

**Postgraduate
education:**
better funding
and better access

Edited by
Tom Frostick
& Tom Gault

CENTREFORUM

Postgraduate education: better funding and better access

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The logo for CentreForum, featuring the word "CENTRE" in grey and "FORUM" in orange, with a stylized orange and grey symbol between the two words.

CENTREFORUM

About the editors

Tom Frostick is Communications Manager and Policy Analyst at CentreForum. He previously worked as a civil servant in the Department for Work and Pensions and is fortunate enough to hold both bachelor's and master's degrees from the University of Manchester.

Tom Gault had a brief spell at CentreForum before working in the Liberal Democrat Whips' Office in the Lords, and then as Parliamentary Researcher to Julian Huppert MP. He has a degree in history from the University of Cambridge. His current position as Public Affairs Manager at the Advertising Association is in no way linked to this report, and views expressed herein do not represent the position of the Advertising Association.

Acknowledgements

We would like to offer special thanks to Alex Jones, Rachel Wenstone and Adam Wright at NUS for their contributions below and for helping to launch this initiative at a parliamentary roundtable in March 2013. Thanks also to David Cairncross and James Fothergill (CBI), Alan Palmer and Professor Nigel Vincent (British Academy), Professor Geoff Whitty (University of Bath), Andy Westwood (GuildHE), Professor Stephen Machin (LSE), Joel Mullan (Higher Education Commission and Policy Connect), Hannah Maclachlan, Dr Wendy Piatt and Nick Ratcliffe (Russell Group), Dr Joanne Lindley (University of Surrey), Conor Ryan (Sutton Trust), Dr Gill Wyness, Mark Corney and Julian Huppert MP. We are grateful to CentreForum colleagues for their research assistance – in particular, Chris Hayes and Sean McDaniel. The editorial sections and policy recommendations below, plus any errors, are the editors' responsibility alone.

ISBN: 978-1-909274-02-0

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■ Foreword

Postgraduate funding is far less often discussed than undergraduate funding, but there is a growing shortfall, with some people unable to access postgraduate courses. I have been increasingly concerned about this, and have highlighted it in a Liberal Democrat policy paper on science and research.

In March this year I was delighted to chair a CentreForum and NUS policy roundtable looking to find ideas which would help us tackle the growing problem of the serious funding shortfall for postgraduates. Attended by key stakeholders from across the sector, we all agreed on one thing – the current situation is a barrier to social and economic progress in the UK, and economically viable postgraduate funding streams need to be found.

As a result, CentreForum has now produced this report, delving into the facts, figures, and human stories behind the current situation. We know postgraduate study benefits the individual greatly, but it also benefits society through our tax system, and through the creation of 'human capital'. At a time when we are lacking in highly skilled homegrown talent, particularly but not only in the vital and growing STEM industries, we need easier and fairer access to funding more than ever.

Julian Huppert MP

Liberal Democrat Member of Parliament for Cambridge

: Executive summary

Postgraduate education in Britain is like an exclusive golf club. Home graduates who lack the means to pay course fees upfront need not apply. There is no undergraduate style loans system to ensure fair access, and only very limited funding available from universities, government bodies, employers and commercial lenders. The Professional and Career Development Loan scheme, which the government underwrites, has proven to be breathtakingly inadequate. In 2010 only 5,700 students secured one of these loans – less than 3% of the total number of home students who started a postgraduate course that year.

Importantly, the huge rise in participation at the postgraduate taught level since the 1990s has not been driven by UK entrants but by a substantial increase in the number of overseas students. Participation in postgraduate research has remained broadly static during this period and the number of home graduates enrolling on taught courses has risen only gradually, appearing now to be in decline. There was a 4.5% fall in UK postgraduate participation at English institutions in 2011, while first year part time enrolments in England fell by almost a quarter. Without policy intervention, these trends are likely to continue – the club is getting more exclusive.

In this report we maintain that policymakers should seek to increase the levels of public and private investment in postgraduate education, in particular, postgraduate taught courses such as MAs and MScs. These deliver a high rate of return for individuals and government and are often a prerequisite for those wishing to undertake postgraduate research (PhD, DPhil, EngD or equivalent).

