

PO - CH / NE / 0228
PART A

Part A.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

MANAGEMENT - IN - CONFIDENCE

Begins: 23/9/88.

Ends: 17/10/88.



PO -CH /NL/0228



PART A

Chancellor's (Lawson) Papers:

PROPOSALS FOR UNIVERSITY FUNDING

Disposal Directions: 25 Years

15/9/95.

PO -CH /NL/0228

PART A



FROM: MISS M P WALLACE

DATE: 23 September 1988

MR FARTHING

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Call

UNIVERSITY FUNDING

... The Chancellor has seen the attached article in yesterday's Independent. He has commented that he sees some merit in the proposal that Universities should be funded not via the UGC, but on the basis of £X per student. He has asked if any work has been done on this.

A handwritten signature in black ink, appearing to read 'mpw.'.

MOIRA WALLACE

Demand for vouchers **hots up**

Ngaio Crequer on the drift to market funding for universities

SPEECHES by Government ministers are as important for what they do not say, as for what they do. When Kenneth Baker, Secretary of State for Education and Science, makes his annual lay-note speech to university vice-chancellors at their retreat in Oxford next week, he will not encourage them to attract extra students who would pay a larger fee than the nominal tuition charge.

But until recently such a cautious exhortation was in his speech, taken out by Mr Baker himself because it would obviously only favour the rich.

Mr Baker and others would probably be surprised at an astonishing growth of support among vice-chancellors for a switch to an alternative system of funding. The idea of funding higher education through a system of vouchers is now top of the educational agenda and it is being pushed very hard by Under-Secretary of State for Education Robert Jackson, certainly the cleverest education minister in recent years.

Under vouchers, universities and colleges are funded not via a central funding body but through payments to students, who would be charged competitive fees. Resources would be allocated according to student demand. Sir Graham Hills, Vice-Chancellor of Strathclyde University, used to be considered rather dotty by his colleagues when every year he would regale them with his plans for vouchers.

But this time last year they listened with more than polite interest and set up a working group. Next week the report will be presented to the vice-chancellors but many will be disappointed. Although it will be critical of aspects of the present system, it will not propose radical changes but will say that tuition fees should be increased. This would give universities more leeway. They would be able to pack in more students at the margin funded by fees only. A doubling of fees, for example, taking them to more than £1,000 a year, would give the universities significant new money. They already have this freedom but it leads to a reduction in their recurrent grant.

Dr Anthony Kelly, Vice-Chancellor of Surrey University, will present a minority report. Not only does he want students to be charged the full cost of their courses (at present students pay

nominal fees only, £578 in 1982/83, and the Government foots the rest of the bill), he advocates differential fees for different subjects. So, for example, if there was a need for more maths students, their fees could be less than for an historian. He said, "I believe that full cost overheads should be charged for all research, that the university should be actively engaged with industry in planning the courses that are needed, and funding by government for undergraduate teaching should be channelled through fees to the student."

Sir Graham Hills believes the only way forward is to rely on student choice. "The present system is dreadful, demoralising and totally unsuitable for this country." If there is move towards a more market-based system, he is prepared to try to go it alone with a voucher scheme and thinks about

nine universities and polys would join him. Government would have to agree - as would the other colleges who have not yet been approached. The Department of Education and Science would like to hear more. "An alternative White Paper on Higher Education", by John Barnes and Nicholas Barr of the LSE, is being taken seriously by the DES. Both Robert Jackson and Brian Griffiths of the No 10 think-tank encouraged them to develop their ideas. They show how a voucher or bursary system could work, and present a *laissez-faire*, SDP-Liberal-Democratic and a Labour Party model. They also propose a loan scheme but say the issues are separable. Nick Barr said: "It is a mistake to think that a system based on bursaries is necessarily pro-market. Within our framework it is possible to have a huge variation of schemes. You

could have a *laissez-faire* scheme which is massively competitive. At the other extreme you could tie all bursaries to specific universities and mimic the present system. Or you could have something in between."

