Degrees of quality:
how to deliver the courses we need at prices we can afford

Gill Wyness
About the authors
Gill joined CentreForum in April 2011, from the Institute for Fiscal Studies, where her main focus was on evaluating higher education funding reforms. Her background is in quantitative research and as well as researching higher education finance reforms her work has focused on university participation in the UK and youth unemployment. Gill recently advised the Browne Review on higher education finance.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>4</td>
</tr>
<tr>
<td>Introduction</td>
<td>8</td>
</tr>
<tr>
<td>Going up: a brief history of tuition fees in the UK</td>
<td>12</td>
</tr>
<tr>
<td>Why marketisation may not reduce prices in HE – the theory</td>
<td>15</td>
</tr>
<tr>
<td>Why marketisation may not reduce prices in HE – evidence</td>
<td>26</td>
</tr>
<tr>
<td>A new system which will tend to drive down prices</td>
<td>31</td>
</tr>
<tr>
<td>Conclusion</td>
<td>40</td>
</tr>
</tbody>
</table>
Executive summary

The government’s white paper on higher education set out to deal with two major problems with the UK higher education system.

First, the system is financially unsustainable. In lifting the fee cap to £9,000 per year, the government under-estimated the average actual tuition fee that universities would set and hence its future liability in the form of unpaid fee loans. Furthermore, while this increase in fee revenue may satisfy universities in the short-term, history has shown that it is unlikely to do so in the long term. Since the introduction of tuition fees in 1998, UK universities have repeatedly campaigned for fees to be increased. The government badly needs to find a way of keeping fees at levels that are affordable for both students and the taxpayer.

Second, there is currently no real way for prospective students to tell whether their chosen institution is offering an educational experience worthy of the hefty tuition fees (which will be amongst the highest in the world by 2012). The information available to students on which to make choices is very limited. This is exacerbated by the fact that the majority of institutions award their own degrees, and lecturers in many universities set the exams for the courses they have taught, leading to a cycle of self monitoring. Consequently, students are poorly informed about university quality, and cannot tell which courses will really provide good teaching and foster the skills they need for the employment market. Moreover, employers cannot easily judge whether a given degree course fosters the skills they desire in graduates. The result is that universities charge high fees to signal that
they are of high quality. The government needs to ensure that students can easily judge the quality of teaching and assessment offered at institutions, and that their degrees are valued by employers.

Marketisation of higher education, a system well-established in the US, where universities compete with each other on price (as well as a myriad of other criteria) is an important component of the government’s new strategy – outlined in the white paper. It includes a number of plans aimed at introducing marketisation into the sector through measures such as encouraging new entrants and inviting institutions to compete for a portion (20,000) of allocated student places. This, the government hopes, will increase choice, which will in turn drive competition between institutions, improving quality and reducing the price.

“Enabling greater competition, while removing unnecessary regulations, is an important theme of this White Paper, because of the benefits for all users of higher education. We want to ensure that the new student finance regime supports student choice, and that in turn student choice drives competition, including on price.”

- Higher education white paper, section 1.19

To improve the information available to students so that they can better choose between institutions, the government will require universities to provide a standard set of statistics for every course they run. This will include information on teaching hours, lecturer qualifications, pass rates, student satisfaction and even graduate wages. It is hoped that this transparency will improve the student experience and help students compare institutions more easily, again driving competition.

However, there are several ‘market failures’ in higher education in the UK, which mean that the limited marketisation envisaged is unlikely to lead to the kind of competition that the government wants to see. Furthermore, as evidence from the US clearly shows, marketisation alone
degrees of quality

does not result in a stabilisation or reduction in the cost of higher education. While greater information provision is a step in the right direction, the reputation and brand name of top universities will mean that they still have a guaranteed market, regardless of how much effort, if any, they invest in improving teaching.

Instead, we need an alternative to the high cost, research intensive institution, which delivers high quality courses and qualifications at low prices. This paper sets out a method for achieving this, through encouraging institutions to specialise according to their strengths. Those institutions where research is the university’s primary activity should continue to focus resources on carrying out world-class research and designing research-led syllabi. Those institutions that lack comparable clout in terms of publishing research could concentrate resources on better teaching, improving the student experience and competing to provide good degrees at a lower cost.

‘Research’ institutions – most obviously those within the Russell Group but including some others – would focus on research and teaching, whilst ‘regular’ institutions would focus primarily on teaching. Costs would be significantly lower at the latter, since staff and facilities could be used more efficiently, for example by offering degree courses over two years. To ensure quality, a set of standardised courses and exams would be designed by ‘research’ institutions and other expert bodies – to be delivered through a ‘collegiate’ type arrangement in teaching based institutions. Exams would be marked externally, organised by those designing the courses rather than those teaching them as is the case now. Standardising courses and exams in this way would mean that students could, for example, have a University of London degree taught at Southampton Solent. Competition for places at prestigious ‘research’ universities would still be high, but as ‘regular’ universities gained a reputation for better quality teaching and more contact hours, some students may decide they would prefer to study for a widely recognised and externally accredited degree at a lower cost.
institution and still be assured of the quality of the course. Being able to compare the results of institutions offering the same degree course, would enable students to see which universities really add value through high quality teaching, would allow employers to more easily compare graduates across different institutions, and would ultimately lead to greater acceptance and recognition of the value of the degree.

This model would allow the system to expand, provide a high quality learning environment and crucially could be run at a far lower cost to the taxpayer than the current system.
Introduction

The UK’s new university funding regime was designed with a number of aims in mind. Given the difficult circumstances, the government wanted to save the taxpayer money. To achieve this, the government wanted to shift the cost of higher education away from the taxpayer and towards students themselves, after graduation, via an increase in the deferred tuition fee. The government also hoped that by setting a cap of £9,000 per year many universities would decide to charge below the maximum in order to attract more students. Indeed, it was assumed that only in “exceptional circumstances” would institutions charge above £6,000 per year. Thus, a marketplace would emerge, with institutions charging a range of fees, and students able to base their decisions on cost, in addition to myriad other criteria such as location, reputation and perceived quality.