Raising funding levels will address two problems: a numbers problem and an access problem. First, if more British people obtain postgraduate qualifications, the UK will see a corresponding rise in the number of workers with higher level skills (not to mention homegrown academic talent). Employers increasingly desire these skills – evidenced by the widening 'postgraduate degree/first degree

only' wage gap – and so should government. No country has ever seen its growth rate fall because it has overeducated its population, but there are plenty examples of countries that have suffered from having too few skilled workers.

Then there is the access problem. Postgraduate education has been described by the Sutton Trust as “the new frontier of social mobility”. The majority of home graduates who access it are from upper middle income backgrounds. They have succeeded at school, gone to university and are in a strong position to return to education. A postgraduate funding settlement is necessary to ensure better access to education's highest tier, and is particularly important when postgraduate qualifications are becoming a common way to differentiate between candidates in an elite labour market. For some professions, they are already a de facto requirement.

CentreForum is not alone in arguing that postgraduate education needs more funding, as the independent contributions in Chapters 2 to 5 serve to illustrate. NUS, the CBI and economists Joanne Lindley and Stephen Machin present the argument from the perspective of students, employers and proponents of social mobility, while the British Academy's Nigel Vincent and Russell Group's Wendy Piatt present it from the point of view of academia. The latter two are especially concerned that the funding debate includes postgraduate research, with Nigel Vincent suggesting we should drop the “simplistic distinction” between postgraduate taught and postgraduate research (PGT and PGR), as taught and research programmes become ever more integrated. Wendy Piatt reminds us of the importance of postgraduate research in boosting growth and innovation and attracting investment to the UK.

In 2011, CentreForum put forward the case for income contingent loans for postgraduate taught courses. We revisit this scheme in Chapter 6 on the basis that it attracted considerable support across the higher education sector. NUS have since built upon the idea, and so we include their modelling too. An income contingent loan scheme will support growth by increasing the number of British workers with higher level skills, and it will support social mobility by widening access to postgraduate study. Better still, it is estimated to be cost neutral, as the government is in the unique position of being able to borrow at 0% real interest rates over a long period.

We accept, however, that the funding challenge will not be conquered simply through introducing income contingent loans. The contributors to Chapter 7 illustrate that there are important

supplementary actions that can be taken. First, Joel Mullan from the Higher Education Commission suggests that the sector could do more to accommodate part time students by offering more flexible learning, and exploring alternative sources of finance, such as bond markets. Conor Ryan of the Sutton Trust argues that British universities should replicate the success of US institutions in increasing their endowment capacity. He persuades home institutions to set aside a significant proportion of this funding for postgraduate study, citing the University of Sheffield as an example of best practice. Finally, Andy Westwood from GuildHE urges government to proceed with caution when reforming a funding system for postgraduates that balances contributions from individuals, government, employers and universities.

In Chapter 8 we put forward a set of practical recommendations, drawn from our contributors' analysis and our own thinking, which is intended to inform the debate around postgraduate finance over the remainder of this parliament and beyond.

Key recommendations for government

- Government should prioritise the collection of data to establish whether current funding arrangements are suppressing demand for postgraduate education.
- A representative pilot should be commissioned to test the postgraduate loans models put forward by CentreForum and NUS.
- Government should amend Home Office rules on the employment of overseas students in the UK workforce after finishing their studies.
- Funding and scholarship models for postgraduate research should be structured around a four year minimum period of study (not three).

Key recommendations for universities and the private sector

- Groups of universities should source funds from financial markets and use the money raised from bond issuances as a facility for postgraduate students to access.
- The tax treatment of large donations to universities should be made simpler to incentivise giving and help institutions increase their endowment capacity.

- Universities should link a proportion of their endowment funding to a postgraduate scholarship programme targeted at students from low income backgrounds.
- Successful collaboration between universities and business should be actively promoted by the sector.
- As a matter of urgency, universities must review their flexible learning arrangements to ensure they can cater for students who do not wish to commit to full time postgraduate study.

