Speech: Jo Johnson: delivering value for money for students and taxpayers

I’m delighted to speak at Reform, an organisation with a relentless commitment to improving public services.

The wider student finance debate

In recent weeks, there has been an intense public discussion about the way we finance higher education in the UK.

Today I would like to look at some of the misconceptions in this debate.

Let us begin by reminding ourselves of the three goals of our student finance system. To be fair and sustainable, the system must:

- provide the resources to sustain our world-class HE sector
- fairly share costs between the general taxpayer and the individual student
- remove barriers to access, especially for the most deprived.

Sustainability of our world class system

Sustaining excellence is only possible if we have a system that delivers sufficient funding to meet increasing student demand and to invest in quality.

The 2012 reforms have delivered a 25% increase in university funding per student per degree. University funding per student is today at the highest level it has ever been in the last 30 years.

It is no wonder that the OECD described the English system as “one of the few countries to have figured out a sustainable approach to higher education finance”.

The international reputation of the UK’s university system, evident in our position in league tables and appeal to international students, has been hard-won, and we must protect it.

Our drive to secure greater value money for all students through the further steps I am announcing this morning will help our universities to maintain their global as well as their domestic standing.

Fair balance of costs

Let’s turn to the second objective, which is to achieve a fair division of the cost of higher education between its beneficiaries.

We all gain from living in an educated society, not just culturally or intellectually, but materially. The nurses and doctors who staff our hospitals and the programmers who code our software benefit all of us with their degrees, as do the many graduates who enjoy a higher income and pay more tax as a result of their studies.

But at the same time, a degree confers a significant private benefit. Over a graduate's lifetime, a degree is on average worth an additional £170,000 in salary for a man, and £250,000 for a woman.

It is fair that some of the costs associated with these significant benefits should be borne by graduates rather than by taxpayers, not all of whom will have had the opportunity to go to university.

Our system delivers just such a balance. Students pay on average roughly 65% of the cost of the system through fees, while the taxpayer bears around 35% of the cost, through teaching grants and loan subsidies, and a much higher share if we were to consider also the government's £6 billion investment in research.

This is a fair split of the cost of higher education.

Removing barriers to access

The third objective of our student finance system is to remove barriers to access to higher education, especially for prospective students from disadvantaged backgrounds.

Our finance system ensures that graduates only begin to pay back their loans if they are earning over £21,000. Unlike commercial loans, they are available to all students, regardless of background or financial history.

The result is they are now going to university in record numbers– last week's UCAS application figures showed that the overall number of 18-year old applicants in the year to June 2017 is higher than it has ever been at the June deadline. UCAS data also shows application rates among BME 18-year-olds, and application rates among young people from disadvantaged backgrounds are at their highest recorded levels.

The application gap between most and least advantaged is still too wide, but thanks to our reforms to the student finance system young people from the poorest areas are now 43% more likely to go to university than they were in 2009/10.

Because we are committed to our goal of improving access, we continue to watch these data carefully for any areas where we are not seeing this welcome progress.

The same UCAS data showed a fall in older applicants.

Some of this fall is a direct result of the successes of the current system. Because more 18 year olds have had the chance to go to university in previous years, the stock of older potential applicants today has fallen. The buoyant job market has also reduced demand for study among older students.

But we recognise that older applicants wishing to study part-time need additional financial support, which is why we are introducing for the first time, starting next year, a maintenance support package for part-time students. The decline in nursing applications has also caused alarm.

We need to remember that our old funding model for nursing education, which asked the health department to fund these degrees from its budget, was failing to provide the NHS with the nurses it needs.

With arbitrary limits on numbers, it choked off supply of nurses to the NHS, denying thousands a shot at this rewarding career. In 2014 alone, we turned away 37,000 applicants to nurse training places, even though the NHS needed a great number of them.

Under the new system, universities will now be able to offer up to 10,000 more nursing, midwifery and allied health professional (AHP) training places over this parliament.

Applications remain high – with almost two applicants for every place. The new system will allow us to fill the training places we need and ensure that trainees who need the support most will receive at least 25% more funding support during their studies.

With the new masters’ loan in place, demand for which has been exceptionally strong in its first year of operation, with new doctoral loans on their way, and with legislation now passed that enables us to provide a new alternative student finance system compatible with Islamic principles, we are widening access to higher education to a broader range of people than ever.