Even prior to the publication of the higher education white paper the government’s aims were already in doubt. Whilst cuts in the Higher Education Funding Council for England (HEFCE) university teaching grant will save the government in up-front costs, in the long run the across-the-board increases in tuition fees, over and above the levels anticipated, is likely to cost the taxpayer more. Larger student debts are less likely to be repaid in full (or even in part, given that the government has raised the level at which graduates start repaying debt to salaries over £21,000). The majority of UK institutions that had

1 D.Willetts, “Statement on higher education funding and student finance”, February 2011, available at www.bis.gov.uk
2 The white paper is also known as “Students at the Heart of the System” and is available from BIS at http://www.bis.gov.uk/assets/biscore/higher-education/docs/h/11-944-higher-education-students-at-heart-of-system
announced their intended fees by the time of the white paper declared their intentions to charge at or within £1,000 of the full £9,000 per year – hardly a differentiated market\(^3\). This is unsurprising. The cuts to the HEFCE grant meant universities already faced a reduction in resources to the extent that on average, they would need to charge £7,000 a year just to replace the lost income\(^4\). This is coupled with a quota system that results in demand significantly outstripping supply, thus ensuring that universities can fill their places at high fees. If history is any guide, universities will soon be campaigning for the cap to be lifted again. This makes the system look dangerously unsustainable, and unaffordable to students and the taxpayer in the long term.

The white paper (published some five months after the announcement that the fee cap would be lifted to £9,000) was designed, at least partially, to respond to the jump in announced fees. An important element of the government’s strategy to constrain costs to both students and the taxpayer is an attempt to ‘marketise’ the UK’s HE system:

> “Enabling greater competition, while removing unnecessary regulations, is an important theme of this White Paper, because of the benefits for all users of higher education. We want to ensure that the new student finance regime supports student choice, and that in turn student choice drives competition, including on price.”

- White paper section 1.19

This will be achieved in a number of ways. Places for students achieving at least two As and a B at A level will be ‘unconstrained’ – meaning institutions can compete openly for them. Institutions will also be invited to bid for 20,000 ‘top-sliced’ places – providing they charge less than £7,500 per year, on average, after fee waivers. Existing rules will be relaxed to encourage new entrants into the system and to

---

\(^3\) 72 out of 87 universities with fees published by OFFA in 2011 have a maximum fee at or over £8,500 per year; 58 have an average fee at or over £8,500 per year

\(^4\) Chowdry, Dearden and Wyness ‘Higher Education Reforms: Progressive but Complicated with an Unwelcome Incentive’, IFS briefing note number 113, December 2010
help FE colleges compete with universities. The government hopes that by introducing some limited competition they can put downward pressure on prices and force institutions to raise the quality of their courses.

However, several ‘market failures’ are present in the market for HE in the UK, which mean that marketisation will not lead to these behaviours. One of the main market failures is information asymmetry – students are poorly informed about university quality and cannot judge the quality of their course until they are studying, nor whether it will help them to get a job until they enter the labour market. Because the majority of institutions award their own degrees, using exams which they design and mark themselves, neither students nor employers are able to make a straightforward comparison between courses at different institutions.

The white paper goes some way to addressing information asymmetry by setting out requirements for institutions to publish details on teacher expertise, lecture hours, student satisfaction, and even graduate earnings by subject. This is a positive move which is welcome. But there are many issues with this somewhat simplistic information set. Information can be manipulated and massaged – for example students are likely to respond positively to satisfaction questions if it affects the rating of their course, and hence the value of their degree later on. Much of the information will be subject to selection bias – for example, certain graduates will select into particular institutions, and may also be most likely to earn high wages regardless of the course they choose. This will overstate the likely returns. And it is not always obvious how this information will help students to choose between the large variety of courses awarded by different institutions and exam bodies, or indeed how it will lead to improvements in the quality of the experience, if there are still tight controls on capacity that mean universities have a guaranteed market.

Moreover, as evidence from the US clearly shows, marketisation alone does not result in stabilisation or falling costs of HE. Published tuition fees in the private sector in the US have increased at an average
annual rate of 3% above inflation over the past 30-40 years\(^5\) and are now reaching “a politically unpalatable height”\(^6\). Fees are driven upward by continuous increases in input costs, which the major research intensive institutions (REIs) and liberal arts colleges of the US have largely failed to offset with efficiency gains.

Rather than imitate the American model, if we want better value for money we need an alternative to the high cost, research intensive institution which gives students the courses they want at a price they can afford. This paper sets out a way to achieve this.

---

5  D Bruce Johnson, ‘The Fragile College or University: An International Perspective on the Financial Fragility of Institutions and Systems’, 2011

6  Times Higher Education Supplement, 28th August 2008
Going up: a brief history of tuition fees in the UK

In the 1960s in the UK, the government (and therefore, the taxpayer) footed the bill for the costs of higher education in their entirety. This included teaching, tuition fees and maintenance grants, as well as the cost of maintaining buildings and the other numerous expenses associated with the HE sector. At this time, higher education was the privilege of only a small proportion of the population, so university funding per head was high, with a relatively small cost to the taxpayer\(^7\). Dramatic increases in university participation throughout the 1980s and 1990s, caused by both increased demand for, and supply of, university places were not met by corresponding increases in university funding by the government. This resulted in universities quickly becoming under-funded per head relative to the rest of the OECD, and often falling behind in terms of quality\(^8\). The government’s response, rather than to increase the funding going to universities, was instead to ask students to contribute towards the cost of their education. This came first in the form of student maintenance loans, which were introduced in the 1990s, and then in the form of tuition fees, first introduced in 1998, and then increased threefold in 2006 (when the fee cap was raised to £3,000 per year), with the condition that a review would take place in 2009.

Despite being a variable fee, in theory set by individual universities, almost all UK institutions chose to charge the

---


full £3,000 fee, citing the need to maintain quality of teaching and infrastructure in the face of squeezes in government funding\(^9\).

This tripling of the cap, however, did not satisfy universities for long. In the run up to the Browne report\(^10\), which was scheduled to run between November 2009 and December 2010, institutions repeatedly called for the fee cap to be raised, citing severe economic conditions and ferocious global competition\(^11\). In response, Lord Browne chose to recommend that the fee cap be removed altogether (in theory), but, also that the government should continue to offset all fees with a fee loan offered to students at preferential terms.

Since the latter would cost the government more with any increase in fees, Browne also recommended a levy system, which would reduce the marginal increase in funding that any institution would get, for charging above £6,000. The government’s response was also to insure itself against dramatic fee rises, and the associated fee subsidy, instead by setting the fee cap at £9,000 per year. Whilst it was expected that Oxbridge and other prestigious institutions would charge the maximum rate, it was hoped that the near-tripling of the cap would be sufficient to encourage price-competition with other universities and create a marketplace, which would in turn drive up quality.

But there are few incentives for universities to charge fees lower than the full £9,000. There is currently a quota system in place, which limits the number of students a university can recruit each year, so that the government will not have to subsidise more students than it can afford. However, since demand for university places is growing\(^12\) and supply is limited by the quota system, demand exceeds supply, and so universities have little incentive to cut fees\(^13\).