On Tuesday Robert Jackson told a conference at the London School of Economics that a market-based system was very desirable. There was not a polarised opposition between a centrally managed and a competitive market model. Under a market system, colleges would have to respond to student demands. Everyone would have to take teaching very seriously. There would have to be judgements about the quality of research. Government would have to influence the distribution of vouchers to ensure there were enough doctors and teachers. All this was true of a centrally managed system. Nor, as universities competed for student income, could government stand by "and watch the collapse of those institutions which proved unable to compete".

According to Sir John Kingman, Vice-Chancellor of Bristol University: "Neither this government or any other has any intention of funding higher education purely out of public funds. Many of us want to be able to develop new ways to meet our needs, to earn our own living and make a profit, to pay able people enough to keep them in the higher education system."

"Any commercial institution has to look to its main product for its main income. Our main product is teaching students and we must be able to command a fair price for that. Only if we can establish that principle can we go on to discuss who is to pay, the individual student or the state. Efficiency demands that the customer should be the student even if the state gives help to some students." But teaching and research were inseparable. So let the market decide. If colleges could set their own fees let those with a research mission set the price higher. "Let us see if employers want to have people with a more expensive education and whether they are willing to pay for it."

Lord Swann, who watched the progress of the Education Reform Act through the Lords, told the LSE conference: "Why on earth is government coming in now rather than before?"



EDUCATION is edited by Peter Wilby

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EDUCATION is edited by Peter Wilby

See much about a n proposed Nat Universities shd be funded, not via n UGC, but on no basis of EX for student. What looks like a... 46

BF 6/10



FROM: MISS M P WALLACE
DATE: 23 September 1988

MR FARTHING

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Call

UNIVERSITY FUNDING

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Mpw.

MOIRA WALLACE

CONFIDENTIAL



FROM: ROSIE CHADWICK
DATE: 27 September 1988

*pl associate BF with other
pp on BF BF 8/10
BF 10/16*

APS/CHANCELLOR

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Farthing
Mr Call

UNIVERSITY FUNDING

The Paymaster General has seen your minute of 23 September. He notes that there was an initiative led by Hills and Ashworth to Sir Keith Joseph in 1983 which foundered (as he recalls) on public expenditure constraints at DES at the time. The Paymaster's recollection is that the conversation was partly at DES's suggestion. Oliver Letwin was then a Special Adviser.

On a somewhat related subject (on which the Paymaster is not entirely up to date) the overseas student fees' level has now been shifted to the institutions, subject to meeting their costs (which is an ambivalent criterion). Individual universities were, however, reluctant to break the cartel (which was geared to a particular figure) for fear the UGC would penalise them, even though they recognised that (eg) Hull does not have the same draw for overseas students as (eg) Cambridge.

Rec.

ROSIE CHADWICK
Assistant Private Secretary

MANAGEMENT IN CONFIDENCE

30/8/88

FURTHER AND HIGHER EDUCATION AND SCIENCE POLICY ADVISORY
UNIT

Outline Prospectus

A small unit with a life of (say) two years to write a series of draft position papers intended to provide the basis of future higher education, science and further education policy.

Target date for commencement: 1 November 1988.

Staff: 2 to 3 professional staff plus support.

REMITTS

1. The separation of teaching and research funding by the UFC.
2. Viable voucher schemes:
 - i. first degree and diplomas
 - ii. higher degrees.

3. Options for the reorganisation of the Research Councils.

4. Design of degrees:

i. first degrees

ii. taught Masters degrees

iii. PhD's

5. Assessing the quality of teaching in higher education.

6. Attainment targets and programmes of study in further education.

7. 16 - 19 qualifications.

8. Possible mergers of higher education institutions.

9. The management of research within universities.

10. Alternative ways of securing selectivity and concentration of research in universities.

TIMETABLE

A target date for the submission of each draft would be set. The first - separation of teaching from research - should be submitted by 20 December 1988.

