

Doing more with less: Rebalancing the finance and delivery of tertiary education

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Executive summary

Skills – more, more diverse, and continually developing – have a central role in promoting growth. That requires more resources and better use of those resources. But finance alone is not enough – finance needs to be designed alongside a plan for delivering the quantity, quality and mix of necessary skills, both immediately and into the future. This submission argues that short-run changes should take place in the context of a strategy for the medium term and should include both finance and delivery of teaching. It does not discuss research.

The current system is inadequate. Higher education finance in England and Wales has high headline debt together with a leaky loan, so that most people do not repay their loan in full. Thus there is a scary sticker price, with a subsidy via loan leakage that is not visible. Thus many people (and the press) focus on the headline debt, creating avoidable sleepless nights and political problems.

A better system would have a less scary sticker price and a less leaky loan. Though some short-term action is required, immediate actions should be made with a view of where one would like to be over the medium term, so this submission deliberately includes policies that transcend the duration of the current Comprehensive Spending Review.

The submission sets out a strategy with three elements, to some extent in ascending order of time scale.

- Section 2 argues that increased direct taxpayer support for teaching is essential, initially in the form of emergency funding to stabilise the system, subsequently, when the fiscal situation allows, through a return of some sort of teaching grant (T grant). Discussion sets out a workable design for targeted T grants together with an analogue of the pupil premium for schools.
- Section 3 looks at ways of making better use of public money, both by adjusting the parameters of the loan system to make it less leaky and by shifting some of the cost of remaining losses away from taxpayers.
- Section 4, on a longer time scale, discusses delivery, moving toward a more flexible and integrated system of tertiary education to bring about skills that fit present needs and will adapt to future economic, technological and demographic change.

Doing more with less: Rebalancing the finance and delivery of tertiary education¹

Nicholas Barr²

1 The backdrop

1. The central role of skills in promoting growth requires more resources and better use of those resources. But finance alone is not enough – a plan for finance needs to be complemented by a design to deliver the quantity, quality and mix of skills the country needs both immediately and into the future. This submission argues that short-run changes should take place in the context of a strategy for the medium term and should include both finance and delivery of teaching. It does not discuss research.

2. A useful starting point is the ‘So what?’ question. Why does investment in skills need more support and, within that, why does tertiary education need more support? The short answer is that technological advance increases the importance of human capital to economic growth. As the balance of production in advanced economies moves from goods to services, raw material inputs become relatively less important and human capital more important. Thus investment in human capital is more important than in the past (taking a long view, time was when what was needed was muscle – 200 years, at the height of the industrial revolution, the literacy rate in England was around 50% for men, 40% for women).

3. I recognise that public spending faces significant shorter-term fiscal constraints. In the case of tertiary education the ‘would not start from here’ is particularly salient given the 2012 reforms which distorted the balance between fees and taxpayer support for teaching (Barr 2019). More specifically, the 2012 reforms replaced the previous finance of teaching through a mix of tuition fees and direct taxpayer support (the T grant) with a system in which the arts, humanities and social sciences were financed entirely by tuition fees covered by student loans, with taxpayer support in the form of the loss on student loans. Raising fees to match rising costs was constrained by limits on what graduates can reasonably be expected to repay and because the issue is politically toxic.

4. Given fiscal constraints, it might be argued that because the growth effects of human capital investment lie in the future, increased investment can wait. The counter-argument – consistent with the government’s rightful emphasis on making decisions for sustainable economic gain rather than short-term political gain – is that future growth requires more investment now.

5. But ‘give us more money’ on its own is not a good enough argument: extra resources need to be justified in terms of how they are to be used to promote growth.

6. To those ends, this submission starts from three broad objectives for tertiary education:³

¹ Parts of this submission draw on joint work with Neil Shephard (Barr and Shephard 2010).

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- Quality, including an appropriate skills mix now and into the future;
- Access, both for equity reasons and because the UK cannot afford to waste talent;
- Size, to meet the rising demand for skills.

