higher Education Act 2004 had been implemented in England in 2006, the



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differences were already so significant that fees for undergraduate degrees within the UK ranged from £0 to £3,000 – and the variability applied not only to the location of the institution, but also to the home address of the student within the UK (EU, non-UK students attending universities in each UK country were, and are, admitted on the same basis as local students although they are not eligible for maintenance support). The introduction of the maximum fee of £9,000 in England from 2012 has exacerbated these differences, to the extent that students from England could pay fees of £36,000 over a four-year undergraduate course in Scotland, whereas Scottish students on the same course will pay nothing. It is not only in fees that policies vary; in their account of the changes up to 2006, Woodhall and Richards (2006) argued that the reintroduction of means- tested grants – admittedly on a far more restricted basis than before 1990 – was almost certainly influenced by the fact that both Scotland and Wales had already done so. It is time to look, albeit briefly, at the evolution of the arrangements of funding student education in the Scotland, Wales and Northern Ireland (for a detailed account, see Bruce, 2012).

Scotland

Under the Scotland Act 1998, the funding of higher education institutions in Scotland became the responsibility of the new Scottish Parliament, which in 1999 established an independent inquiry under Mr (later, Sir) Andrew Cubie. The committee recommended that the up-front tuition fees introduced in 1998 should be replaced by compulsory contributions to a Scottish Graduate Endowment, payable after graduation and collected through the tax system on an income- contingent basis. There should also be non-repayable, means-tested bursaries for low-income students. This new regime was introduced in an amended form in 2001–2, with an initial contribution of £2,000, subsequently index linked. The contribution could either be paid on graduation, or a loan could be taken out for the full amount and repaid after the graduate's income reached £10,000 (later increased to £15,000). These tuition contributions only applied to Scottish – and EU – domiciled students at Scottish universities, whilst the means-tested bursaries were limited to Scottish-domiciled students at Scottish institutions (this was subsequently modified so that Scottish-domiciled students outside Scotland could receive such bursaries but at a lower rate). This was the first significant departure from the UK-wide arrangements for funding student education that had applied since significant state funding began after the First World War.



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In 2008, the Scottish Parliament abolished the post-graduation levy. (Scottish) graduates earning over £15,000 a year continued to be eligible for means-tested maintenance loans. Non-repayable bursaries continued to be available for low-income students. In 2011, the Scottish Education Secretary announced (BBC News, 2011b) that undergraduate courses in Scottish institutions would continue to be free for Scottish students. Scottish universities and colleges would be able to charge up to £9,000 to students from elsewhere in the UK, replacing the fixed fee that has been charged to such students since 1989. In September 2011, Edinburgh University announced that it would charge non-Scottish students £9,000 a year, making a total of £36,000 for what is usually a four-year course.

In December 2011, the Scottish Government announced that it had allocated additional funds to Scottish institutions to ensure that they 'kept up with England'. The main teaching grant will rise by 10.6 per cent and the research grant by 4.7 per cent. On average, universities will see their main teaching and research grants grow by 14 per cent (Matthews, 2011d).

Wales

In 2000 the Minister for Education and Lifelong Learning appointed an independent committee under Professor Theresa Rees to investigate future funding options. The committee reported the following year. Since the Welsh Assembly did not then have the same powers as the Scottish Parliament, the committee could only recommend the Assembly to use its best endeavours to persuade the UK Government that up-front tuition fees should be abolished and replaced by an end-loaded income-contingent Graduate Endowment Contribution. In the meantime, they recommended a considerable increase in resources for student support, the introduction of means-tested bursaries for Welsh-domiciled students in both higher and further education, and the establishment of a Financial Contingency Fund to act as a 'safety net' for all learners at Welsh institutions, including those domiciled in England or other parts of the UK. As a result, there were significant increases in funding for student support. In 2002 the National Assembly introduced Assembly Learning Grants for low-income students domiciled in Wales, including those studying elsewhere in the UK.

The Higher Education Act 2004 gave the National Assembly the same powers to determine policy on tuition fees as the devolved administration in Scotland (and Northern Ireland). The Assembly invited Professor Rees to lead a further inquiry and her committee's report was published in 2005. Its main recommendation was that universities



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and colleges should be able to charge 'deferred flexible' fees, from 2007–8, and up to £3,000. A National Bursary Scheme should be established – by 'top slicing' the additional fee income – to provide 'targeted bursaries' for Welsh and non-Welsh-domiciled UK students at Welsh institutions (Independent Study into the Devolution of the Student Support System and Tuition Fee Regime in Wales, 2005). The introduction of an Assembly fee grant meant that Welsh students studying in Wales did not have to pay an increased fee. The fee grant was introduced in 2007 and abolished in 2010.