Department of
EDUCATION
and
SCIENCE



Elizabeth House York Road London SE1 7PH Telephone 01-934 9000

285/88

September 30 1988

cc Mr Anson
Mr Phillips
Mrs Couse
Mr Forberg

STAFF CHANGES AT DES

The Secretary of State for Education and Science, with the agreement of the Prime Minister, has appointed Mr Richard Bird CB to be his Adviser on certain higher education and related issues.

Mr Bird's successor as the Deputy Secretary for Further and Higher Education and Science in the Department of Education and Science will be Mr John Vereker, at present Deputy Secretary Teachers in the Department.

The Secretary of State, with the approval of the Prime Minister, has appointed Mr John Wiggins, at present an Under Secretary in the Department, to be a Deputy Secretary and to replace Mr Vereker in his present post.

These changes will take effect on November 1 1988.

Notes

Mr Bird's remit will be to prepare reports on a series of issues in higher education, science and further education to help DES Ministers decide on their future policies. In the course of his work Mr Bird will consult individuals and representative bodies concerned with the issues that he is studying.

The first problems to be studied by Mr Bird will be:-

- (i) Facilitating access to further and higher education.
- (ii) The proposal to separate the funding of teaching and research in the universities.
- (iii) Voucher schemes for higher education and related ideas.

Mr Bird will be supported in his new duties by Mr Stephen Marston (Principal).

Notes on Personalities

Richard Bird has been Deputy Secretary responsible for Further and Higher Education and Science in DES since July 1980. Before that he held posts at Under Secretary and Assistant Secretary level in DES from 1973; and before that again, from his entry into the civil service in 1955, he served in the Ministry of Transport, the Civil Service Department and the Department of the Environment, including a spell in 1966-67 as Principal Private Secretary to the Minister of Transport.

John Vereker. Mr Vereker's C.V. is in PN33/88 issued on June 26 1988.

John Wiggins. Aged 50, married to a comprehensive school-teacher - two grown-up children. Educated at Highgate School and Oriel College, Oxford. First degree in Classical Greats and Modern History.

Joined the Civil Service as an Assistant Principal in the Treasury in 1961. Served on secondment in the Department of Economic Affairs 1964-67. Studied economics as a Harkness Fellow at Harvard University, 1969-71. Assistant Secretary in the Treasury 1972-79, in posts concerned with fiscal and monetary policy. Principal Private Secretary to the Chancellor of the Exchequer (Sir Geoffrey Howe) 1980-81.

Under Secretary, Department of Energy (Head of Oil Division) 1981-84; Economic Secretariat, Cabinet Office 1985-86. Under Secretary, Department of Education and Science 1987, responsible principally for the pay and conditions of teachers at all levels of education.

FROM: COLIN FARTHING
DATE: 3 OCTOBER 1988

note attached. 6/10

- 1. MR ANSON - with copies for
PS/CHIEF SECRETARY
PS/PAYMASTER GENERAL
SIR PETER MIDDLETON
- 2. MISS WALLACE

cc Mr Phillips
Mrs Case
Mr Spackman
Mr Call

Market. The simple way of moving the voucher system (to be attached) has to be done. I am central. Whether it is 100% of costs, or not.

UNIVERSITY FUNDING

Your minute of 23 September covered a copy of an article which the Chancellor had seen in the Independent about funding universities by means of student vouchers rather than, as at present, largely via the UGC. He asked if any work had been done on this.

2. In fact, the issue is very active at the moment. In addition to the recent seminar at LSE - which gave rise to the article which the Chancellor saw - the Committee of Vice Chancellors and Principals met at Oxford at the end of last week, where, once again, methods of funding higher education were very high on the agenda. As well as the proposals by John Barnes and Nicholas Barr - which had formed the basis of the LSE seminar - the CVCP also had before them two other reports - the Brundin Report and the Kelly Minority Report - which grew out of work which they had, themselves, commissioned into this issue. I attach, at Annex A, a cutting from the current issue of the Times Higher Educational Supplement which briefly summarises the main aspects of the three approaches.