7. The submission sets out a strategy with three elements:

- More direct taxpayer support for tertiary education, initially in the form of emergency funding to stabilise the system, subsequently, when the fiscal situation allows, through a return of some sort of teaching grant (T grant) (section 2). Discussion sets out a workable design for targeted T grants together with an analogue of the pupil premium for schools.
- Better use of public money (section 3), by adjusting the parameters of the loan system to make it less leaky and by shifting some of the cost of remaining losses away from taxpayers.
- Moving toward a more flexible and integrated system of tertiary education to bring about skills that fit present needs and will adapt to future economic, technological and demographic developments (section 4).

The first two elements relate to finance, the third to delivery. Considerations of finance should be made with a clear idea of how a suitable skills mix is to be delivered – not only more skills but also the right skills and the right mix. Additionally, shorter-term choices should be made with a view of where one would like to be in the medium term. Thus the first of these directions requires some initial urgent action and the second preparatory work during the current parliament; though preparation for the third element should start soon, its implementation lies beyond the term of the current Comprehensive Spending Review.

2 Rebalancing fees and direct taxpayer support for teaching

2.1 Why more direct taxpayer support?

8. As noted, some direct taxpayer support will be needed in the short run to support the stability of the sector. But the argument for taxpayer support is much wider than that.

9. The case for restoring some continuing direct taxpayer support for teaching is the standard argument for cost sharing. Economic theory argues that where an activity generates benefits to society over and above those to the individual a pure market will lead to too little of that activity taking place. A person who pays to be vaccinated against measles benefits personally because they will not get measles (the private benefit) but also confers a benefit on others because they won't catch measles from the vaccinated person (the external benefit). In the absence of a subsidy, too few people will choose to be vaccinated. The same argument applies to higher education, which creates external benefits in well-known ways (Box 1).

Box 1: The external benefits of education

Education creates external benefits in a range of ways.

Future tax payments: if education increases a person's future earnings, it increases their future tax payments. Their investment in education thus confers a 'dividend' on future taxpayers. In the

³ Given the terms of the consultation, I focus on the growth effects of tertiary education. That does not detract from other central objectives, including the transmission of knowledge and skills and of attitudes and values, and the development of new knowledge.

presence of such an externality, the resulting flow of investment will be inefficiently small. A standard solution is an appropriately-designed subsidy. For precisely that reason, most countries offer tax advantages for a firm's investment in physical capital.

Growth benefits: investment in human capital is not just a 'nice to have', but an essential element in economic growth. In particular, investment in skills helps to make individual more adaptable and better able to keep up with technological change. As argued in para. 2, human capital is a more important element in growth today than in the past. As well as making the individual more productive, education also makes others more productive. It is not surprising that much high-tech industry occurs in clusters near leading universities, like Silicon Valley, Cambridge (Massachusetts), and Cambridge (England), and education lies at the heart of endogenous growth theory.

Cultural benefits: education can create cultural benefits, including better parenting and increased civic engagement.

Thus there is a clear investment case for an element of taxpayer support for widening and deepening human capital. Less-realised is that there is also an insurance case – both in the form of resilience in the face of technological change and because under-investing risks being overtaken by countries like South Korea.

That some of these externalities are hard to measure does not make them unreal.

10. When deciding whether or not to go to university people consider only their private benefits and costs. As a result, in the absence of a subsidy, too few people will choose to go. This outcome is inefficient for individuals and risky for national competitiveness. The abolition of direct taxpayer support for teaching risks precisely those effects.

2.2 What form of direct taxpayer support?

11. In principle, the externality argument suggests that something like the teaching grant prior to the 2012 reforms should be restored. Below I use the term T grant for short without implying that its form is necessarily the same as previously. Indeed, as argued below, there are good reasons for having a differentiated T grant. The starting point is to observe that though the argument in the previous paragraph is generally correct, it does not hold where demand is price inelastic, i.e. where the number of people applying to Oxbridge would change little, if at all, if fees increased by, say, £1,000, whereas a fee increase of that size would have a major impact on the demand for places at (hypothetical) Balls Pond Road University. In that case, the absence of a subsidy for Oxbridge does not reduce demand or supply, hence there is no efficiency loss, hence no case for a subsidy. This does not imply that there is no social benefit, merely that there is no efficiency reason for subsidising its production.