Taken together, this is a transformation of our student finance system.

We believe its core principles are sustainable and fair.

They are:

- enabling the wider participation in higher education our economy needs,
- sustaining the financial underpinnings of university teaching and research
- all the while sharing the cost fairly between the individual and the general taxpayer

We do not propose to abandon them.

Tackling misconceptions

So we have a system that delivers our three objectives. But three big misconceptions about it remain:

- the idea that the interest rate on student loans is excessive, even usurious
- the suggestion that because a significant proportion of students do not

repay in full the system is broken
- and most indefensibly, the accusation that the system is deterring the poorest students from university.

Are interest rates too high?

Let us start with the concern that interest rates ranging from RPI+0% to RPI+3% for the highest earners are too high.

We will of course continue to keep the system under review to ensure it remains fair and effective.

But it is important to remember when thinking about the interest rate that student loans are fundamentally unlike commercial loans in key respects.

So it is misleading to compare the headline interest rates with those of mortgages or personal loans.

Because the way that they are repaid is so different, student loans embed invaluable protections for borrowers that have proved impossible for commercial loans to replicate.

In fact, it is simpler to think of the system principally as mechanism for securing an income-linked and time-limited graduate contribution to the cost of a degree.

A graduate contribution is a better way of thinking about it because:

- student loans are available on a universal basis to all eligible students, regardless of their financial history, and do not affect their credit record
- annual repayments are linked to income and not to the amount borrowed so graduates contribute in proportion to their financial success after university
- borrowers earning less than the repayment threshold (£21,000 for post-2012 loans) repay nothing at all. Those with incomes over £21,000 make a contribution of 9% until the loan is paid off
- borrowers are protected – if their income drops, so does the amount of their monthly repayments
- loans are written altogether off after 30 years, with no detriment to the borrower’s credit record or further recourse to any other assets they may have.

There are no commercial loans that offer this level of borrower protection. At 7.5%, the Bank of England’s reference rate for unsecured personal loans is materially higher.

Is the rate of non-repayment too high?

We must also be clear that the fact many graduates do not repay their loans in full is not a sign of failure.

On the contrary, this is the result of a deliberate choice to share the costs and risks of university education between the student and the state.

Across the loan book, the government expects to write off around 30 per cent of the amount borrowed.

This is part of the government contribution.

It is a conscious investment in the skills base of the country, not a symptom of a broken student finance system.

Graduates go on to careers in many varied fields, with different salary expectations. Many will also take some time out of the workforce to raise families or care for others.

This is right for society.

We will of course continue to work to increase repayment rates,

But the fact that some students will not repay in full will always be a feature of the system – and in a world where society shares the costs of higher education with individuals, rightly so.

Do fees put off the poorest from study?

Students from disadvantaged backgrounds are going to university at a record rate: attendance has risen from 13.6% of the most disadvantaged in 2009, before the current fee system was introduced, to 19.5% in 2016.

Not only are application rates among 18-year-olds in England at record highs, but drop-out rates for young, mature, disadvantaged and BME students are all lower now than they were when the coalition government came to power in 2010.

So the claim that fees have led to a fall in students from disadvantaged backgrounds accessing or completing higher education is therefore simple nonsense.

Value for money in our universities

The critical question now is not how we fund university, but how we ensure a system that is sustainably financed also delivers the highest quality teaching and graduate labour market outcomes for its students.

I want to turn now to value for money, an increasingly pressing issue in higher education.

For a second year, the Higher Education Policy Institute Student Survey has shown more students in England (37%) believing they have received poor value than good value (32%).

Employers are losing confidence in the signalling value of some qualifications, which are failing to hold their worth over time as degree inflation rips through the system.

While the average graduate earnings premium remains compelling, too many, perhaps a fifth to a third of students, end up with non-graduate jobs.

I recognise these concerns. I have heard them time and again – from students, parents and employers. And I share them.

Students taking out taxpayer-backed loans to attend university rightly expect the highest quality teaching and to secure good labour market outcomes that justify their investment of time and money.

This has been my focus since I took on this role in 2015, and it was a core theme of the new Higher Education and Research Act., which received Royal Assent in the last parliament.

Improving value for money

Today I want to reflect on further steps we are taking to ensure we deliver value for money.

Improving student choice.