In 2011, the Welsh Assembly administration decided to reintroduce a fee grant for Welsh-domiciled students. From 2012 Welsh institutions can charge non- Welsh students fees of up to £9,000. Welsh students will have to pay £3,465 a year. However, Welsh students studying elsewhere in the UK are also subsidised so that they pay only £3,465. It should be noted that the previous fee grant applied only to Welsh students studying at home.

In January 2012, the Welsh Assembly administration announced its decision that almost half of the available student places in 2012–13 would be placed in a margin (unlike in England where the margin will be 8 per cent). Half of these places were to be allocated on the basis of research and total income, and half to institutions charging below £7,500. This could have meant individual institutions losing up to 57 per cent of their places unless they reduced their fee (Matthews, 2012b). In the event, five institutions were forced to lower their fee below £7,500 (Matthews, 2012c).

Northern Ireland

Until recently, Northern Ireland has followed closely the fees policy adopted in England, reflecting financial necessity rather than any enthusiasm for market principles. During a period of direct rule, in 2004, the Northern Ireland Office decided to apply the same variable fees and maintenance grant policies as were to be introduced in England in 2006, although subsequently the level of maintenance grant payable to Northern Ireland domiciled students from low-income families was increased. Among the various funds provided to assist poorer students, was a nonrepayable maintenance grant for students from lower-income households of £3,145, which was introduced in 2008.

Northern Ireland has faced considerable funding pressures as a result of the new fee arrangements being introduced in England in 2012 but, following a consultation, the Executive rejected the advice of an independent review which had recommended an increase of the fee cap to between £5,000 and £5,750 (DELN I, 2011). It has sought to



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minimise the resulting funding gap of £40 million by restricting fee concessions to Northern Ireland domiciled students studying in their home country (and other EU students) who will continue to pay fees at their 2011–12 level. It will also mitigate the effect of public expenditure cuts on higher education funding by redeploying resources from other government departments and securing efficiencies in its two universities and elsewhere. Northern Ireland students studying in the rest of the UK will not receive a grant to meet the cost of the higher fees because this would be unaffordable. The Department for Employment and Learning, Northern Ireland (DELNI) will continue to be responsible for the cost of tuition fee loans for these students and it is considering how institutions could be encouraged to reduce the outflow of students from Northern Ireland.¹³

The English fee cap of £9,000 has also been applied to their incoming students from the rest of the UK, with the aim of increasing fee income while avoiding any significant increase in recruitment levels. However, the decision to exclude these students from student number controls may reduce opportunities for home- domiciled students who could find that entry requirements rise as a result.

The funding of undergraduate education – summary

The history of the funding of undergraduate education in the UK between 1979 and 2012 may be summarised thus:

At the beginning of our period, the funding of teaching was mostly through block grants to institutions. Fees were nominal and paid by the state. This pattern began to change with the introduction of full-cost fees for overseas students in 1980. It culminated in the introduction of such fees for all students in most subjects in England from 2012, with the remaining direct state subsidies being confined to a handful of priority areas. As a result, the HEFCE teaching grant is expected to decline from 64 per cent of teaching funding to institutions in 2011–12 to about 25 per cent by 2014–15.

In 1980 the fee represented only a small part of the average cost of provision. After 2012 in England it will equal or exceed the average cost in most institutions and subjects.

Similarly, in 1980 the fee represented a claim only on the resources of over- seas students. After 2012 in England it will be a claim on the resources of all students once they graduate and are earning enough.

In 1980 the home fees were recommended levels which all institutions followed. After 2012 in England there will be genuine competition on price between institutions within



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the limits set by the Government. There is also likely to be more competition on bursaries and scholarships than there was after 2006.

In 1980, students' living costs while studying were met by a system of means- tested maintenance grants. By 2012 in England, students' living costs are being met by a combination of maintenance grants and subsidised loans, where the maximum value of the grant is £3,250 and that of the loan is £5,500.

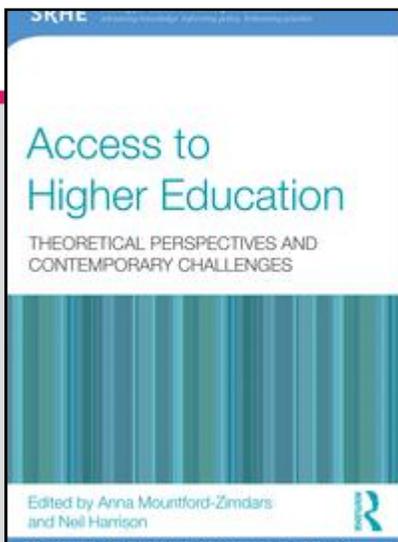
If we now recall the analytical framework introduced in Chapter 2, we can see that the funding of undergraduate education in the United Kingdom, and especially in England, is almost a textbook case of a transition from a 'non-market' towards a market-based system, albeit that both prices and, for a majority of enrolments, student places will continue to be controlled, at least for the time being.