12. There are two sets of reasons why the demand curve facing Oxbridge might be inelastic: the majority of students are from middle-class backgrounds and so not very sensitive to differences in fee levels; separately, the private benefit of an Oxbridge degree is very high. Neither reason applies strongly to Balls Pond Road University.

13. To illustrate the argument, assume that the demand curve for Oxbridge is vertical and that for Balls Pond Road University shallow. In that case the simple externality argument suggests that Balls Pond Road University should receive a full T grant but Oxbridge little or none. There are potentially two ways of targeting..

14. PROPOSAL 1: TARGETED T GRANT PLUS A PUPIL PREMIUM. In this design, institutions that charge a fee below a lower limit receive a full T grant, and institutions that charge above

a higher limit receive no T grant. The example in Box 2 illustrates the case of a lower limit of £7,500, an upper limit of £12,500, and a full T grant of £2,500. Oxbridge, charging £12,500, receives no T grant, but receives a pupil premium for each disadvantaged student (at Oxbridge a minority of students). Balls Pond Road University, charging £7,500, receives a full T grant of £2,500 for each student, plus a pupil premium for each disadvantaged student (at Balls Pond Road University, a majority). In between (Table 1 below) the T grant is tapered.

15. The pupil premium could be based entirely on a measure of student disadvantage or could also be higher for disadvantaged students at some universities, e.g. to encourage applications to elite institutions. As noted, there are equity reasons for doing so but also the efficiency reason that the UK cannot afford to waste talent. The premium could be paid to the university as additional income, creating an incentive to recruit students from disadvantaged backgrounds, or to the student, acting as a scholarship by paying a fraction of fees upfront, or a mix, the choice depending on evidence about behavioural responses.

16. PROPOSAL 2: TARGETED T GRANT AS A BLOCK GRANT GRANTS PLUS PUPIL PREMIUM. This model has a system of block grants to universities on the basis of bids, the size of the block grant following the taper schedule in Table 1, again with a pupil premium.

Box 2 Targeted direct taxpayer support for teaching

The numbers in the example are purely illustrative.

TARGETED T GRANT PLUS PUPIL PREMIUM. In practice, we do not observe complete stratification of students by university, i.e. it is not only middle-class students who apply to Oxbridge. Thus there are two reasons for subsidising students, an efficiency reason, recognising external benefits where demand is price elastic, and an equity reason, to promote participation by students from disadvantaged backgrounds. This line of argument points to an arrangement, which (a) aims to ensure that all universities receive at least (say) £10,000 per student, but (b) that no university charging more than (say) £12,500 receives any T grant for the arts and humanities, or social sciences. As an example:

- Fees of £7,500 or less receive a T grant of £2,500.
- For fees above £7,500 the T grant falls by £50 for every £100 increase in fees.
- Fees of £12,500 or more attract no T grant.

Table 1 offers an example – the thresholds, the size of the T grant and the taper are all policy choices.

Table 1: Tapered T grant: An example

Fee	T grant	Total per student
£7,500	£2,500	£10,000
£8,500	£2,000	£10,500
£9,500	£1,500	£11,000
£10,500	£1,000	£11,500
£11,500	£500	£12,000
£12,500	£0	£12,500

TARGETED T GRANT AS A BLOCK GRANT PLUS PUPIL PREMIUM. As a variant, the Office for Students could set an annual budget and invite bids from universities wishing to offer lower fees in exchange for a block T-grant, using the taper schedule above. Agreements could be for (say) 3-5 years.