3. In addition to the work being produced by academics, a considerable effort is underway within DES. Aspects of this have most recently emerged in the form of Mr Jackson's speech at the LSE seminar (a copy of which I sent you with my minute of 23 September) and Mr Baker's address to the CVCP on 28 September (extracts from which are attached at Annex B).

in separate folder on student loans

4. I think it is now common ground within the DES and amongst the universities that the time has come for some change in the method of funding higher education and that moving in the direction of a voucher scheme is the right way to go. There are, however, a number of difficulties inherent in such a move and these need to be set alongside the advantages in deciding how far and how fast it is sensible to go.

5. Two of the more obvious problems which arise are:

(i) How to deal with research. Barnes and Barr have now admitted that their proposals - for a small research element to be included in each teaching voucher - would not provide an acceptable basis for funding long term research. As research funding accounts for about 40 per cent of the current UGC grant this is a major limitation.

(ii) A particular problem from the Treasury's point of view is that moving over entirely to a voucher system would mean abandoning a cash limited UGC block vote for a method of funding which - in its purest form - is demand-led.

Neither of these problems is, of course, insuperable. There are other methods of funding research and there are ways in which a voucher system can be structured so as not to lose control of the costs of higher education. However, as Mr Jackson's speech points out, the more one interferes with the market mechanisms of the 'pure' voucher system in order to achieve such objectives, the more one limits the degree of decentralisation which the shift is designed to achieve and thus reduces the value of making a change.

6. More work needs to be done to find the best method of managing a change in the basis of funding for higher education which, over time, maximises the benefits of a less centralised approach, while minimising the disadvantages.

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7. This is what Mr Baker means by the reference in his speech to wanting the "debate in the higher education world to mature" before the Government reaches a particular view on how the shift in the basis of funding is brought about.

8. Although his officials are yet to finalise their own thinking, the current feeling within the DES is that an appropriate first step would be to double the amount of income which the universities currently receive from student fees and match this with a proportionate cut in the size of the UGC block grant. This should achieve at least some of the benefits of making the universities more responsive to customer demand, while retaining control of the overall cost of higher education and providing - through UGC funding - a continuing secure basis for university research. If Mr Baker accepts this approach, his officials will suggest that he writes to colleagues later this month with a view to an interdepartmental group being established - on which the Treasury would be represented - to look at the wider implications of such a change.



COLIN FARTHING

Three routes to the marketplace

by Linda Alexander

Three different proposals for financing teaching and research confronted the Committee of Vice Chancellors and Principals at Oxford: the official report of the group under Dr Clark Brundin of Warwick University; the minority dissenting report by Dr Anthony Kelly of Surrey University; and the "unofficial" proposals drawn up by London School of Economics lecturers John Barnes and Nicholas Barr.

The Brundin Report: essentially a commissioned response to the voucher scheme floated last year by Sir Graham Hills of Strathclyde and Dr Anthony Kelly. It argues broadly for retaining the status quo. The present system of central government grants should stay, but the student fee, £578 usually paid to universities via the local authorities, should be doubled in the first instance. The Government should be asked to meet the increase in full. At present no university can increase this fee without having the teaching element in its recurrent government grant cut back accordingly. The report rejects the Hills/Kelly voucher scheme mainly because any attempt to charge students for part of their fees would discourage many, especially the least well off, from applying.

The Kelly Minority Report: This is based on a paper prepared last year in collaboration with Sir Graham Hills. It calls for the abandonment of direct funding of universities by central government. Institutions would charge full fees and the Government should fund students directly by voucher or "merit entitlement award". The student would then become the recognized consumer for whose money universities would compete.

Government would fix the level of the MEA according to a set cost per subject. If the value of the MEA fell short of the real cost of the course and that would generally be the case, the student would find the extra fees from his or her own resources. Needy students who had no such resources could be offered Government-backed loans and universities could provide them with special scholarships. In

addition, such students could take shorter or part-time courses, reducing the time spent away from work. These options would help overcome any financial barriers to access.