CHAPTER

4

STUDENT CHOICES UNDER UNCERTAINTY



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Student choices under uncertainty

Bounded rationality and behavioural economics

Encouraging prospective students to make ‘better’ decisions about higher education has been a concern of the government in England since at least the early 2000s, but it has gathered pace with the increasing marketisation of the sector. There is a barely voiced assumption that students are poor consumers within the marketplace and that this needs policy intervention. In particular, there is often considered to be a problem with high achievers not selecting elite universities (Sutton Trust, 2004). Meanwhile, political, academic and journalistic assessments have been repeatedly confounded in their attempts to predict student behaviour. This is, in part, due to the simplistic application of economics to a complex social field, where, for example financial (dis)incentives have proved largely ineffective at influencing demand, despite students’ assumed sensitivity around the cost of higher education.

This chapter explores theoretical perspectives drawn from the work of Herbert Simon and Daniel Kahneman. Both won the Nobel Prize (1978 and 2002, respectively), despite not ostensibly being economists, for their work on human decision-making under uncertainty. Their insights, drawn from an interdisciplinary space between economics, psychology and sociology, have subsequently been applied to dozens of real-world and experimental scenarios, with a consistency of empirical support for the basic tenets. However, these insights have not generally been extended to educational decision-making contexts.

This chapter therefore aims to open up this space in the context of the decisions that prospective students make about higher education. It begins with an overview of key theoretical concepts before tentatively applying these to real-life decisions facing prospective students when making the decision to enter higher education.

From bounded rationality to behavioural economics Simon’s formative work focused on decision-making within organisations. He argued that neoclassical economic theory was critically flawed in assuming that human actors were mechanically rational in their decisions, seeking to maximise the ‘expected utility’ (generally financial) that could be derived from the various possible outcomes. This became the basis for his theory of ‘bounded rationality’, developed and applied over the next fifty years across business and organisational psychology, but with later attempts to integrate it into general social science (Simon, 2000).

Bounded rationality as an idea is deceptively simple and intuitively compelling, in



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comparison to the ‘psychologically unrealistic’ (Kahneman, 2003, p. 1449) expected utility model that had previously dominated:

Global rationality, the rationality of neoclassical theory, assumes that the decision maker has a comprehensive, consistent utility function, knows all the alternatives that are available for choice, can compute the expected value of utility associated with each alternative, and chooses the alternative that maximizes expected utility (Simon, 1997, p. 17).

Instead, bounded rationality asserts that the choices people make are determined not only by some consistent overall goal and the properties of the external world, but also by the knowledge that decision makers do and don’t have of the world, their ability or inability to evoke that knowledge when it is relevant, to work out the consequences of their actions, to conjure up possible courses of action, to cope with uncertainty [. . .] and to adjudicate among their many competing wants (Simon, 2000, p. 25).

Simon argued that humans are not generally able to exercise full rationality and that there are constraints impacting on all decisions:

Rationality is bounded when it falls short of omniscience. And the failures of omniscience are largely failures of knowing all the alternatives, uncertainty about relevant exogenous events, and inability to calculate consequences (Simon, 1979, p. 502).

Bounded rationality does not, therefore, argue that decisions and the people taking them are inherently irrational, but that there are realistic limits on the ability of people to weigh complex options in a fully logical and objective way; it is often placed in opposition to ‘rational choice’ theory. In describing bounded rationality, Simon (1986) railed against the ‘armchair economics’ of neoclassical thinkers, which he felt sought to reduce decision-making to a simplistic model of human behaviour without engagement with empirical data. Bounded rationality therefore concerns itself with the interaction between the human mind (with its prior knowledge, competing value systems and finite cognitive resources) and the social environment. It does not primarily concern itself with the outcome of decisions, but the processes by which they are made and how these processes are shaped by the individual and their wider circumstances (Simon, 1955).

Some bounds derive from the prevailing environment, particularly with respect to the



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availability of information and the ‘cost’ of that information in terms of time seeking it. Individuals are unlikely to be ‘able to foresee what additional information further search would bring, what it would cost, and what opportunities one would forgo during that search’ (Todd and Gigerenzer, 2003, p. 146), leaving them uncertain whether they have enough; this challenge has only increased with the arrival of the Internet, with the information available spiralling into overload and making its collection and evaluation more problematic rather than less (Agosto, 2002; Benselin and Ragsdell, 2016).