2.3 Advantages

17. A targeted T grant:
 - Facilitates a diversified system, where institutions have some freedom over setting their fee level.
 - Recognises external benefits, but does not subsidise them where there is no efficiency gain from doing so.
 - Achieves distributional objectives by subsidising students at universities that charge lower fees and – in addition – students from disadvantaged backgrounds.
 - Is flexible, since an institution could test the market by charging a higher fee but could, by reducing the fee over time, qualify for a higher T grant.
 - Avoids ‘big bang’ reform that risks destabilising the system, avoiding rapid changes in the numbers of students at different institutions.
 - Improves efficiency and equity in ways that reduce the number of students for whom a full T grant is paid and thus contains taxpayer cost.
18. The block-grant approach, in addition to these advantages, gives the Treasury more control over the size of the higher education budget.
19. Comparing the two approaches highlights a tradeoff. The targeted T grant allows more flexibility in the size and composition of tertiary education, but with weaker direct instruments for controlling public spending. The block grant approach gives the Treasury fuller control of public spending but with less flexibility over the relative size of different institutions and degrees.
20. The tradeoff is important. A targeted T grant offers more powerful and flexible levers to promote growth by delivering additional resources:
 - To groups it wishes to assist (e.g. the pupil premium);
 - For particular subjects, e.g. broad areas like STEM subjects, or more specific areas such as computing skills that underpin AI;
 - To particular institutions to assist growth-promoting specialisms;
 - To particular regions, for example a system of integrated national transport needs to be supported by a skills mix that supports area needs.
 - In granular ways, e.g. to a particular university for a particular subject.
21. Though these proposals raise current public spending, several points are noteworthy.
 - The spending is well targeted to achieve efficiency and equity gains.
 - The effect on public spending may be smaller than apparent. Suppose that 50 per cent of lending to students at Balls Pond Road University is not repaid. A targeted T grant would add £2,500 gross to public spending, but saves the £1,250 that would otherwise have been spent on unpaid loans. Even if a targeted T grant cannot wholly be accommodated within the parameters of the Comprehensive Spending Review, it is an important element for the future.

- Some of the cost can be made up by making better use of taxpayer support – the second element in the strategy.

3 Better use of taxpayer support

22. There are two ways to reduce the fiscal cost of loans: making loans less leaky, and shifting some of the remaining losses away from the taxpayer.

3.1 Making loans less leaky

23. The current arrangements have high headline debt, i.e. a scary sticker price, combined with a leaky loan system, so that most people do not repay in full. But subsidy in the form of unpaid loan is invisible, hence many people – and the press – focus on the headline debt, creating avoidable sleepless nights and political problems. A better system has a less scary sticker price and a less leaky loan.

24. SEVERAL WAYS TO MAKE LOANS LESS LEAKY.

25. The repayment function: in the current system graduates repay 9% of income above a threshold (between £15,000 and £31,000 depending on when the loan started). Any loan outstanding after n years (between 25 and 40 depending on when the loan was taken out) is forgiven. Increasing the flow of repayments has two elements, a lower repayment threshold and repayment rates that start low (e.g. 3% of income) and rise as the earnings of the graduate rise. Clearly detailed simulations are needed to find a combination of threshold and repayment rates that meets the twin tests of a stronger repayment flow and political acceptability; thus the recommendation has a medium-term horizon. In the short-term, a minimum suggestion is that the repayment threshold should not be increased.

26. The interest rate: the starting point for setting the interest rate should be the government's cost of borrowing, thus giving graduates access to the government's risk-free rate. There are several variants.

- One option, discussed below, is a cohort risk premium to cover part of the non-repayment of graduates with low lifetime earnings, who do not repay in full.
- Another variant is a targeted interest subsidy. In New Zealand at one time, if the graduate's income was so low that income-contingent repayments did not cover that year's interest payments, outstanding debt was adjusted so that their real debt did not increase.
- Though not a part of the New Zealand design, it would be possible to claw back earlier interest subsidies from graduates who subsequently have high earnings (note that with income-contingent repayments the only effect of the later clawback is to extend the duration of repayment, an increase in duration that is likely to be small since it applies only to higher earners (Barr 2010).