First of all, the new legislation improves choice available to prospective students.

We will be making it easier to set-up new high-quality providers, paving the way for more innovative institutions like the Dyson Institute of Engineering and Technology or the planned New Model in Technology and Engineering university in Herefordshire.

The act also makes it easier for universities to offer two-year degrees to students keen for a faster pace of learning and a quicker route in the workforce.

I can confirm today that the cost for a student taking an accelerated course, which will be subject to new fee caps, will never be more, overall, than that of the same course over a longer time period. And, in most cases, it is likely to be less.

Our clear intention is that accelerated degrees will cost students less than an equivalent degree, not least because students will certainly claim less overall in maintenance loans too.

Students undertaking an accelerated course borrow less money over a shorter period and forgo less in terms of missed earnings.

This should mean they are likely to repay a greater proportion of their loans than equivalent students on full length courses, meaning the costs should be lower for government as well.

Teaching Excellence Framework.

Second, the act promotes value for money by improving the quality of teaching and incentivising universities to focus on graduate outcomes, through the introduction of the Teaching Excellence Framework.

For too long, institutional incentives have led universities to prioritise research performance over teaching and learning outcomes.

The TEF puts in place new reputational and financial incentives to correct this imbalance, by assessing universities on the quality of the student experience, teaching standards and the role of providers in securing good outcomes for graduates.

We designed the TEF to be an evolutionary process – but we can already see it is having a positive effect on the value that students receive from their university education.

In the words of Simone Buitendijk, the vice-provost for education of Imperial College, the TEF has been "a godsend", and has forced university leaders to "start paying close attention to the quality of the teaching".

Dominic Shellard, the vice-chancellor of De Montfort University, predicts that the TEF will lead to a "culture shift" that prioritises "excellence in student experience and teaching".

And the CBI has said that our "new emphasis on quality of teaching at universities together with transparency and openness to competition should also help in driving up standards among the graduates coming out of higher education."

The time is right to build on these results.

Today, I am launching the next stage of the Teaching Excellence Framework (TEF).

The next iteration of the TEF will tackle head-on the uncomfortable questions that many young people are starting to ask about their university; that many taxpayers are asking about the support they are providing for the system; and that many employers are asking about the supply of graduates entering the workforce.

This will involve four major new developments.

Firstly, we will incorporate powerful new analysis of graduate outcomes, the Longitudinal Educational Outcomes data set, which looks at employment and earnings of higher education graduates 1, 3 and 5 years after graduation.

This will provides an important source of information for prospective students who are interested in knowing how likely it is that a particular course at a particular institution will lead to sustained graduate-level employment.

Secondly, we will move towards providing subject-level information. The first iteration of TEF has operated at institution level. But it is our belief that a subject-level TEF can provide even better information to students, and be an even more powerful driver of quality and value.

I am yet to meet a vice chancellor who is unaware of significant variations in quality between subjects and disciplines in his or her own institution. A subject-level TEF will empower them to make targeted interventions where they are most needed. Meanwhile students will be able to make better-informed decisions as they choose between courses and institutions.

Today I am publishing the specifications for how subject-level TEF will work in practice.

Thirdly, I can confirm that we will be piloting a new TEF metric that relates directly to one important aspect of value for money: the teaching intensity a student experiences. This will look at the contact hours students receive, including the class sizes in which they are taught.

Finally, I want to signal that we will be looking carefully at institutional participation in the TEF. To date, the TEF has been voluntary. The overwhelming majority of English institutions, including all English members of the Russell Group, have participated. With surveys showing the importance students attach to TEF judgments, it is essential that the sector continues to embrace the accountability it represents.

We want prospective students to make well-informed and meaningful choices between institutions offering innovative and flexible ways of learning.

It is vital that applicants understand that university is not the only option. We have produced clear pathways for non-academic students to follow, through the apprenticeship reforms and the streamlining of technical routes.

These pathways are of a high quality, with signalling value to employers. The days of degree or bust are long gone and we must celebrate the fact that many may gain more by honing their technical skills than by acquiring an undergraduate degree.

Office for Students.

This brings me on to the third way the act will deliver value for money, which is through the establishment of a new regulator, the Office for Students.

The OfS’s first chair, Sir Michael Barber, has made clear his unwavering commitment to the student interest. In contrast to the existing funding council system, the OfS will be a classic market regulator and Parliament has granted it a general duty to promote value for money in higher education.