Other environmental bounds include the number of possible options for action and the number of potential criteria (or ‘cues’) for distinguishing between them. The complexity of decisions increases exponentially with increases in either feature, leading to problems with evaluating the expected utility of each; a decision with two options and one cue is simple to resolve, but one with twenty options and five cues is considerably more problematic. Furthermore, decisions taken under risk (i.e. with various possible outcomes for each option) add further to this complexity, especially where the probabilities of these outcomes occurring are unknown (requiring estimation) or unknow- able due to the novelty of the situation; fundamentally, the decision-maker ‘has egregiously incomplete and inaccurate knowledge about the consequences of actions’ (Simon, 1997, p. 17).

The individual decision-maker is the source of other bounds. Estimates of probability and utility of outcomes are shaped by different levels of pre-existing knowledge and experience. This defines a starting point of which information is readily accessible at the outset of the decision-making process, as well as influencing the unfolding of the process itself; this is further influenced by the circle of advisers on which they are able to draw. Individuals will also have conflicting priorities that extend beyond the purely financial, touching perhaps on personal wellbeing or the need to maintain social relations, with different cues having different levels of salience for each person. Finally, cognitive resources are limited and mediated through a range of systematic biases, particularly under time pressure and emotional stress (Simon, 1987).

A key tenet of bounded rationality is the concept of ‘satisficing’, which Simon (1955) used to explain decisions he witnessed in field studies. Satisficed decisions are not intended to be optimal, but to provide an intuitive balance between outcomes and the costs (in time, mental effort and things forgone) of the decision itself, while meeting a threshold criterion of expected utility. These ‘fast and frugal’ (Gigerenzer and Goldstein, 1996) heuristic approaches were not only commonly used, but often provided good decisions which were comparable to an exhaustive ‘rational’ analysis. Indeed, subsequent work by followers of Simon (e.g. Todd and Gigerenzer, 2003) has shown that heuristic approaches can even be



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preferable to rational ones when they eliminate unnecessary and confounding information or cues.

Kahneman's work draws heavily on bounded rationality and focuses on the role of intuitive processes as a means of navigating complexity. It primarily concerns the cognitive biases that impede rational decision-making and the heuristics used by individuals when operating with unknown outcomes under risk. The list of these biases and heuristics is legion (Kahneman, Slovic and Tversky, 1982; Kahneman and Tversky, 2000; Kahneman, 2011).

While Simon drew his theoretical insights mainly from fieldwork, Kahneman and colleagues within what has become known as 'behavioural economics' have worked mainly through experimental psychology, presenting people with a range of carefully designed tasks to examine underpinning decision processes. This initially culminated in 'prospect theory' (Kahneman and Tversky, 1979) derived from simple gambles concerning different probabilities and financial outcomes – positive and negative.

They were able to demonstrate the use of intuition in decision-making under risk rather than 'rational' reasoning, and like Simon, demonstrated the fallacy of a simple calculation of expected utility:

The central characteristic of agents is not that they reason poorly but that they often act intuitively. And the behaviour of these agents is not guided by what they are able to compute, but by what they happen to see at a given moment (Kahneman, 2003, p. 1469).

Behavioural economics views people as inherently intuitive and emotional decision-makers (Kahneman, Wakker and Sarin, 1997), with the use of intuition over reason as an obstacle to rational decisions, although the result of intuitive processes is not necessarily significantly poorer, especially given the lower informational and cognitive needs (Kahneman, 2003). This holds even where the decision is complex and the outcomes are expressed over long time periods. Indeed, studies that have focused on real-world, long-term decision-making such as investments or house purchases have found results that are consistent with prospect theory (Barberis, 2012). List (2003) demonstrates that substantial professional experience involving repeated decisions is needed to overcome intuitive biases to maximise long-term financial returns.



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Kahneman's experiments have generated a number of specific insights that are relevant here. First, people prefer to risk a larger loss over a certain small loss, in contrast to gains, where preferences are generally for a certain gain over riskier gambles; in other words, individuals tend to be loss-averse rather than risk-averse. Importantly, the individual's current situation (e.g. level of wealth) is vital in determining the choices made, with the potential change in circumstances influencing the decision, rather than the absolute value of the outcome.