---

9 Polly Curtis, ‘Universities will charge £3,000’ The Guardian, 25\(^{th}\) November 2003
10 The Browne report is officially titled ‘Securing a sustainable future for higher education’ and is available at www.independent.gov.uk/browne-report
11 ‘Review of tuition fees launched’ BBC news online, 9\(^{th}\) November 2009
12 See HEFCE submission to the Browne Review Call for Evidence (December 2009-January 2010), available at hereview.independent.gov.uk/herreview/call-for-evidence
13 See T Leunig, ‘Universities challenged: making the new university system work for students and taxpayers’, April 2011.
The government also requires institutions charging over £6,000 to make a special application to OFFA, with detailed plans for how they would encourage students from poor backgrounds – traditionally more debt averse\textsuperscript{14} – to participate, and threatens a fine if they fail to meet standards for fair access. The government hoped this would discourage many institutions from charging at or near the full amount. However, there are clear flaws in these plans, most notably a damaging time-lag: OFFA can only prove their access agreements work once their fees have been set, and students have applied and been admitted. At this point OFFA’s powers, which are generally perceived as weak and are not proposed to be strengthened in the white paper, will be very limited indeed. Moreover, an ex post facto ruling on access by OFFA will not do anything to help those poorer students who may perhaps have already chosen to attend a different institution based on their aversion to higher fees at their preferred university, or indeed decided not to go to university at all because of high fees.

Taking these factors into consideration it is perhaps unsurprising that the majority of institutions have chosen to charge at or near the £9,000 fee cap. At an average of £8,509 per year\textsuperscript{15}, English students at higher education institutions will, by 2012, pay the highest fees of any public university system in the industrialised world\textsuperscript{16}. This raises the question of the extent to which such a high cost system is sustainable, or able to tolerate any further increases in tuition fees, without requiring radical changes.

\textsuperscript{14} Callender, C. & Jackson, J., ‘Does the Fear of Debt Deter Students?’. Social Policy, 34, 509-540, 2005
\textsuperscript{15} Office for Fair Access ‘Access agreement data tables for 2012-13; Fee Levels, Table 2a’ July 2011
\textsuperscript{16} On average, tuition fees for undergraduate state-residents at US public universities are around $7,000 per year, vs $15,000 for an out-of-state student (fees at US public universities are set at state-level and in-state students are charged significantly less than out-of-state students) see Institute for Comparative Higher Education and Finance, 2011). Fees in Europe, Canada and Australia are all considerably lower than in the States.
Why marketisation may not reduce prices in HE - the theory

Marketisation, a system well established in the US, where universities compete with each other on price (as well as myriad other criteria), is commonly touted as a means of creating a high quality yet affordable higher education system. For example, the Browne report asserted “Competition for students between HEIs, is in our view a surer way to drive up quality than any attempt at central planning”, while D. Bruce Johnsone\(^\text{17}\) states that “market pressures can be a force for lowering costs...as markets tend to do in most of the goods-producing sectors of the world economy. Increasing attention to costs and prices can have similar effect in some colleges and universities—at least serving to moderate unit cost and tuition increases to increases closer to, or even below, the prevailing rate of inflation”

The government’s white paper on higher education will encourage marketisation in the sector in a number of ways.

Firstly, the government hopes to open up the marketplace for new providers, existing FE colleges and overseas institutions, with a new regulatory framework which aims to relax regulation and make it easier for these institutions in a number of ways.

To encourage new entrants, the government’s new framework will relax the rules on student support; under the current system, new entrants have to apply on a course-by-course

\(^\text{17}\) See D Bruce Johnsone ‘The Fragile College or University: An International Perspective on the Financial Fragility of Institutions and Systems’ University of New York at Buffalo, International Comparative Higher Education and Finance Project, 2011
Degrees of quality

basis to have their courses approved for student finance, so that students can obtain loans to study at them. The new framework will relax this, by allowing all students studying at a new, not for profit provider to access fee loans up to a maximum of £6,000 per year. Private not-for-profit entrants will also be allowed to apply for HEFCE funding just as public sector HEIs currently can\(^\text{18}\).

The government also wants to encourage existing FE colleges to obtain degree awarding powers and a university title, so that they can better compete with universities for students. Under current legislation, it takes between three and four years for an existing institution to be granted degree awarding powers. Approval needs to be granted by the Privy Council, which involves detailed scrutiny over a number of stages, as well as costs of as much as £52,000 for an institution seeking taught degree awarding powers\(^\text{19}\). Furthermore, in order to obtain the title of ‘university’, institutions are currently required to have 4,000 students, 3,000 of which must be studying for a degree. This means that many colleges (public or private) choose not to register as a university but instead to partner with larger institutions. For example, EThames Graduate School is marketed by Sunderland and Bradford Universities as their “London campus” and EThames students receive degrees that are accredited by Sunderland or Bradford. Through the new regulatory framework, the government hopes to make the process of allowing FE colleges to obtain their own degree awarding powers more simple and efficient, and to relax the rules on the number of students required to obtain the title of ‘university’.

A third strand of the government’s plan to open up the market is to make it easier for overseas HE providers to enter the UK system. Under the current regulatory system any institution must be able to demonstrate four years consecutive experience in delivering HE programs in line with British standards, in order to be granted university

---

18 White paper, Section 6.29, p73  
19 More details on the procedure for obtaining degree awarding powers can be found on the Quality Assurance Agency website: www.qaa.ac.uk
status. The government aims to make these criteria more flexible, so that overseas (or indeed, domestic) organisations which may not have a legacy of providing UK-style 3 or 4 year degrees, could find it easier to enter.

As well as opening up the market for new entrants, the government wants to encourage competition between existing providers. To achieve this, publicly funded providers will each be allocated a core of places, and will then be invited to bid against each other – and any new entrants – for the remaining quota, of around 20,000 places. If they can demonstrate “strength of demand and value for money”, and are willing to charge below £7,500 per year they will, say the government, win the places. Students will be given the right to go to the university they choose and can take their fee loans with them, meaning any provider, public or private, can compete for students’ fee money.

This approach has its strengths. Making universities more reliant on fee money rather than HEFCE grants (as will be the case with many university courses under the new regime) will remove state bureaucracy, and encourage institutions themselves to shed bureaucracy and function more efficiently. Universities and colleges can decide what price to set for each course in order to maximise the likelihood of filling their places, bearing in mind competition from other providers. Individuals can decide, based on their personal circumstances and tastes, which type of institution to invest their fee money in, including private sector new entrants, FE colleges and overseas institutions. Popular courses should expand, whilst institutions not offering good value for money would have to reduce their prices or simply shut down.