1 - Introduction

The number of overseas postgraduates studying in Britain is huge and growing. In contrast, relatively few British graduates return to university to undertake further study.¹ Funding for UK entrants is in short supply, and because fees are payable upfront, access is largely restricted to those able to self fund. The last academic year (2011/12) saw a decline in the number of home students participating in postgraduate study, and a particularly worrying decline in first year part time enrolments, which in England fell by almost a quarter.²

Like most of its international competitors, Britain has a delivery mechanism – the student loans system – to ensure that a reasonable quantity of people are educated up to the level of an undergraduate degree. Yet it has virtually no strategy whatsoever for education beyond that. There is no undergraduate style loans system for postgraduates. There is only limited funding available from universities and government bodies, and little on offer from employers, banks and other commercial lenders. Postgraduate education has been overlooked through a succession of student finance reforms. It has often been raised by the policy community as an area of concern and yet the response from government has been tentative at best.

There are two problems that raising levels of public and private investment in postgraduate education can tackle. There is a numbers problem (the UK could use more highly skilled workers) and there is an access problem (what can also be called a social mobility problem). Numbers are important because, as economic history has shown, no country has ever seen its growth rate fall because it has invested too much in human capital. On the contrary,

1 Data available from the Higher Education Statistics Authority (HESA): http://www.hesa.ac.uk/dox/pressOffice/sfr183/6995_SFR183_Student_2011_12_All_tables.xls

2 Ibid. For part time enrolment figures, see HEFCE, 'Higher Education in England: Impact of the 2012 reforms', 2013, Figure 3, available from: <http://www.hefce.ac.uk/media/hefce/content/about/introduction/abouttheinengland/impactreport/Impact-report.pdf> Around 90% of part time postgraduate students are UK domiciled.

many economies have suffered from having a shortage of skilled workers.³ Government commissioned research has identified that postgraduate taught and research qualifications deliver an extremely high rate of return for individuals and government – higher than undergraduate degrees.⁴ Indeed, the ‘postgraduate/first degree only’ wage gap doubled from 1996 to 2010 as demand for workers with higher level skills surged upwards.⁵ It follows, therefore, that government should not just welcome but actively pursue an increase in UK postgraduate numbers.

The second problem – access – is important from the point of view of social mobility. At present, postgraduate education in Britain is socially exclusive. The type of individuals who enter it are predominantly from upper middle income backgrounds.⁶ Even among graduates with the best first degrees, those from more affluent households are much likelier to be found on postgraduate courses. A postgraduate funding settlement is necessary to ensure better access to education’s highest tier, and is particularly important when postgraduate qualifications are an increasingly common way to differentiate between candidates in an elite labour market.⁷

In this chapter, we set out the scope of the postgraduate funding problem, and why a solution is needed. The independent contributions in subsequent chapters unite around the case for widening access to postgraduate education. There are differences in opinion about how this is to be achieved but the overriding message to government is consistent: maintaining the status quo is not an option.

CentreForum’s 2011 report ‘Mastering postgraduate funding’ called for a government backed income contingent loans scheme to address the lack of support for postgraduates.⁸ Here, however, we go further by identifying other ways of increasing the availability of funding at little or no cost to the taxpayer. This is in addition to revisiting the case for government backed loans, which is estimated to be a cost neutral policy and has attracted the support of the Higher

3 See C Goldin and L Katz, ‘The Race Between Education and Technology’, Harvard University Press, 2010. Goldin and Katz argue that investment in human capital is a central determinant of economic growth. Inequalities have arisen when investment in human capital has failed to keep pace with skill biased technological change.

4 BIS ‘The Returns to Higher Education Qualifications’, BIS Research Paper No. 45, 2011, p 13

5 See Chapter 2 below.

6 J Lindley and S Machin, ‘The Quest For More and More Education: Implications for Social Mobility’, *Fiscal Studies* 33, 2012, pp 265-286

7 According to the Sutton Trust, 11% of people in work, aged 26 to 60, hold a postgraduate degree. See J Lindley and S Machin, ‘The postgraduate premium: revisiting trends in social mobility and educational inequalities in Britain and America’, Sutton Trust, 2013

8 T Leunig, ‘Mastering postgraduate funding’, CentreForum, 2011

Education Commission, NUS and Sutton Trust amongst others.