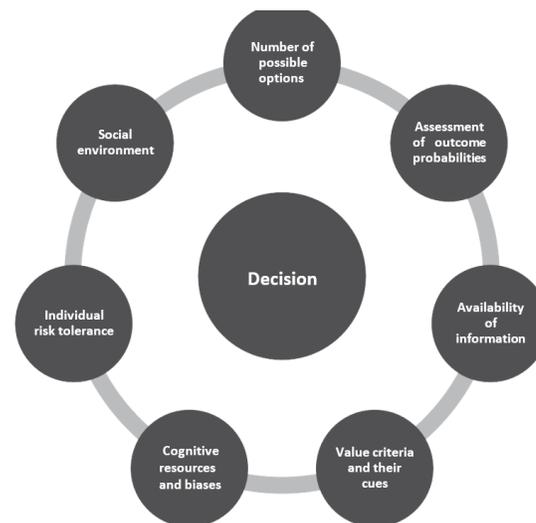


Figure 5.1 Visualisation of factors impacting on decision-making under risk

In concrete terms, a £1,000 gain has more utility to someone with £10,000 than someone with £100,000, and the two individuals make decisions accordingly: 'Utility cannot be divorced from emotion, and emotions are triggered by changes' (Kahneman, 2003, p. 1457). This 'reference-dependency' (Koszegi and Rabin, 2007) is considerably more nuanced than a simple scale of risk aversion as is often used in studies of decision-making (e.g. Breen, van de Werfhorst and Jaegar, 2014).

Kahneman has also identified a 'framing effect', whereby decisions are strongly influenced by the wording and explanation of the possible outcomes, even where the inherent information is identical. There is often a 'passive acceptance of the formulation given' (Kahneman, 2003, p. 1459), as well as a process of editing to simplify options into more recognisable categories (Kahneman and Tversky, 1979). Two related heuristics are



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particularly relevant to this chapter. The first is ‘accessibility’, where the brain uses information from memory that is most readily brought to mind. This is built on the individual’s past experiences, as well as a general privileging of the familiar. The second is ‘representativeness’, where the specifics of a decision are intuitively linked to known archetypes – e.g. with people in certain occupations being substituted with personality types associated with those occupations.

This brief introduction to bounded rationality and behavioural economics for those unfamiliar with the theoretical foundations and empirical results is necessarily partial in its treatment, but, it is hoped, clear in its basic premise: that individual decision-makers have marked constraints on their ability to distinguish between options, especially where (a) these options are numerous, (b) the outcomes are probabilistic and ‘risky’, (c) there are multiple (and conflicting) measures of utility and (d) their ability to draw on experience or advisers with experience is limited. Furthermore, finite cognitive resources are compromised by involuntary systematic biases, especially where there is an emotional component to the decision or where it is taken under pressure. This is summarised diagrammatically in Figure 5.1.

Applying bounded rationality and behavioural economics

While bounded rationality and behavioural economics have been applied to numerous environments, they have not yet enjoyed wide use within education. This is perhaps due to a discomfort in viewing educational decisions as economic ones, but there is good evidence that this is how they are increasingly viewed by prospective students (Purcell et al., 2008). Indeed, one of the advantages of bounded rationality as a theoretical lens is that it draws focus to the social and individual elements of financial decisions, while acknowledging the economic imperatives behind the decision.

A number of useful conceptual insights can be summarised from the theory and empirical findings introduced above; these are not intended to be exhaustive.

More information is not always useful.

Neoclassical economic theory is predicated on perfect information as the basis of rational decision-making. Conversely, bounded rationality posits that the acquisition of information is not a costless exercise, in terms of time needed for collection and analysis. This is further complicated if the size of the information set is unknown and if the relative



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value of full information compared to partial information is not known – i.e. how much is enough? Even if full information is achieved, it can actually have an adverse impact on decisions by clouding or adding unnecessary cues.

Decision complexity increases exponentially.

Laboratory experiments are generally based around relatively simple decisions between a small number of options with known outcome probabilities and clear distinguishing cues (e.g. financial gain/loss). However, real-life decisions tend to be significantly more complex than this, with numerous options, unknown probabilities and multiple criteria. Weighing these cues quickly becomes challenging and overall complexity of the analytical task grows exponentially. Behavioural economics predicts that people will take intuitive, rather than rational, opportunities to reduce this complexity using heuristics drawing on familiar memories or archetypes.

Money is not the only source of utility.

While neoclassical economics does allow for non-financial forms of utility, these are generally underplayed. Conversely, bounded rationality expects decisions to be exercised across multiple concepts of utility. Relevant other forms of utility for educational decisions might include happiness/wellbeing, the desire for academic success, the maintenance of positive social relationships or the non-transgression of societal expectations. In particular, both Simon and Kahneman view humans as emotional decision-makers who seek to maximise their positive affect, especially in the short-term.

Responses to cues are highly individual, but socially embedded.

Bounded rationality predicts that individuals will react differently to the same options. Specifically, people react primarily to changes in their financial situation rather than the absolute endpoint; as all financial situations differ, so do the decisions. In particular, relative gains are more likely to be valued by those with lower wealth. Furthermore, prior experiences and the wider social environment will impact on their concepts of value and the criteria used to estimate it, as well as shaping expectations – which, in turn, shape the framing of decisions in ways that are redolent of Bourdieu's concept of 'habitus' (Collet, 2009).