But there are several market failures in the UK’s higher education system which means marketisation is inappropriate, and will not achieve the behaviours desired.

1. **Credit market failures.**

With no intervention in the market for HE, every student would have to bear the cost of their higher education – in terms of
tuition fees and living costs – themselves. If we consider that university education is an investment good, and students derive a high private return from going to university (private returns to a degree are estimated to be over £100,000 over a lifetime in the UK in 2010\textsuperscript{20}), students should, arguably, foot the cost of their tuition and maintenance, rather than be subsidised by those taxpayers who have not enjoyed the benefits of a university education.

Those students who are unable to borrow from their parents or finance themselves would have to turn to banks to borrow the money. Under these circumstances, financial markets would be unlikely to operate efficiently. These students would typically have no collateral or current earnings, and banks would have no information about their future earnings (or indeed rights to them). Faced with this uncertainty, banks would be unlikely to grant a sufficient number of loans required for optimal levels of university participation, or may only be willing to offer loans at high rates of interest – again resulting in HE participation rates being inefficiently low. This would also be likely to affect certain groups of people more than others – e.g. those from low socio-economic groups – whom the banks may believe to be at a higher risk of default.

On the other hand, individuals may realise that they can avoid repaying their loans by not working, earning too little to have to repay them, or may avail themselves of bankruptcy law – a problem known as moral hazard. With no collateral or way of recouping their money, again credit markets may fail.

Consequently, the government may wish to intervene to help those who cannot afford to pay for their education (particularly those from low income backgrounds) by offering fee remissions or loans, to ensure an efficient number of university participants. Further intervention may be required if particular groups of students are debt averse, and so do

\textsuperscript{20} See for example, “Return to a University Education in Great Britain”. O’Leary, N.C. and P.J. Sloane (2005), National Institute Economic Review, no. 193; pp 75-89 (who found the lifetime earnings premium, net of taxes, was £141,539 for males and £157,928 for females).
Degrees of quality

not wish to take out loans to pay for their education. Low income students may again be more likely to fall into this category.21

2. Presence of Positive Externalities.

While there is a good deal of evidence that individuals gain personally from participating in HE22, there are also external, social returns from higher education – such as improved economic growth, value creation and international competitiveness through a more educated workforce. Better health and reduced crime are also associated with better educated societies23. It may therefore be in the interests of government to encourage university attendance through a ‘social subsidy’ of higher education, offering maintenance grants and loans, even if that comes at a high cost to the taxpayer.

This may be particularly true for certain degree courses. For example, medical degrees are expensive to teach, relative to maths (and most other) degrees. If medical degrees were offered at their true cost then it is possible that fewer people would study medicine than would be desirable (depending on people’s knowledge and anticipation of the future wages associated with a career in medicine). Similarly, a situation may arise where there are too few providers of certain subjects (such as science, technology, engineering or medicine – also known as STEM subjects) than the optimum for society. Again, the government may want to intervene to subsidise medical courses, or provide incentives for institutions to offer STEM subjects to students.

The government clearly acknowledges these market failures and therefore remains committed to providing students with taxpayer subsidised tuition fee loans (with subsidised

21 (Callender, 1998)
interest rates), as well as increasing maintenance loans and grants, especially for the less well-off.

3. Information asymmetries.

For a market to function correctly, students should have sufficient information about institutions in order to reconcile their choice of institutions with their needs and appetite for debt. But students are typically around 18 years old and may not have parents or siblings who have attended universities, or any real knowledge of what the university experience will be like until they arrive. They may also struggle to understand the implications of borrowing a large amount of money to repay their fees, given the complexity of the repayment process and the uncertainty of future earnings upon which repayment will depend.

Furthermore, under the current system, students have limited published information to help them make choices. While there are mechanisms for students to use to compare degree courses, none of them are ideal; the Unistats website, for example, only enables comparison of up to three institutions, while many of the better known independent guides, such as the Times Higher Education Good University guide are biased towards research, rather than teaching, in their rankings.

By the same token employers struggle to find sufficient information about the value of courses and degrees in order to differentiate between students, and understand which graduates are the most appropriate to fill their roles, and at what rates.

The white paper has gone some way to tackle this problem. Institutions will be required, from 2012, to provide detailed information about the university experience – through student satisfaction surveys and statistics on time spent in lectures and teaching quality; information on the qualifications and experience of staff; and statistics on graduate employment and salaries.

Whilst this is a step in the right direction, going some way to tackling these information asymmetries, it will not result in a
situation of perfect or even sufficient information. Satisfaction surveys are abstract and unscientific, and can be easily manipulated – for example, students are likely to respond positively to satisfaction questions to ensure their institution gets a good rating, and staff can encourage particular students on certain courses to complete the survey. Statistics on the proportion of time spent in lectures and tutorials help universities to be more open, but it is not obvious how these help students decide which course is right for them.

Whilst graduate salary information is less easily manipulated, it is still susceptible to selection bias which may overstate the likely returns. Furthermore, the fact that Leeds graduates have higher salaries than Manchester graduates (if this were the case) is not necessarily a result of the institution or teaching. It may be that Leeds students tend to be motivated, employable, or smarter in the first instance. These issues aside, greater access to information may still prove to be very frustrating for students if, because of the quota system, they cannot get a place at their university of choice anyway.

Another fundamental flaw with the current university system is that institutions award their own degrees, using exams that they set and mark themselves. This means a vast number of degree awarding bodies has emerged for students to try and choose between. The Quality Assurance Agency (QAA), which is officially responsible for inspecting universities and assuring quality standards, has been heavily criticised for having insufficient power, again making it hard for students to be confident that they have chosen the right degree or institution.

All this means that students looking for an ‘investment’ or ‘prestige’ degree course with high perceived utility will still use price as a proxy for quality, and employers will do the same.

24 Stephen Adams, ‘University degree system ‘is a farce’, The Telegraph, 27th July 2011
4. Monopolised market

At least part of the reason UK institutions seem able to increase their fees to the maximum level is that demand for a university education in the UK significantly outstrips supply (UCAS end of year 2010 figures showed 188,697 of new applicants still had no university place, compared to 139,520 the previous year)\(^{25}\), and universities are unable to expand their capacity to meet this demand. The UK government chooses to tightly ration capacity, since allowing universities to expand their numbers would end up costing the taxpayer dearly. This is a result of the UK’s system of covering tuition fees with a government backed loan. The more university places there are the more loans are given out, and therefore the greater the liability to the government through unpaid loans, especially from marginal students who may be less likely to obtain high paying jobs in the future.