The primary focus of the report is the postgraduate taught level (PGT), where we believe the most acute funding problems lie. However, we also allow space for discussion on postgraduate research funding (PGR) – acknowledging that PGT is very often a route into PGR.⁹ The scope of the report is intentionally narrow. We look at ways to increase access to funding for postgraduate study, but do not enter into the broader debate about how to tackle the impact of rising tuition fees and slack competition in the postgraduate sector. These issues are important and require attention elsewhere.

Note

Higher education funding is a devolved responsibility in the UK. This report sets out the position for England except where we explicitly refer to the UK (eg “Postgraduate qualifications obtained at UK universities”). Since the lack of funding is UK wide, the other constituent nations of the UK might consider the report’s recommendations as a frame of reference.

The state of postgraduate education

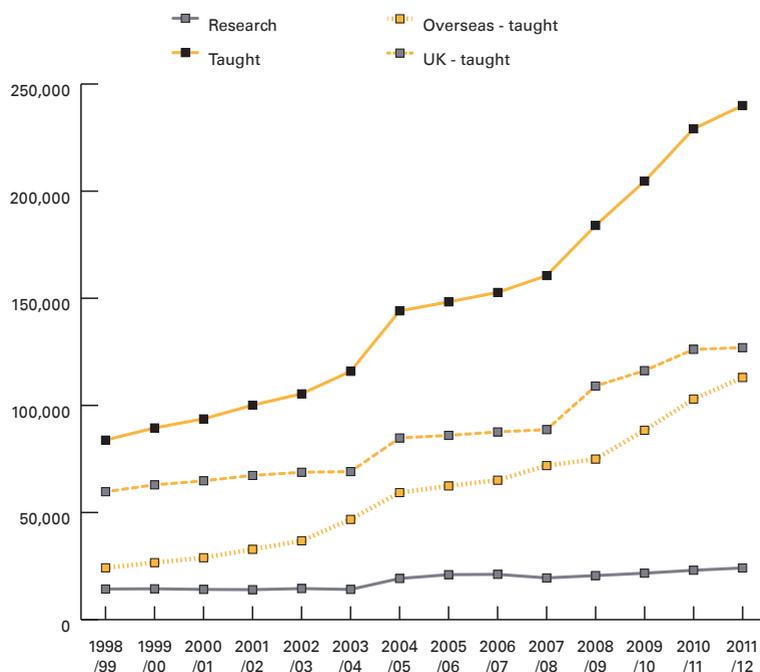
Postgraduate participation has grown steadily over the past 15 years. This is mainly thanks to overseas students recognising the value of studying in Britain. As Figure 1 illustrates, the sharp rise in the number of PGT qualifications obtained at UK universities since 1998 has been driven by a 370% increase in the number of overseas students. UK participation has increased more gradually during this period, and the number of PGR qualifications obtained each year has remained more or less static. The most recent figures from the Higher Education Statistics Agency (HESA) have revealed a 4.3% drop in the total number of home graduates enrolling on postgraduate courses at UK institutions (4.5% in England) from 2010 to 2011.

Not only, then, has growth in postgraduate participation mainly been down to students coming to Britain from overseas, we are now witnessing the first drop in UK enrolments on postgraduate courses for over a decade. Aside from recession related factors, this

⁹ We have excluded from our analysis postgraduate qualifications which already receive significant levels of support from government. This includes training for teaching (PGCE) and health and social care.

most recent trend could be the result of rising course fees which has further deterred home graduates from applying or in some cases pushed them abroad. Research by Times Higher Education found that the average cost of PGT courses for UK entrants rose by 24% between 2010 and 2011, to £6,184.¹⁰ By comparison, undergraduate courses – for which funding is widely available – saw a rise in fees of around 66% between 2011 and 2012 without a significant drop in applications.