27. A grace period: in principle a real interest rate should apply from the moment the loan is taken out. If the interest rate is the same for all borrowers, the subsidy is badly targeted because it means that no graduate – even one with the highest future earnings – repays in full. If a grace period is necessary for political reasons, graduates with higher earnings should subsequently pay a suitably higher interest rate to ensure that they repay in full in present value terms.

28. MISUNDERSTANDINGS ABOUT PROGRESSIVITY. There is widespread agreement that higher education finance should be progressive in support of the core objective of access. However, discussion of what is, or is not, progressive, can be confused. Box 3 outlines some of the issues.

Box 3: Distribution: Look at the whole picture

STUDENT LOANS. It is a fundamental principle of public economics that what matters is the progressivity of a system as a whole, not necessarily that of each element. Within higher education, loan subsidies (i.e. non repayment) help lower-earning graduates, hence are progressive within the cohort of university students but not when considering all of tertiary education. The loan subsidises those who have made it to university. In back-of-envelope terms, suppose that the top half of the distribution goes to university and that loan subsidies benefit the bottom half of that group. Thus loan subsidies benefit the bottom half of the top half. Improving loan performance, by allowing more access to loans for level 4 and level 5 qualifications would be more powerfully progressive.

T GRANT. Restoring some T grant would benefit those graduates who repay their loan in full, i.e. higher-earning graduates, who might otherwise have to take out larger loans. On the face of it that is regressive. But T grants have an important efficiency function (Box 1), hence the argument that for that reason there should not be a T grant is a category error – and particularly if the T grant is higher at lower-fee institutions..

29. Loan design might usefully incorporate a principle that (say) 75 per cent of borrowers should repay their loan in full in present-value terms.

3.2 Shifting some the cost of remaining losses away from the taxpayer

30. A second approach to reducing taxpayer cost is to shift some of the loss on loans away from the taxpayer. The system creates an incentive for all institutions to charge the maximum fee because the cost of non-repayment of loans does not fall on the institution or its graduates. In principle there are two ways of addressing that adverse incentive: a national cohort risk premium, or an insurance premium paid by each university.

31. A NATIONAL COHORT RISK PREMIUM. This approach shares risk between taxpayers and the cohort of borrowers. Higher-earning graduates pay the loss on the loans of low-earning graduates. Thus on average there is a cross-subsidy from Oxbridge to Balls Pond Road University.

32. The system in New Zealand between 1992 and 2000 offers an example of the approach. It was estimated that a risk premium of 2 per cent would cover the loss on loans. The New Zealand design charged an interest charge 1 per cent above the government's cost of borrowing, sharing the costs of non-repayment roughly equally between the taxpayer and the cohort of borrowers, thus introducing a social insurance element between higher- and lower-earning graduates.⁴

33. A cohort risk premium, however, does not remove the incentive to charge the maximum fee, since institutions face no cost from doing so.

⁴ Note that students loans are primarily a device for consumption smoothing. Pensions redistribute from a person's younger to their older self; student loans are the mirror image and, as such, are a natural aspect of social insurance.

34. UNIVERSITY INSURANCE. This approach shares risk between taxpayers and the provider institution. Each university pays an insurance premium calculated to match the predicted loss on the loans taken out by its students. This arrangement removes the cross-subsidy, and so the incentive for all universities to charge the maximum fee.

35. A problem, however, is that for Balls Pond Road University the insurance costs may be too high to be sustainable. Though fees are lower, so are the earnings of its graduates, and if the latter effect is sufficiently strong, insurance would be very expensive. Thus sole reliance on this approach is likely to be both unsustainable and inequitable.

36. A second problem is the incentive for institutions to cherry pick potential high earners. Since women's repayment performance is less good than men's on average, institutions would face incentives to expand subjects where men are over-represented relative to departments where women are over-represented.