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Risk is contextualised and attitudes are non-linear.

Experimental studies suggest that people are risk-averse when considering losses, but more risk-tolerant when considering gains. Furthermore, tolerance is higher when the probabilities and outcomes are known rather than unknown or unknowable. People are not generally good estimators of the likelihoods of particular events occurring, especially over a lengthy passage of time and with an emotional component: ‘the long term is not where life is lived’ (Kahneman, 2003, p. 1457).

Higher education choices

This section explores how these theoretical principles might be applied to higher education decisions. No specific claims to knowledge are made here; the discussion is speculative and illustrative in nature. It uses a bounded rationality lens to examine three key decisions where empirical evidence suggests that many students, especially from disadvantaged backgrounds, are making non-rational decisions; for simplicity, it will focus on young applicants, although the principles are likely to relate to mature students too. The decision-making process surrounding entry to higher education starts early in the teenage years for most and is undoubtedly complex, with a wide variety of higher education forms on offer, including thousands of degree programmes across around 150 universities in England.

For the purposes of this chapter, three principal decisions with the most obvious economic component are examined, although these will be supplemented by issues of personal preference (e.g. which specific university) and myriad micro-decisions (e.g. whether to live in halls of residence).

Should I enter higher education?

This is obviously the most fundamental decision and the one that contributes to national performance indicators on higher education access. It is predicated on the possession of qualifications that permit higher education entry and the majority of individuals who possess these do choose to progress, almost regardless of their socio-economic status (Coleman and Bekhradnia, 2011; Crawford, 2014). This imperative is strongest among those with the most and the highest status qualifications. Nevertheless, some do choose not to seek entry to higher education, particularly those with fewer or lower status



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qualifications.

Regardless of the reality, for most students the decision is driven in large part by a general belief in 'human capital' (Becker, 1994) – that the accumulation of qualifications will have a positive impact on their long-term finances and well-being (Purcell et al., 2008). This is juxtaposed against the short-term costs of higher education in terms of loan accumulated for tuition fees and living costs, as well as forgone earnings and career progression over the period of study.

There is, therefore, an economic decision to be made. On the one hand, basic information about direct costs is readily available through a host of official web-sites. The opportunity costs of participation are harder to estimate: what job could have been secured outside higher education, what might it pay and with what chances for progression? These estimates are assembled in a congested graduate employment market where work previously available to eighteen-year-olds now requires a degree as a minimum (Brown, 2013). Those with strong or vocationally focused qualifications (or useful family networks) might have realistic expectations of securing a traineeship or apprenticeship with on-the-job training and progression routes. However, for most, the alternative to higher education would be low wage and low prospect employment or unemployment.

Conversely, information on possible financial outcomes from higher education is harder to obtain (and inherently out-of-date). Partly due to the congested market, the likelihood of securing graduate-level work is uncertain (Scurry and Blenkinsopp, 2011; Purcell et al., 2012), while graduate salaries are heavily dependent on degree subject, university status and degree result (Chevalier, 2011; Walker and Zhu, 2011; Naylor, Smith and Telhaj, 2016). Even given figures for typical graduate pathways or average salaries, the prospective student is far from in possession of perfect information, especially given increasing dispersion in salaries (Green and Zhu, 2010), with their own estimates tending to be too high (Jerrim, 2011). It is often assumed that young people from low income backgrounds will be disproportionately deterred by the cost of higher education due to higher risk aversion and lower family resources (Callender and Jackson, 2005), but this has been increasingly challenged by evidence. First, Crawford (2014) has shown that qualifications accrued at sixteen account for around 95 per cent of the variation in university participation rates, such that the social differences are created much earlier in the lifecourse, with little 'space' for debt aversion to play a major role. Second, official data (e.g. Universities and Colleges Admissions Service [UCAS], 2015) shows that major increases in costs in 2006 and 2012 were met with rising demand from lower socio-economic groups, rather than falling. Finally, interviews with students finds them



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mainly reporting tolerant attitudes to the costs of higher education (Harrison et al., 2015; Esson and Ertl, 2016).

Using a bounded rationality lens, this potentially counterintuitive situation can be more readily understood. First, the long-term financial returns from higher education are unpredictable and becoming more so. There is no reliable source of information available to prospective students; reliable data are always necessarily out-of-date. Government, universities and schools therefore rely on a general exhortation towards higher education with a tacit ‘promise’ of an improved future. Second, for young people from low income backgrounds, their ability to lose through the higher education ‘gamble’ is lower. While the precise outcome is unpredictable, there is confidence it will be higher than the likely alternative: unemployment or low prospect work, especially in periods of recession and in deprived areas. This is consistent with the loss-aversion (as opposed to risk-aversion) predicted by behavioural economics.