These capacity constraints give existing universities monopolistic power; there are no real incentives for them to reduce their costs to attract more students. This results in price distortion – because of the monopolistic nature of universities, they are able to charge a higher price for many, if not all degrees, knowing that eventually they will fill their places.

As discussed, the white paper outlines a number of plans designed to tackle this issue. Firstly, 20,000 places will now be allocated competitively, rather than allocated automatically across universities. But no new places will be created for students, and 20,000 places represents only 6 per cent of the total number of existing places for first year undergraduates – a rather limited marketplace. The white paper does state that the government intends to increase the proportion of places up for competition over time. However there are few details on this, and for now the quota system is still very much intact.

The white paper also outlines plans to encourage new providers into the system, relax the rules for FE colleges to be able to

---

\(^{25}\) UCAS ‘Provisional end of year figures for 2010’ available at www.ucas.co.uk/about_us/media_enquiries/media_releases/2010/211010
award degrees or gain university status, and to make it easier for foreign entrants to join the system. These moves seem more promising, particularly as a means of lowering costs in the system. Private sector providers, FE colleges and, to some extent, overseas providers have all shown they can offer education at lower prices than UK universities currently do.

The UK’s most prominent existing private sector provider, BPP, manages to charge relatively low fees with a business degree costing £9,675 over three years in total in 2011. Hence, it offers a good example of how the private sector can have a valid place in the HE market – but even with the government’s encouragement, there are still several barriers to new entrants. The set up costs for a new private provider, including buildings, lecture theatres, libraries and student unions, are likely to be high, and it will take time to establish a reputation sufficient to win a decent share of students from the established incumbents. In order to overcome this, a brand new entrant could be staffed with well known professors – but that would be expensive. See for example, the most recent new entrant – New College of the Humanities, with staff including AC Grayling and Richard Dawkins, which will offer degrees in humanities, at a charge of £18,000 per year.

Improving the status of FE colleges, so they can win more students, may be a good strategy to bring costs down in the sector. The majority of further education colleges that currently award degrees claim they are planning to charge less than £9,000 per year in 2012\textsuperscript{26}, and many already do so at good rates. For example, Bradford College intends to charge higher education tuition fees of £6,700 from 2012.

It also seems quite plausible that overseas institutions may be tempted to enter the UK market, and help expand capacity. Since overseas institutions already have a legacy of success in other countries, and an international reputation, they would not face the same difficulties in starting up an institution as new providers.

\textsuperscript{26} Association of colleges, 2011 survey (results available at www.aoc.co.uk/en/newsroom/aoc_news_releases.cfm/id/2A53D90F-F22D-4925-84EF597CD19AF917)
There is certainly a trend towards universities expanding overseas. For example, the Royal Melbourne Institute of Technology (RMIT) were invited by the Vietnamese Government to establish a new university in Vietnam and did so in 2001. RMIT retains its title and branding, and degrees are awarded from RMIT University in Australia, are audited by the Australian Universities Quality Agency, and are thus globally recognised. While this certainly offers more choice and quality to Vietnamese students, it does not do so cheaply. RMIT Vietnam degrees cost £11,000 per year – which, despite presumably lower teaching and running costs in Vietnam, is similar to the fees charged to Australian students at their Australian campus.

More promisingly, the University of Nottingham has branches in China and Malaysia, and currently charges students there lower fees than its domestic operations will charge in 2012 for both UK and Malay students (at £9,000 per year and £11,420-£15,780 per year in 2012, respectively\(^{27}\) versus £6,000 a year for a domestic undergraduate at the Nottingham University Malaysia campus in 2010/11 (though there are no details on what it will charge in 2012/13).

Meanwhile, there are already some international higher education providers based in the UK charging competitive rates. For example, the American University in London charges undergraduate students £6,000 per year in 2009/10. While there are no published details of how these fees will change in 2012/13, given that this university’s fees are not subject to the current £3,290 annual fee cap, this implies that a university should be able to charge fees significantly below the £9,000 in the UK market.

Whilst the moves to relax regulation and allow new and overseas players into the market allow FE colleges to become universities and award degrees may successfully expand capacity, increase competition and reduce costs, there is a significant downside to these moves to open up the system. Increasing the number of degree awarding bodies will hugely

---

\(^{27}\) Tuition fees for international students are for 2011/12; 2012/13 fees were not available at the time of writing
Degrees of quality

exacerbate the information asymmetry problems discussed earlier.

UK students will have to decide which is better between (say) a cheap degree from a former FE college, a mid-priced degree from a private institution such as BPP, or an expensive degree from an Australian institution operating in the UK. Employers will have problems too – graduates will be reliant on them knowing (say) that the Australian Monash University is one of the top 50 in the world. Of course, these problems already exist in the UK market – but the government’s plans, if successful, will hugely exacerbate them. This will not aid competition at all, since students will in many cases be unable to choose between these very different providers. Again, these institutions may choose to set high fees as a signal for quality in the face of these information asymmetry problems.
Why marketisation may not reduce prices in HE - evidence

An important reason why marketisation is likely to fail as a mechanism to reduce costs and improve quality in HE is due to the nature of the research intensive HE institution, which dominates HE in the UK and around the world, trapping the sector in a cycle of rising costs that marketisation alone cannot solve.

A research intensive university’s main functions are to teach their students and to carry out research. These activities are, relative to many other industries, skilled labour intensive, making efficiency savings difficult: lecturers and researchers cannot, for the most part, be replaced by machines.

Another major factor behind the rising costs in HE is the coupling of research and teaching. In general, academic staff are expected to carry out both research and teaching tasks, often with greater emphasis on research, since this has become a major fundraising source for institutions, particularly in the light of cuts to teaching grants28.

Often lecturers are recruited according to their research credentials (number of publications etc) rather than their teaching expertise. For example, of four UCL lecturer jobs advertised at the time of writing, all four required candidates to undertake research, all listed a history of research publications as an essential requirement for applicants, and all required a post-doctoral qualification. Of four UCL teaching

---

28 For example, the Economic and Social Research Council’s budget was significantly reduced following the CSR. ESRC funding is set to decline from £174,637,000 in 2011-12 to £166,186,000 in 2014-15 (see Research Council UK for more details - www.rcuk.ac.uk)
fellowships advertised, only one did not list research among the duties, one did not even consider teaching experience essential, all required experience in research, and all required a qualification above degree level (e.g. MA or PhD). Publication records take time to acquire and hence staff with lots of publications tend to be well qualified, and indeed, highly qualified staff (i.e. those with PhDs or Professorships) are required in order to win competitive research contracts.