That element of the present Government recurrent grant to universities which covers basic research and infrastructure costs would be distributed instead through the MEAs. All other research, from the research councils, industry, etc. would be contracted for at full cost to cover overheads. Student maintenance could be provided in a number of different ways; including an extra element in the bursary; instituting a system of student loans; continuing the present system of means-tested awards.

The Barnes/Barr proposals: This is the scheme launched last week at the London School of Economics conference on future funding. It is also student-led with the Government funding the whole cost of the student voucher or bursary. Students would maintain themselves by taking out loans repayable through their earnings-related national insurance contributions after graduating. This "ability to repay" element would be fairer than a market loan scheme since the graduate in low paid work would repay less, slower.

The Government would set the number and type of state bursaries according to the national considerations, but any other institution, company, local authority, charity etc. would be able to create bursaries - as would universities themselves.

Barnes and Barr now believe the inclusion of a basic research element within each bursary would be too risky - universities, they say, must be able to rely on constant funding here. They are likely to suggest retention of Government grant for this research element.

In contrast to the *laissez faire* approach of Hills/Kelly, Barnes and Barr say their scheme reconciles the efficiency of the market with a major role for Government policy. It would allow for "tied" bursaries to protect shortage subjects and offer "bounties" per student of a particular type.

HOW TO PAY FOR HIGHER EDUCATION

23. These are not the only radical thoughts which have been prompted by the debates on the Education Reform Act. Despite the reassurances about your autonomy which are offered in the Act, I know that many of you still fear that dependence on public funds will lead inexorably to the creeping centralism that neither of us want. I am confident that this can be avoided - indeed that some of our existing ties can be loosened to the benefit of individual institutions.

24. An essential element is for you to build on your success in raising money from private sources, from business and from alumni. This is not

a matter of the Government's seeking to reduce the burden on the taxpayer: we stand by our commitment not to reduce university public funding to offset private earnings. It is, more importantly, in the universities' interests. You tell me that you are under-funded, but I have to reply that we no longer live in a world in which there can be large scale increases in the public funding of higher education. International comparisons serve only to underline this. Even excluding student support, public expenditure on higher education in this country accounts for a larger proportion of GDP than in nearly all our major West European partners, and in Japan. In Europe only the Netherlands spends relatively more. The French and German Governments spend relatively less.

25. No foreseeable British Government - whatever its political complexion - is likely to increase taxation and public spending substantially. Particularly as public expenditure, although falling relatively, still accounts for over 40% of GDP. And there are powerful obstacles in the way of an increase in higher education's share of public spending, notably the ageing structure of the population. But our GDP is now

rising rapidly. The moral is a clear one. Universities should look to where the grass is greener and seek to take advantage of growing national prosperity. They should consider how to increase their share of a rising GDP rather than increasing their share of necessarily restricted public expenditure. This means raising money in other ways.

26. Of course this will not be a complete answer to your financial difficulties or a complete means of loosening the embrace of Government. But as well as yourselves, the UFC, business and Government there are other very important players in this game: I mean your customers, the students. The home students already bring a little extra public money with them in fees, while overseas students bring a great deal more of their own money. In both cases the fee is important to the institution but I cannot help noticing that the marketing effort seems to be in proportion to the size of the fee. Naturally you pay much attention to student preferences and satisfaction already but I sense a general feeling that it would be good for all concerned if there were incentives to pay even more attention to what suits the customer.

27. If the State were to increase the purchasing power of the home student, and reduce correspondingly block grants to institutions, there could be a double benefit. Your efforts would become better tuned to what your students want and the balance of power would shift towards the individual consumer and away from the centre. There are a whole range of possibilities to be considered. At the less radical end there could be a modest increase in the standard publicly funded fee. At another the most commonly heard proposal is that public funding should be channelled altogether through a student voucher - with or without a contribution from the student.