Furthermore, the anticipated gains from higher education feel more significant due to the low income context of the family. Conversely, the full costs of higher education are counterintuitively higher for those from more advantaged backgrounds as their alternatives are likely to be more lucrative, while the potential gains are more muted when pitched against higher family wealth. This may explain why this group has been more sensitive to increases in tuition fees (UCAS, 2015; Harrison, in press).

Which subject should I study?

This is often a vexed decision for prospective students, with contradictory influences and conflicting priorities. As noted above, the imperative to make decisions that lead to improved long-term life chances looms large, but students often also value subjects where they have been academically successful or that hold an intrinsic interest for them (Purcell et al., 2008).

As a result, students will need to trade off utility from future salary expectations with the need to enjoy (at least in part) their years of study and to choose a subject with a good prospect of academic success. They are likely to be significant social factors impacting on this utility equation – family expectations, classed and gendered concepts of ‘respectable’ work, local labour market opportunities and so on (e.g. Skeggs, 1997; Croll, 2008; Shah, Dwyer and Modood, 2010; Archer, DeWitt and Wong, 2014).

However, this decision will have important ramifications for the outcome of their initial



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decision to enter higher education. Walker and Zhu (2011) demonstrate that the financial returns across different academic subjects are widely distributed; indeed, students expect differential salaries depending on the degree chosen, while the confidence in (Davies, Qiu and Davies, 2014) and accuracy of (Jerrim, 2011) these estimates varies between social groups. There are also differences in the variance within subject choices (Chevalier, 2011), with some pathways having a relatively predictable salary while others have a high variance around the mean.

This primary effect of subject choice in terms of future salary potential is then mediated through the degree classification that the individual achieves (Naylor, Smith and Telhaj, 2016), which is, in turn, a partial function of their aptitude for and engagement with the subject. Indeed, Purcell et al. (2008) found that students rated future enjoyment as the most important factor in their subject choice, highlighting the emotionally grounded nature of the decision. Employment-related factors (either general or specific to a profession) were somewhat less important, while a record of academic success played some role for around 40 per cent of their sample. Many students are trading off between subjects with a lower predicted return which they enjoy and in which they might achieve highly against subjects with a higher predicted return in which they have little interest or record of success. In other words, even a seemingly rationally 'optimal' choice of subject can be undermined if the fit for the individual transpires to be poor, causing them to underperform. Of course, students may have a strongly preferred career where high financial returns coincide with enjoyment and aptitude – provided they meet the entry requirements.

The complexity of this decision is staggering when considered in the round and from an expected utility perspective. Rather, bounded rationality predicts that complex decisions like this will be simplified by the individual with intuitive recourse to the familiar to eliminate options and ignore cues. The individual's decision will inevitably be a satisficed one, attempting to square off multiple criteria (financial, social and individual) across a manageable quantity of information in a reasonable timeframe – in a period where they are working towards the examinations that will determine the success of their university applications. A bounded rationality approach does not see this as flawed, but an unavoidable consequence of complexity and finite resources.

A major initiative in recent years has been to increase the information provided about courses through the National Student Survey, as well as the 'Key Information Sets' which, inter alia, describe graduate outcomes. This is intended as an aid to decision-making, but a bounded rationality lens would question this if it adds new (and possibly spurious) cues



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to the existing decision. Indeed, Davies (2012) questions whether publishing mean starting salaries is useful without measures of dispersion, while ‘student satisfaction’ has a questionable relationship with outcomes. A more useful approach might be to help prospective students to identify the most important cues in determining their long-term outcome, as well as broadening the satisficing options out beyond the familiar – for example by stressing the need for enjoyment and illuminating the wider career paths associated with particular subjects, while downplaying simplistic representations of financial returns.

Undoubtedly satisficing is sometimes unsuccessful, with a relatively high proportion of students changing their degree programmes within or after their first year (Harrison, 2006), which has led to a focus on student retention (Thomas, 2012). This work is clearly valuable in promoting high-quality teaching and support, but there is a danger that it is predicated on students making the ‘right choice’ first time; indeed, financial support changes have made it increasingly difficult and costly for students to change their decision, even where they are shifting their position within higher education to increase their long-term utility from it. Under bounded rationality, government and universities should make it easier for students to change subject on the basis of their early experiences; this is likely to particularly benefit students from disadvantaged backgrounds who are more likely to make familiar (and low return) choices based on their limited knowledge of higher education (Davies, Qiu and Davies, 2014).

Should I maximise university status?