37. PROPOSAL 3: A HYBRID OF COHORT RISK PREMIUM AND PROVIDER INSURANCE.

38. As an illustrative example, a national cohort risk premium covers some or all of the loss on maintenance loans and on fees of up to (say) £10,000 (including the first £10,000 of fees at universities whose total fee is higher than £10,000). This could be arranged either by increasing the interest rate by (say) 2 per cent or by adding (say) one year of additional repayment to the duration of each graduate's loan (Barr, 2010). Thus universities with higher-earning graduates on average (Oxbridge) subsidise those with lower-earning graduates (Balls Pond Road University). Since the arrangement applies only to fees up to £10,000, the incentive to charge high fees is muted.

39. University-specific insurance covers loans on fees above (say) £10,000.

- Each university pays an insurance premium reflecting (a) the extent to which its fees are higher than £10,000 and (b) the projected earnings of its graduates.
- To the extent that the insurance premium is broadly actuarial, it removes – or at least mutes – incentives for all institutions to charge the maximum fee.
- Since the insurance arrangement applies only to borrowing to cover fees above £10,000 it avoids the problem that the premium might be unsustainable for Balls Pond Road University.
- The incentive to cherry pick potential high earners is muted.
- The approach limits the fiscal implications of allowing universities to charge more than £10,000 while avoiding the barriers to access if higher fees were not covered by a student loan.

3.3 Advantages

40. The combined effect of less leaky loans and shifting some of the cost of non-repayment more widely has a twofold advantage: it allows expansion of tertiary education at lower taxpayer cost and facilitates student support in desirable ways:

- Higher maintenance loans, if necessary supplemented by grants, to reflect realistic living costs;
- Extending the size and scope of loans to improve availability to part-time and postgraduate students and to other parts of tertiary education;

- Options for subsidising certain occupations that assist economic growth, either by paying an upfront bursary or through an *ex post* subsidy, e.g. forgiving (say) 10% of the outstanding loan balance for each year of nursing in the NHS, and similarly for doctors, and for each year teaching maths or computer science in the state school system.

41. Organise reform as a package: lowering the repayment threshold is likely to be politically unpopular, but a lower repayment rate on lower earnings, restoration of some T grant and strengthening maintenance support provide a political *quid pro quo*.

4 A more flexible system of tertiary education

4.1 Design policy considering tertiary education as a whole

42. This part of the strategy is more medium term and raises significant implementation tasks. However, it is relevant in the shorter term at a minimum for designing loans that can be extended to level 4 and level 5 qualifications. What follows is drawn from fuller discussion in Barr (2018).

4.2 Rebalance resources across higher and further education

43. IMPROVE THE RESOURCING OF NON-DEGREE TERTIARY EDUCATION. When the fiscal situation allows, one option is to extend some form of T grant beyond higher education.

44. REBALANCE SUPPORT BETWEEN FULL- AND PART-TIME STUDY. Redirecting resources towards part-time study assists flexibility, allows a low-cost experiment for students from disadvantaged backgrounds, and protects institutions such as the Open University.

45. CONSIDER DISTRIBUTIONAL EFFECTS HOLISTICALLY. As Box 3 discusses:

- Policy should look at the distribution of taxpayer support across the whole of tertiary education, not higher education in isolation.
- Policies to widen participation should also take into account the distributional effects of earlier interventions, since improving school attainment has powerful beneficial effects on participation (Health and Social Care Committee 2019; OECD 2017).

4.3 Increase flexibility and diversity within and between higher and further education

Finance

46. What is needed is a system of student support and institutional finance that creates greater neutrality between full-time and part-time study and across levels 4, 5 and 6. Also needed is a major effort to promote understanding that student loans involve a payroll deduction, not credit-card debt.

47. CONSIDER DIRECT TAXPAYER SUPPORT AND LOAN FINANCE TOGETHER. Moving towards a view of the sector as a whole, though desirable to facilitate flexible pathways, does not necessarily mean a unitary system of finance. The arguments for a mix of T grant and loans in higher education apply also to further education, but not necessarily in the same proportions.