28. I am struck by the vigour of the debate on vouchers and fees, which is also at the forefront of the agenda elsewhere. In New Zealand, to take just one recent example, there is now talk of moving towards a more decentralised "client-driven" approach to higher education funding. In our country, I look forward to seeing what Dr Brundin's working party has to say. But whatever the inherent attractions in purchasing power resting with the consumer, the implications would be considerable.

We want this debate in the higher education world to mature. I can assure you that we would not ourselves reach a particular view and follow that up with concrete action without very full discussion with the Funding Councils and with the leaders of the universities, polytechnics and colleges.

CONFIDENTIAL

FROM: J. ANSON
6th October, 1988.

CHANCELLOR

pprs pl

*Thanks.
Credit & points ~
2. Sir who ~ Mr. F's
Comm ~ Mr. F's
note below.*

c.c. Chief Secretary
Paymaster General
Sir P. Middleton
Mr. Phillips
Mrs. Case
Mr. Spackman
Mr. Farthing
Mr. Call

UNIVERSITY FUNDING

Mr. Farthing's note below (flag A) responds to your question whether any work had been done on the ideas for funding universities which were mentioned in a recent article in the Independent.

2. There is just one point I would add. The Secretary of State has now decided to set up a special unit within the DES to produce a series of policy position papers on this and other issues in the higher education and science fields. The unit will be headed by Mr. Richard Bird, until recently the Deputy Secretary responsible in that area, who will now devote his full time to it until his retirement. The objective of setting up this separate "think-tank" is to get things moving in this area faster than if policy papers had to be prepared by the line divisions.

3. This new unit was slipped out very discreetly at the end of last week in a DES press notice (flag B) which seems so far to have attracted little public attention. The intention to cover voucher schemes for higher education is mentioned, among other topics on page 2 of the notice. I also attach (flag C) an outline prospectus, which Sir David Hancock has given me, setting out the work programme of the think-tank in rather more detail.

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4. I think there is merit in the DES generating some ideas in this field, rather than reacting to the ideas of others. However, most of the topics are likely to have expenditure implications, and although some of them, like new ways of funding higher education, could have attractions, others, like "facilitating access to further and higher education", could be costly. I have made it clear to Sir David Hancock that I was sure that Treasury Ministers would be very interested in any such reviews, and that there ought to be proper consultation with the Treasury at both Ministerial and official level before any ideas are circulated to colleagues for wider collective discussion.


J. ANSON

CONFIDENTIAL



FROM: ROSIE CHADWICK

DATE: 7 October 1988

PS/CHANCELLOR

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Spackman
Mr Farthing
Mr Call

UNIVERSITY FUNDING

The Paymaster General has seen Mr Anson's minute of 6 October, covering Mr Farthing's note of 3 October.

On the suggestion of doubling student fees, he thinks he is right in saying that, ironically, they were halved some years ago (it was certainly more than five years ago). The logic then was to do with the funding of local authority higher education fees, though the Paymaster can't remember the precise details.

Rec

ROSIE CHADWICK

Assistant Private Secretary

*m find x
ofan*

FROM: R M PERFECT
DATE: 13 OCTOBER 1988

1. MR FARTHING
2. PS/CHANCELLOR

cc: PS/Chief Secretary
PS/Paymaster
General
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Spackman
Mr Call

UNIVERSITY FUNDING

[Handwritten mark]
1. The Paymaster General noted that it was ironic that DES are considering doubling the level of higher education fees, because they were halved some years ago (Miss Chadwick's minute of 7 October refers).

2. The Paymaster General's recollection is accurate. Fees for students were cut from £900 in 1981-82 to £480 in 1982-83 (academic years). Provision for grant to universities and polytechnics was increased by a compensating amount.

(X)
3. This switch was made because grants to universities and polytechnics are cash limited while spending on student fees is not. In December 1981 DES wrote to the UGC, the Association of Metropolitan Authorities and the Association of County Councils explaining the decision (copy of letter attached). As Colin Farthing's minute of 3 October noted, any reversal of this policy would create a problem for Treasury. We have written to DES and asked them to address the issue when working up proposals.