More qualified staff, of course, tend to be paid at a higher level, thus driving costs up, while cuts to research funding councils and difficult economic circumstances in the private sector mean that the pot of research money itself is smaller, and thus is spread thinly between those competing for it. While these research grants are often of extremely high revenue, delivering on them is labour intensive, leaves less time for teaching, and is costly, meaning margins may be low.

Globalisation has also meant that the research intensive university must now compete in a global market. Students are more and more willing to leave their own country to study – according to the OECD over 3.3 million students enrolled outside their home country in 2008\textsuperscript{29}. This globalisation tends to favour universities in English speaking countries, largely due to the predominance of students who either speak or wish to speak English, and published research in the English language. This has boosted the university coffers of the elite institutions of the US and the UK, who have almost 40 per cent of the OECD market share in students studying abroad\textsuperscript{30}. More recently however, other English speaking countries such as Australia and Singapore have entered the field, meaning universities in all these countries are now in direct competition for the fees of overseas students.

Competition has been exacerbated by the use of market share and rankings data which is now available on a global basis (e.g. Academic Ranking of World Universities (ARWU))\textsuperscript{31},

\textsuperscript{29} OECD education at a glance, 2010, table C2.6
\textsuperscript{30} OECD education at a glance, 2010, table C2.3
\textsuperscript{31} Available at http://www.arwu.org/index.jsp
Global University Ranking\textsuperscript{32}, and The Times Higher Education Q-S World University Rankings\textsuperscript{33}) in which the research intensive organisation must compete.

This competitive pressure, rather than driving universities to reduce their prices, has encouraged them to spend more money to recruit the most prestigious staff, and build the most impressive facilities and campuses to improve their rankings and win students and research money. All this has resulted in tuition fee inflation.

There have been some attempts by UK universities to improve their labour efficiency and thus control costs. Lecture halls in the UK have increased in occupancy as the ratio of students to staff increases\textsuperscript{34}, and many students are taught in part by graduate teaching assistants who are paid hourly and, with no allowance for research, command much lower salaries than full-time faculty staff. Moreover, technology, such as internet and computer assisted learning, is more frequently used to assist in instruction, making it possible to reach a wider range of students, as well as facilitating rapid improvements in research output. One example of how this can be done comes from MIT, which has created an “OpenCourseWare” scheme\textsuperscript{35}, which makes course materials used in MIT courses freely and openly available to others for non-commercial educational purposes. These are important examples of how costs in HE can be reduced, but improvements have been relatively minor compared with other industries.

For these reasons, the research intensive higher education institution is somewhat trapped in a spiral of increasing costs, which productivity gains have failed to counteract, and which – as this paper has argued – is unlikely to be remedied by marketisation.

Competition for places at the REI will always be high, while high staff costs – necessary for the delivery of world class

\textsuperscript{32} Available at http://www.topuniversities.com/university-rankings/world-university-rankings
\textsuperscript{33} Available at http://www.timeshighereducation.co.uk/world-university-rankings/
\textsuperscript{34} Association of University Teachers, ‘Packing them in - The student-to-staff ratio in UK higher education’, 2005
\textsuperscript{35} See ocw.mit.edu/index.htm for more details of this
research – will also always be high. Hence, tuition fees are always likely to be high at these institutions.

**Lessons from around the world**

A degree of marketisation operates in the HE sector in many countries around the world. The most prominent example of this comes from the US where private universities, which actively compete for students and are free to choose what prices to set for their courses, outnumber public universities. The evidence from the US HE system certainly seems to indicate that marketisation has failed to bring costs down to a manageable level.

In fact, tuition fees and costs in private universities outstrip those in public universities by around 40 per cent, with the average cost of tuition at a public university at $19,595 per year (or $7,605 per year for in-state study – though in-state students are highly subsidised), versus $27,297 per year at private institutions. Rather than being driven down by competitive pressure, tuition fees in fact continue to grow substantially. Over the period 1976–77 to 2006–07, private institutions raised their tuition fees by an average of 4.4 percent per year above inflation, and public institutions raised theirs by an average of 5.5 percent per year, again in real terms (though it is important to note that at public institutions fees are considerably lower in absolute terms).

Most recent (2010/11) fees for undergraduates (not including remissions) at New York University are $40,000 per year, at University of Chicago they are $42,000 per year, and at the University of Southern California they are $41,000 per year. This evidence clearly shows that in the US, where marketisation is well established, it has not succeeded in creating a system of cost stabilization, or indeed falling costs.

Other evidence from around the world points to a further note of caution associated with marketisation; that of institution failure. If an institution were to go bankrupt due to lack of

---

36 College Board Advocacy and Policy Centre ‘Trends in College Pricing’, 2010
38 National Centre for Education Statistics, 2011
Degrees of quality

demand for its courses, students could be left without an institution halfway through their course, and its graduates could be forced to list a non-existent institution on their CV. A number of UK universities have recently been exposed as at risk of bankruptcy39, while the University of Bremen in Germany (a private institution) was recently saved from bankruptcy by a donation from a local millionaire, and the University of Adelaide in Australia was forced to seek a A$10 million advance from the Australian Government to overcome its financial problems in 2001. While institution failure is, of course, a fundamental part of marketisation, it can have damaging consequences to consumers.

39 Robert Winnett, ‘Universities could go bust in plan for more competition’, The Telegraph, 2010
A new system which will tend to drive down prices

The UK needs a more financially sustainable model of HE, which is affordable to the taxpayer and students, offering high quality, popular courses. This needs to be carried out on a scale large enough to satisfy student demand, while also maintaining very high standards and providing qualifications that employers value and that students can easily choose between.

The system proposed will achieve all these aims. It will put downward pressure on tuition fees by allowing the delivery of courses in a more efficient way. It will ensure that courses are of high quality and that they can be recognised as such by employers and students, and it will be deliverable on a large scale.

The system outlined below does not have to be implemented exactly as we suggest – but it provides a blueprint for how universities can become more efficient, reduce their costs and fees, and at the same time guarantee the quality of their degrees. It will also mean that HEFCE can create downward pressure on tuition fees, which is beneficial for both students and for the taxpayer. For these reasons, the government should carefully examine these proposals, and universities should explore the suggestions for potential efficiencies that can be harnessed.