I am pleased to announce that because of the good progress made in laying the foundations for the OfS, I am today laying an Order in Parliament to bring forward its legal establishment to January 2018, three months ahead of the full launch of the organisation.

This head start will enable the OfS board to begin taking decisions on the new regulatory framework which we will be consulting upon this Autumn.

One of the first things I will be asking the OfS to do in exercising its new powers is to consult on the system-wide introduction of student contracts between students and universities.

These would set out what students can expect from their providers in terms of resource commitments, contact time, assessments, support and other important aspects of their educational experience.

Although contracts do exist in various forms in some institutions, most of them do not provide enough detail to be useful, or to allow students to know what they can expect from their providers in terms of resource commitments, contact time, assessments, support and other important aspects of their educational experience.

I intend to consult on whether a systematic use of an improved student-contract would help ensure effective consumer protection for students paying what will for many be their third largest life-long expenditure after a home and pension plan.

By providing students with greater contractual certainty over these key aspects of their own experience, the OfS would help to address much of the dissatisfaction over seeming poor value-for-money of undergraduate education.

Vice chancellor (VC) pay.

Another area where I want to see further action to improve value for money is vice chancellor pay. There are vice chancellors earning nearer half a million pounds – in some cases more than three times the Prime Minister.

Swelling vice-chancellor salaries lift those of their deputies and other senior managers, diverting millions from universities' core mission of teaching and research. There seem to be institutions in which over 100 people are earning more than £100,000.

Each year that I have been in my role, I have used my annual grant letter to the funding council to call on universities and their remuneration committees to exercise restraint on top pay.

I am calling on the sector to put an end to the accelerating upward ratchet in vice chancellor pay. Groups that claim sector leadership, such as the Russell Group, must lead the way.

I do not want or expect the OfS to cap VC pay, let alone to set pay levels. Our universities are autonomous and this is a job for them to undertake in a responsible manner.

Rather I want it to examine senior pay from a value for money perspective and to offer advice on the considerations to be taken into account by remuneration committees.

Performance against benchmarks in the TEF is a potential indicator of valueadded that remuneration committees might consider before approving high pay awards.

The essential principle must be that exceptional pay can only be justified by exceptional performance.

Universities must justify the exceptional circumstances for pay awards that exceed the pay of the PM – and where there is no justification, they must exercise greater restraint.

And I can announce that I will be issuing new guidance to the OfS to use its powers to address this problem.

Conclusion

So, to conclude:

Make no mistake: if fees were abolished – we would almost certainly see the same dramatic fall in per student funding that we saw in the UK in the decades before fees – a fall of the order of over 40%. This would lead to the humbling of currently world-class institutions, and widespread closures of departments and even whole universities.

At the same time, receiving so much of their funding directly from central government at volatile annual government fiscal events would make a mockery of the concept of university autonomy, the key to our system's success on the world stage.

With students numbers capped once again, the poorest and most disadvantaged would miss out, as they have done in many parts of Europe and in Scotland. Life chances would be irreparably damaged, social mobility thrown into reverse.

And all of this would come at eye-watering cost to general taxpayers, including those who have not had the chance to go to university, to subsidise degrees that will increase the income of what, under a student numbers cap, will be an increasingly privileged cohort of student.

Now more than ever, we look to our universities to help drive national prosperity and advance individuals' life chances. But we will only succeed if the sector remains sustainably financed, adapts to meet the high expectations of its fee-paying students and retains the support of hardworking taxpayers.

We are part of the way on that journey.

The steps we have already taken on student finance are working. We have seen record participation rates and increased sector income, all while ensuring graduates only repay loans in line with their income. This is the progressive student finance system that enabled us to abolish the student number cap we inherited from Labour. We must not hit reverse.

Instead, we need to look forward. Our universities may top the global research rankings, but public unease over value for money for undergraduates across the system as a whole cannot be allowed to continue.

That is our focus as we implement the Higher Education and Research Act, establish the Office for Students, and deliver the Teaching Excellence Framework at subject level.

Students applying to university this year, and across this parliament, will have more information, more choice and more flexible ways of learning than ever before.

And underpinning all this will be a new contract between student and university – a contract that underpins their rights as consumers, and ensures value for money throughout their course and during their working lives.

Thank you