Figure 1: Postgraduate qualifications obtained at UK universities since 1998



Source: Higher Education Statistics Agency (HESA)

¹⁰ J Morgan, 'Students priced out of the market by sharp fee increases', Times Higher Education, 21 July 2011, available from: <http://www.timeshighereducation.co.uk/416869.article>

Existing types of funding

The history of changes to undergraduate funding is well documented. Less known is the static approach government has taken to funding postgraduate education and the effect this has had on access. As things stand, government funding for postgraduates comes in three main forms – two direct and one indirect.

First, the Higher Education Funding Council for England (HEFCE) subsidises postgraduate courses by giving a block grant to universities broadly in proportion to the number of postgraduate students. Institutions receive relatively little cash through this channel, and the amount differs depending on the type of course; clinical medical, dentistry and veterinary courses, for instance, receive more than courses with a laboratory or fieldwork element. Universities are also afforded considerable discretion as to how to spend their block grant allocation, which means the benefit it brings to students varies from one institution to the next. The most recent information from HEFCE confirms that the block grant for PGT courses remained broadly flat for 2012/13, despite the allocation of an additional £1,100 per student for intermediate, laboratory and clinical taught courses (Band C to A).¹¹ Classroom based courses (Band D) attract no grant funding at all.

Secondly, the government offers support through Research Councils UK. This funding is intended for students who wish to complete a PGT course as a stepping stone to a PhD. However, we found previously that fewer than 5% of ‘master’s students’ in England received such grants, and most of these students would have been on PGR rather than PGT courses.¹² Research council funding is therefore extremely competitive and effectively excludes anyone who is not aiming to complete a PhD. Recently, the funding allocated through the research councils has been reduced in real terms. As a result, the focus has shifted on to the research itself, rather than the courses necessary to participate in such research (ie PGT courses). An answer to a parliamentary question on 28 February 2013 revealed that no research council offered direct funding students to undertake PGT courses in 2011, and none has plans to do so for the foreseeable future, thereby eliminating one of the two direct funding routes.¹³ Some postgraduates are fortunate enough to secure funding direct

11 Update on HEFCE postgraduate policy - January 2013, available from: https://www.hefce.ac.uk/media/hefce/content/whatwedo/cross-cuttingwork/postgrad/postgrad_briefing_jan13.pdf

12 ‘Mastering postgraduate funding’, p 19

13 Parliamentary question from Gareth Thomas MP (17 December 2012: Hansard Column 665W) available from: <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121217/text/121217w0007.htm#12121816002368>

from their institution in the form of a bursary or scholarship, but fewer than 4% of them receive enough support to cover all their fees.¹⁴

Thirdly, since July 2009 the government has indirectly financed postgraduate courses through the Professional and Career Development Loan (PCDL) scheme. A PCDL is like any other bank loan. Prospective students can apply through one of the banks participating in the scheme, their application is considered and, if successful, a loan of £300 to £10,000 is offered to them at commercial interest rates. The money can then be used for fees, maintenance or both. The only difference between the PCDL and other types of bank loan is that government pays the interest while the student is studying. On completing the course, borrowers have between one and five years to repay the loan including interest. Yet unlike the undergraduate loans system, repayments are not income contingent. This means they have to be made irrespective of whether the borrower is in work.

PCDLs can be criticised on two grounds. The first is that it is difficult to secure a loan through the scheme. Less than half of those who applied for a PCDL in 2010 were offered one, and even fewer chose to take the loan. In total, only 5,700 students obtained a PCDL for postgraduate study, representing just 2.8% of the total number of UK students who started a postgraduate course that year.¹⁵ It is no surprise that the uptake of these loans is predicted to have fallen between 2011 and 2012, and that government support for the programme is forecast to fall in cash terms between now and 2015 to around £7.3 million.¹⁶

A second criticism of the PCDL scheme is the speed with which loans need to be repaid. This is compounded by the absence of an income contingent repayment mechanism. On finishing their studies, individuals have a period of just one month before having to make their first repayment. This places a significant burden on those out of work or on a low income. If they take out a PCDL of £6,000 and have a three year period in which to repay it, they are liable to pay back £200 a month. The case studies in Chapter 3 show that users' first hand experience of the scheme, both at the application stage and during the repayment period, is far from good.