48. Direct taxpayer support for vocational training could come in part from the apprenticeship levy – a useful approach to counteract the incentive for firms to free-ride on training provided or financed by other firms.

49. REBALANCE INCENTIVES THAT CURRENTLY UNDULY FAVOUR THREE-YEAR FULL-TIME DEGREES. If part-time study is more expensive there will be lower demand if the extra cost falls on students or lower supply if it falls on institutions. To level the playing field one option is a higher T grant for part-time study.

50. The same point arises for sub-degree courses. Flexibility (e.g. starting on a level 4 course with the option then or later of proceeding to a degree) requires that finance and student support have relativities that make choices between levels 4, 5 and 6 more neutral for students and providers.

51. DESIGN SAFEGUARDS TO AVOID ‘POACHING’ BUDGETS. There are examples of study at university financed by the apprenticeship levy. That is not necessarily adverse, but the boundary between supply-side responsiveness on the one hand and gaming the system on the other needs policing. For such reasons, some witnesses from further education in evidence to a Parliamentary inquiry House of Lords Economic Affairs Committee 2018) opposed the idea of a single budget for the whole of tertiary education.

Delivery

52. The system should offer flexible routes over time path and mix in an individual’s accumulation.

53. TOWARDS A SYSTEM OF TRANSFERRABLE CREDITS. Flexible pathways require transferrable credits both within and between higher and further education. The Bologna process did this for higher education internationally; a domestic analogue covering tertiary education is necessary for credit accumulation across levels 4, 5 and 6.

54. IMPROVE INFORMATION, ADVICE AND GUIDANCE. This aspect is fragmented and of variable quality (Education Policy Institute 2017). The problem arises partly because responsibility for advising on the complexity of matching individuals and courses rests with schools and colleges. Arrangements that can exploit economies of scale, including the use of AI, offer the prospect of major improvements.⁵

55. ENSURE ROBUST QUALITY ASSURANCE ACROSS THE SECTOR. The provision of flexible routes through further and higher education requires robust quality assurance in all parts of the sector. Allowing for-profit providers to access student loans has been a stress test for quality assurance, and concerns have been raised about abuse of the apprenticeship levy (Richmond 2018; *Guardian*, 6 February 2023), raising echoes of earlier abuse of Individual Learning Accounts. In both cases, poor implementation should not discredit what in principle are good policies.

⁵ See <http://www.bestcourse4me.com/> for an early attempt to provide online information (but not advice and guidance). On using nudges to assist decisions, see Castleman and Page (2013).

56. Though quality assurance may take place separately within higher education and further education, it is necessary to have comparability, so that the credits earned in one part of the system can be evaluated effectively elsewhere in further and higher education.

5 Conclusion

57. This submission argues that short-run changes should take place in the context of a strategy for the medium term and should include both finance and delivery.

58. Notwithstanding fiscal constraints, some direct taxpayer support for teaching is necessary in the short run to preserve the stability of the system. But the case for an element of direct taxpayer support is much wider. Section 2 sets out an approach with a targeted teaching grant combined with a form of pupil premium. The combination improves equity and harvests available efficiency gains without wasting taxpayer resources. The current approach – no T grant for the arts, humanities and social sciences – wastes available efficiency gains, while a blanket T grant creates deadweight costs and thereby wastes taxpayers' money.

59. Section 3 looks at ways of making better use of taxpayer support. The cost of unpaid student loans is (a) too high and (b) could usefully be spread beyond the taxpayer. A fiscally more parsimonious loan makes possible a variety of desirable options relating both to expansion and access.

60. The advantages of a targeted T grant and less leaky loans are set out in sections 2.3 and 3.3, respectively.

61. Section 4, with a time horizon that stretches beyond that of the current Comprehensive Spending Review, outlines a more flexible and integrated system of tertiary education.

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