Universities would play to their strengths

Research strong institutions, which also have excellent teaching standards, would be officially classified as ‘research’ institutions. These institutions would (as they do now) undertake high quality research, teach students and award degrees. They would continue to be eligible to charge
Degrees of quality

fees of up to £9,000 per year, and their students could access government subsidised fee and maintenance loans.

The remaining institutions would become primarily teaching institutions, and as well as (or instead of) offering degrees of their own, would be able to teach towards accredited degrees validated by ‘research’ institutions, or offer external degrees from other academic bodies (i.e. those that don’t themselves teach). The latter providers would be approved by HEFCE and would include the University of London and the Open University, as well as experts such as the Royal Economic Society or the Institute of Chartered Accountancy. Both ‘research’ institutions and external providers would be responsible for creating the courses and curricula, and also for marking the exam papers of students studying these courses.

The latter move would ensure a high quality system, since students at ‘regular’ universities would be taught to a curriculum identical to those at ‘research’ universities – e.g. students at Southampton Solent University could opt to study for a UCL degree, rather than a Solent degree. Teaching staff would follow a standardized curriculum designed by and taught at UCL too, and because exam marking would be organised by UCL, degrees would be of equal value from both institutions, and would be equally recognisable by potential students and employers.

The new system would also mean that degrees at ‘regular’ institutions could be offered in a far more efficient and cost effective way. Because ‘regular’ university academics would not have to spend time designing and updating the curriculum, or spend large amounts of time writing research proposals and conducting research, they could spend a great deal more time teaching (although, of course, they would have the right to apply for research funding if they wanted to).

‘Regular’ institutions would, of course, still be able to offer their own degrees if they wished – which would be important particularly for those institutions that specialise in certain fields – but as the model of external or accredited degrees became more popular with students, they may choose to move towards offering more of these types of degrees.
To see how potential savings could be made, consider the model employed by EThames Graduate School. EThames offers a number of degree courses which are designed and validated by Sunderland University. These are priced extremely competitively – for example a BA in Business Management is offered at £9,000 for the entire degree\textsuperscript{40}.

Because academics at ‘regular’ institutions would have more time available to spend teaching, courses could be condensed into two years rather than three, with staff teaching courses throughout the year rather than taking long breaks for summer holidays, as is the norm. This could be easily accomplished without lowering standards or compromising on teaching time.

Degree terms and teaching times vary across UK institutions, with some institutions running three terms per year, and some running two semesters (with the second semester starting halfway through the second term)\textsuperscript{41}.

There are around 24 weeks in the average university year, meaning universities run around 72 weeks of teaching in total over 3 years. This could easily be condensed into 36 weeks per year over two years – which would still allow time for holidays and marking. A good example of degrees offered in this way comes from Buckingham University, the only private independent institution in the UK with a royal charter\textsuperscript{42}. Buckingham offers its students a 40 week academic year for two years, and in 2012/13 will charge students £11,250 per year in fees – a total of £22,500 for a degree – versus £27,000 for a degree from a university offering a three year degree for £9,000 per year. This is a significant saving for students; not only will they pay less in fees, and therefore be less in debt at the end of their courses, but they will save money in a year of forgone earnings. Interestingly, Buckingham University came top of the National Student Satisfaction survey in 2010\textsuperscript{43}.

\textsuperscript{40} http://etgs.org.uk/site/babm.asp?st=4
\textsuperscript{41} For example, see http://www.bris.ac.uk/university/dates/
\textsuperscript{42} See http://www.buckingham.ac.uk/about/twoyear
\textsuperscript{43} Katherine Sellgren ‘Student satisfaction rate stalls at 82%, survey finds’, BBC News, August 2010
A two year degree system is, of course, already common in the US, where there are many so-called ‘two year institutions’, which are also known as community colleges. While the degrees offered at these colleges are very different from a standard three year UK degree (since they are effectively worth only as much as half a US four year degree), community colleges do illustrate how savings can be made from the research intensive model – community college degrees are considerably cheaper than their four year counterparts, since staff that are exclusively teachers are not required to have professorships or PhDs to win research contracts, and can work fewer hours than staff who combine teaching and research duties. As table 1 shows, the average fee for a full-time community college student, at $2,132 per year, is less than half of that for an in-state student\textsuperscript{44} at a public four year institution (at $7,082 per year), and significantly less for a student at a private four year institution (whose average fees stood at $20,492 per year in 2010). The Government subsidy (which includes federal, state and local funding sources), in terms of funding per full-time equivalent (FTE) student per year is also far lower for community colleges than public institutions, again illustrated in Table 1.

**Table 1 – Yearly cost of education, taxpayer subsidy and tuition fee ($, 2010)**

<table>
<thead>
<tr>
<th></th>
<th>US community college</th>
<th>US 4 year public institution</th>
<th>US 4 year private institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition fee</td>
<td>$2,132</td>
<td>$7,082</td>
<td>$20,492</td>
</tr>
<tr>
<td>Government subsidy</td>
<td>$9,132</td>
<td>$16,338</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$11,264</td>
<td>$23,420</td>
<td>$20,492</td>
</tr>
</tbody>
</table>

Sources: US Department of Education, Institute of Education Sciences, NCES, Digest of Education Statistics, 2010 Table 362;

\textsuperscript{44} See footnote 16 for more details
The Buckingham University, EThames Graduate school, and community college examples all illustrate that it is possible to offer degrees at a considerably lower cost than those currently offered by UK institutions, by saving on staff costs and by using their time, and the institution itself in a more efficient way.

While community colleges have come under scrutiny in the past, since their qualifications can be seen as low quality, and often have poor returns this may be because of their inclusive nature (community colleges have an open access policy, which means that any student with any level of qualification can attend) and the sheer breadth of qualifications that can be obtained there. This underlies the importance of the external/accredited degree award system that the model proposed here relies upon. By ensuring that degrees are accredited by top universities or prestigious external bodies, quality and value will always be maintained and students will have the confidence that their degree will be of value.

**HEFCE would fund students on approved courses**

Degrees that are accredited by other institutions are, of course, already on offer in the UK; for example as previously mentioned, at EThames Graduate School in London, and at Writtle College in Essex (where degrees are awarded by the University of Essex).

Externally validated degrees are also popular – for example institutions round the world offer University of London external degree programs. It is easy to see the value of these degrees – while employers may not have heard of the institution the student has come from, they will almost certainly have heard of the degree awarding body. It is easy to see how the system could be extended.

‘Research’ institutions would make up around a third of the 131 English universities currently in operation, based on

---

their research quality (as measured by RAE ratings), strength in particular subject areas, and geographical location. This would ensure that individuals in every location in England would be within travelling distance of one of these prestigious universities. ‘Regular’ universities would make up the remaining two thirds of institutions.