14 BIS, 'One Step Beyond: Making the most of postgraduate education', March 2010, p 21

15 Parliamentary question from Paul Blomfield MP (26 April 2012: Hansard Column 1019W) available from: <http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120426/text/120426w0002.htm> PCDLs are available to overseas students too, but only if they have been living in the UK for over three years.

16 Parliamentary question from Baroness Sharp of Guildford (14 March 2013: Hansard Column WA75) available from: <http://www.publications.parliament.uk/pa/ld201213/ldhansrd/text/130314w0001.htm>

In sum: fees for postgraduate courses are rising, there is very little funding available for anyone choosing to undertake these courses, and the existing funding streams are being severely reduced. These factors have conspired to make a bad situation – in which access to postgraduate education is largely restricted to affluent students – even worse.

The funding shortfall

It seems probable from the evidence that the lack of funding for postgraduates poses a significant barrier to access. The Wilberforce Society has found that at the University of Cambridge 60% of prospective entrants who were offered a place but subsequently rejected the offer did so for financial reasons. At Oxford the picture was equally stark:

“57.6% of those who declined places were presented with no funding from any source, including a loan. This figure rises to 86.6% for those who were left to rely completely on self funding.”¹⁷

Our own research has found that universities have little interest in how postgraduates pay their way through university, and virtually no interest in finding out about individuals who were capable enough to be offered a place, but were too poor to take up the offer. In March 2013, we submitted freedom of information requests to 75 institutions, 52 of which had responded at the time of publication. Aside from requesting general information about numbers of applications and offers, we asked them: How many applicants decline their offer because they are unable to secure funding?

Just two of the institutions that responded (Manchester Metropolitan University and Goldsmiths, University of London) supplied a positive answer to this question.¹⁸ Universities are not obliged to collect such information, so very few do it, and yet it is precisely this lack of data collection that makes it difficult to measure how far current funding arrangements are suppressing demand for postgraduate study. We can only conclude that demand would be higher if funding was easier to obtain.

17 R Prasad et al, 'We don't need no education: What is the 21st century university for?', The Wilberforce Society, 2013, p 52

18 Much to its credit, Manchester Metropolitan University carries out a 'decliners survey' each year. Goldsmiths confirmed: "We don't routinely collect data as to why applicants decline, though through surveys we have run in the past and anecdotal evidence we have gathered, we are aware that inability to finance their study is the primary reason for PGT applicants not taking up their place at university."

The case for more funding

There have been just two government commissioned reviews which considered the case for increasing postgraduate funding. Neither gave a conclusive answer. The first, chaired by Professor Adrian Smith, reported in March 2010.¹⁹ The second and better known of the two was the Browne Review, which published its findings in October 2010.²⁰ Professor Smith's report declined to comment on the severity of the postgraduate funding problem but did make reference to the Browne Review, advising it would be an opportunity "to consider the appropriate level of public funding that should be invested in postgraduate provision". The Browne Review did just that (albeit briefly, over seven paragraphs) and considered that there was no justification for increasing public funding. It instead advised government to "focus on improving access at the undergraduate level". Subsequently, the coalition's higher education white paper said only that government would revisit the issue of postgraduate funding as the new undergraduate system "beds in".²¹

Among the first to demand increased public funding for postgraduates was Tim Leunig at CentreForum. Under his proposal, detailed in Chapter 6, government would loan PGT students £10,000 upfront to help cover fees. This would then be repaid on an income contingent basis upon graduating. The proposal was welcomed by the universities minister David Willetts at the time, and he has mentioned it on several occasions since.²² But ministerial enthusiasm has not yet led the government to act. This is despite a growing consensus across the higher education sector that action in one form or another is needed.