It would appear outwardly ‘rational’ that all students would seek to go to the ‘best’ university possible given their qualifications, especially in a hierarchical pseudo-meritocratic system like the UK (Croxford and Raffe, 2015), where elite institutions have their ‘quality’ legitimised and reinforced through media-generated and government-endorsed league tables. Indeed, there is substantial evidence that the status of the university is the strongest predictor of long-term outcomes, with many high-status employers choosing only to recruit from these (Milburn, 2009). However, it is moot whether these league tables measure anything more tangible than historical over-subscription for places.

Nevertheless, many students, and particularly those from lower socio-economic groups and minority ethnic communities, do choose not to maximise university status (Mangan et al., 2010; Modood, 2012; Boliver, 2013; Shiner and Noden, 2014). This phenomenon has



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had significant attention from sociologists, who find evidence of fears about ‘social fit’ and dissonance with the ‘institutional habitus’ of elite universities (Whitty, Hayton and Tang, 2015). Such universities are ‘not for people like them’, with assumptions about the socio-economic or ethnic mix, as well as the academic standards required. Behavioural economists might view this in terms of the representativeness heuristic, with elite universities being understood through an archetype (hyper-academic and for the social elite), perpetuated through media depictions and teacher expectations (Oliver and Kettley, 2010).

Decisions may also be influenced by a desire to remain in the family home for financial or cultural reasons (Holdsworth, 2006), potentially limiting university choices to the local. Mangan et al. (2010) find that where there is a nearby elite university, students from disadvantaged groups are as likely to choose it as other students, but where there is not, they are more likely to seek a local lower status option. In this instance, a familiarity heuristic would appear to be in play; that elite universities are accepted into the choice envelope if the individual has personal experience that overcomes the archetype.

Under the auspices of attempting to improve social mobility for ‘talented’ young people (e.g. Department for Education and Employment, 2000; Milburn, 2009; Department for Business, Information and Skills, 2016), successive governments have attempted to manipulate decisions from individuals who it is felt should attend elite universities. However, these have broadly failed, with little or no change in their social mix over the last fifteen years (Croxford and Raffe, 2015). The latest figures show that the proportion of students in elite universities drawn from the most deprived communities has risen from just 2.4 per cent to 3.3 per cent since 2011 (UCAS, 2015), despite the investment of substantial sums of government and university money; furthermore, most of the improvement is located in a handful of universities, with most seeing a backward slide (Harrison, in press).

One example of this attempted manipulation was the creation of means-tested bursaries, ostensibly to offset the 2006 increase in tuition fees (Department for Education and Skills, 2003). The amounts offered were left to the universities’ discretion, but a pseudo-market inevitably formed whereby elite universities offered considerably higher sums than lower-status universities (Callender, 2010; Harrison and Hatt, 2012). These bursaries effectively formed a discount to the cost of higher education, with a distinctly higher discount for students choosing elite universities. Neoclassical economics would predict that a fall in ‘price’ would increase demand, but Callender, Wilkinson and Hopkin (2009) found that students largely ignored this financial incentive, with evidence that some even



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felt that larger bursaries were a sign of inferior courses (Davies et al., 2008). Taking a bounded rationality perspective, this ‘irrational’ behaviour from students that are normally constructed to be the most price-sensitive and risk-averse is more readily understood, with the financial utility of the bursary dimming next to educational priorities and the disutility of spending three years in an institution that feels alien.

Conclusion

This chapter has introduced the theory of bounded rationality and concepts from behavioural economics which emerged from it. It has then applied these ideas to three key decisions made by prospective students, highlighting the potential for new insight, especially with respect to phenomena that other theories have failed to predict.

First, the current obsession with providing endless information to improve students’ decision-making is likely to be ineffectual and possibly even counter-productive, simultaneously increasing the complexity of the decision and introducing additional cues of dubious validity. This is not to argue that prospective students should not be given adequate information, but that careful thought needs to be given to its purpose, while not assuming that ‘more is better’. Improving access to reliable and high-quality advice and guidance, untainted by normative expectations, is likely to be a more fruitful avenue.

Second, purely financial understandings of student behaviour are inadequate. Evidence is mounting that students do not respond to financial cues in the ways predicted by neoclassical economics. This has been seen both in terms of their response to increasing tuition fees and differential bursaries. Similarly, concepts of risk need to be revised to understand the non-linear nature of expected utility, with higher education often seen by disadvantaged young people as less risky than the alternatives.

Third, that efforts to break down stereotypes about elite universities are not working, with the inherently conservative heuristics around accessibility and representativeness holding sway. Well-intentioned, but misguided, work to ‘raise aspirations’ has not been successful at the macro-level, which suggests that more radical options to achieve a fairer social mix are needed, especially when the best graduate opportunities are preserved for certain universities. Alternatively, there needs to be a reassessment of the basis on which elite status is conferred, maintained and valorised, towards a more equitable distribution of opportunities.



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