**How much would a degree cost?**

This model could be priced highly competitively. We estimate the total cost of a 2 year degree to be approximately £10,000 in total as illustrated in table 2. These costs are based on the university average of 72 weeks of teaching time in total (24 per year), with 80 hours of lectures per year (or 240 in total) and 80 hours of classes per year (or 240 in total). Over a two year degree, this equates to 120 hours of lectures and 120 hours of tutorials per year.

We also assume, for the purposes of illustration, 100 students per course. In order to maintain quality, however, we assume a staff: student ratio of 20 in lectures, and 15 in classes. This is a particularly low ratio in the case of lectures, and increasing this ratio would drive costs down even further.

The costings illustrated here allow for fixed costs – including buildings and computers – to be twice as much as teaching costs, with the total cost still coming in at £10,000 per degree, or £5,000 per year.

**Table 2 – Estimated cost of a degree from a ‘Regular’ university**

<table>
<thead>
<tr>
<th>Lectures</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number students</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Staff:student ratio</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Number of lecture choices</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Number lectures</td>
<td>120</td>
<td>120</td>
<td>240</td>
</tr>
<tr>
<td>Lectures given per year</td>
<td>600</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Wage per hour</td>
<td>£200</td>
<td>£200</td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>£120,000</td>
<td>£120,000</td>
<td>£240,000</td>
</tr>
<tr>
<td>Cost per student</td>
<td>£1,200</td>
<td>£1,200</td>
<td>£2,400</td>
</tr>
<tr>
<td><strong>Lecture preparation time (at 50 per cent of total)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Total cost</td>
<td>£60,000</td>
<td>£60,000</td>
<td>£120,000</td>
</tr>
<tr>
<td>Cost per student</td>
<td>£600</td>
<td>£600</td>
<td>£1,200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Classes</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number students</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Staff:student ratio</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Staff hours per class</td>
<td>6.7</td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>Number of class choices</td>
<td>120</td>
<td>120</td>
<td>240</td>
</tr>
<tr>
<td>Number classes</td>
<td>800</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Wage per hour</td>
<td>£60</td>
<td>£60</td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>£48,000</td>
<td>£48,000</td>
<td>£96,000</td>
</tr>
<tr>
<td>Cost per student</td>
<td>£480</td>
<td>£480</td>
<td>£960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Formative marking and class preparation (at 100 per cent of total)</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>£48,000</td>
<td>£48,000</td>
<td>£96,000</td>
</tr>
<tr>
<td>Cost per student</td>
<td>£480</td>
<td>£480</td>
<td>£960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Exam marking</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number students</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Papers per student</td>
<td>6</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Total papers</td>
<td>600</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Papers marked per hour</td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Marking hours per year</td>
<td>150</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Wage per hour</td>
<td>£60</td>
<td>£60</td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>£9,000</td>
<td>£9,000</td>
<td>£18,000</td>
</tr>
<tr>
<td>Cost per student</td>
<td>£90.00</td>
<td>£90.00</td>
<td>£180</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Fixed costs</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>£215,000</td>
<td>£215,000</td>
<td>£430,000</td>
</tr>
<tr>
<td>Total per student</td>
<td>£2,150</td>
<td>£2,150</td>
<td>£4,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total cost per degree</strong></th>
<th>£1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total cost per student per degree</strong></td>
<td>£5,000</td>
</tr>
</tbody>
</table>
HEFCE would offer unrestrained recruitment of students to ‘regular’ institutions that agree to charge tuition fees at a maximum of £10,000 per degree. The government would continue to underwrite student loans to those wishing to study at ‘regular’ institutions, with the reduction in subsidy from an average fee of £10,000 per degree creating significant taxpayer savings. ‘Regular’ universities could make arrangements with any external institution or institutions it desired to, provided they are on HEFCE’s approved list.

Costs could of course be reduced if student: teacher ratios in lectures were increased, or indeed if online lecture content was provided instead of live lectures, meaning many more students could be reached. ‘Regular’ institutions could also make use of new technology, to increase efficiency and to improve quality. For example, they could license ‘star-turn’ lecture content (e.g. a series of lectures by acclaimed professors) for use by their students, which could be made available for viewing online, in the same way that the Open University offers most of its lecture content. Some institutions may even choose to provide their lecture content exclusively online (for example created and validated by the Open University) and then run tutorial classes to support students in their studies.

**What would the effects be?**

This system offers a number of clear advantages over the current system.

First, the proposals tackle the main market failure discussed earlier – information asymmetry. By allowing only a select number of highly prestigious institutions or academic bodies to award degrees, students would easily be able to compare courses offered at different institutions. Whilst it may currently be hard to know whether a degree from Nottingham Trent University is better than a degree from Derby University, if they both offered a degree from Nottingham University students could easily tell that they are of the same standard. Students would also be able to compare results from both institutions, thus making quality of teaching at each institution comparable.
By the same token, employers could be confident in the worth of degrees from ‘regular’ institutions, and this would make the candidate selection process far easier since they would not have to compare degrees from many different institutions.

Second, the system would be more sustainable. By making the delivery of degrees more efficient and condensed into two year periods, and by creating real ways for students and employers to choose between institutions, tuition fees would fall. This would make the system more affordable for both the taxpayer and students.

Third, the system would deliver a range of options for students to choose from. Students could choose whether they wanted to study at a high cost ‘research’ university, staffed by renowned researchers and experts, or to study at a lower cost institution – with confidence that their degree would be on an equal footing.

Fourth, institutions would no longer be able to use price as a signal for degree quality. It would be far harder for a ‘regular’ institution to justify charging significantly higher tuition fees than another ‘regular’ institution with the same degree awarding body, without obvious justification.

Fifth, the new system would significantly reduce the impact of institution failure. Whilst there would still be the chance of this, because degrees are accredited by external providers, graduates would not be affected if their institution ceased to exist, unless the external provider itself was to fail.
Conclusion

We need an alternative to the high cost, research intensive institution which dominates the UK’s higher education landscape. This paper sets out a way of achieving this.

The system we propose will offer qualifications that have been set and marked by recognised external bodies such as the University of London or the Royal Economic Society, as well as renowned academic institutions such as UCL. It will remove the incentive for universities to charge high fees as a signal for quality. By employing staff dedicated to teaching, rather than research, and by condensing degrees into two year programs, it can be run at a cost that is sustainable and affordable in the long term. It puts students at the heart of the system – they can choose which degree, at which price, is right for them.