Mark Robert
R M PERFECT

E Appleyard Esq
University Grants Committee
14 Park Crescent
London W1

4 December 1981

FEES FOR HOME STUDENTS IN ACADEMIC SESSION

1. I am writing to let you have details of the Secretary of State's proposals for fees for home students on designated courses. The Government's expenditure plans and proposals for the 1982-83 RSG settlement (as announced by the Chancellor and the Secretary of State for the Environment on 2 December 1981) allow for the implementation of the proposals set out below.

Background

2. Among students eligible for home student status fee levels do not act as a major determinant of demand for designated courses, since as part of a mandatory award LEAs are responsible for paying the fee. It is estimated that only around 3% of such students (comprising principally EC students and students who are ineligible for a mandatory award because they have previously taken a course of higher education) are responsible for paying their own fees.
3. In 1977 fee levels for home students were increased substantially in real terms (mainly to match similar increases for overseas students). Income from fees paid by or in respect of such students is now estimated to cover between a fifth and a quarter of the tuition costs involved in providing designated courses. In the case of many courses, particularly in the arts and humanities, it is likely that the additional income earned by admitting additional students exceeds the marginal costs incurred in providing for them.
4. Some measure of fee income is important to ensure that institutions retain a degree of flexibility. However, in present circumstances, there is a substantive argument against providing for a high proportion of costs to be covered from this source, since it allows institutions to offset to some extent the financial constraints imposed upon them by static or declining recurrent grants by recruiting more students, which in turn generates additional public expenditure on student maintenance awards.
5. The Public Accounts Committee have expressed concern that the absence of a cash limit on expenditure on awards effectively undermines the cash limit on the grant made available, for example, through the USC. It is difficult to see how a cash limit could be imposed on expenditure on mandatory awards as such without a major modification of the rules governing eligibility. Fixing fees so as to cover a lower level of costs, however, will alleviate the problem.

Secretary of State's Proposal

6. Accordingly the Secretary of State proposes to reduce substantially the tuition fee recommended for designated advanced courses from £900 in the academic year 1981-82 to £ 400 in the academic year 1982-83, and to increase provision for grant for institutions and the AFE pool quantum to allow for the implementation of these proposals. As in the past this recommended level would be the maximum payable for such courses under mandatory awards, provision for expenditure on which has been decreased accordingly. The level of fees chargeable by Oxford and Cambridge Colleges is being dealt with separately.
7. Your Committee will wish to consider what, if any, implications the Secretary of State's proposals for designated courses should have for the level of fees chargeable in relation to part-time first degree and comparable courses.
8. So far as postgraduate and other courses are concerned, the arguments against a high level of fees do not apply in the same way. In the Secretary of State's view, recommended fees for postgraduate courses should be increased by the relevant inflation factor. I shall be writing about this separately. It is assumed that CLEA will wish to recommend corresponding increases in respect of non-designated advanced and non-advanced courses in the maintained sector.
9. I am writing in similar terms to the Association of Metropolitan Authorities and Association of County Councils.

M J G SMITH

mp mp



FROM: MISS M P WALLACE

DATE: 17 October 1988

BF 20/10

MR ANSON

mpw

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Phillips
Mrs Case
Mr Spackman
Mr Farthing
Mr Call

21/10

UNIVERSITY FUNDING

The Chancellor was most grateful for your minute of 6 October, covering Mr Farthing's of 3 October.

2. He agrees entirely with the points you make in your minute, and would wish the Treasury to be properly consulted before DES circulate any new policy papers to other colleagues.

3. On Mr Farthing's minute, the Chancellor has commented that the simplest way of reconciling the voucher system - to which he is attracted - with public expenditure control is to ensure that the voucher covers less than 100 per cent of tuition costs, giving us flexibility to vary the percentage.

Mpw.

MOIRA WALLACE