In October 2012, the Higher Education Commission called for a resolution to the "credit crisis" in postgraduate education, citing the loans model first proposed by CentreForum as a possible way forward.²³ A month later, NUS proposed three types of postgraduate loan: one scheme to support access to the professions, another for part time students in employment, and another for a controlled number of students wanting to undertake PGT degrees.²⁴ More

19 'One Step Beyond'

20 Browne Review, 'Securing a Sustainable Future for Higher Education', 2010

21 BIS, 'Students at the Heart of the System', 2011

22 Notably, when addressing the HEFCE annual conference in April 2012, David Willetts said: "I would welcome policy ideas on how to finance postgraduate study in future. Tim Leunig of CentreForum has already put forward one interesting model. It would be great if others suggested alternative approaches." The minister went even further in a parliamentary debate in January 2013, describing the CentreForum model as "ingenious".

23 Higher Education Commission, 'Postgraduate Education: An Independent Inquiry', 2012

24 NUS, 'Steps towards a fairer system of postgraduate taught funding in England', 2012

recently, in February 2013, the Sutton Trust called for such loans to be targeted specifically at postgraduates from low to middle income backgrounds.²⁵ It is in light of these developments that we urge government to revisit the case for loans. We present the CentreForum and NUS models again in Chapter 6, along with the cost neutral means by which we would expect them to be financed.

We accept, however, that the funding challenge will not be met simply through increasing public investment in postgraduate education. The contributors to this report illustrate that there are important supplementary actions that can be taken. Joel Mullan from the Higher Education Commission, for instance, urges universities to explore alternative sources of finance, such as bond markets, and then use this extra cash to provide targeted support for postgraduates. Conor Ryan of the Sutton Trust argues that universities must get better at growing their endowment funds with the help of a simpler tax regime for big donations.

As several of our contributors indicate, a 'one size fits all' approach is unlikely to work. We need a number of measures to increase access to postgraduate study, as our recommendations in Chapter 8 are intended to address. We begin however with analysis by economists Joanne Lindley and Stephen Machin which looks at the effect of rising demand for postgraduate qualifications on inequality and social mobility. This is followed by contributions from NUS and the CBI – who outline why a funding settlement is important for students and employers – and then the British Academy and Russell Group – who warn that failure to reach this outcome will weaken the UK's position in the competitive world of academic research.

25 J Lindley and S Machin, 'The postgraduate premium', Sutton Trust, 2013

■ 2 - Voice of the economist

Dr Joanne Lindley, Reader in Economics, University of Surrey and Professor Stephen Machin, Research Director, Centre for Economic Performance, at the London School of Economics

The economic position of holders of postgraduate qualifications has significantly changed in recent times. In the past, the typical route for university graduates was to obtain a first degree and then enter the labour market. Only a few graduates would enrol in postgraduate courses and, in doing so, obtain qualifications that pushed them towards highly specialised occupations.

This has recently changed and today's postgraduate landscape is different. Many more people now have a postgraduate qualification. As shown in Figure 2, according to Labour Force Survey data in 1996 around 4% of adult age workers (those between 26 and 60) had a postgraduate qualification. By 2010, this had rapidly increased to 11%. Postgraduates have also increased their share amongst degree holders, going up from 30% to 36% of all graduates between 1996 and 2010.

Why is this? One reason is that the number of university graduates has risen so fast in recent times that people increasingly feel the need to distinguish themselves and go on to get another degree after completing their undergraduate studies. Another is that postgraduate degrees are paying off more in terms of higher wage returns than they did in the past.

Figure 3 shows the wage premium associated with a postgraduate qualification as compared to an undergraduate degree. It is evident that postgraduates have significantly strengthened their relative wage position over time. The postgraduate/first degree only wage gap doubles from 7% in 1996 to 14% by 2010.

It appears that the value of postgraduate qualifications has risen because employer demand for them has increased. Considering

differences in the skills sets possessed by postgraduate and undergraduate workers reveals some of the reasons why. Table 1 shows postgraduate/undergraduate differences in cognitive skills, problem solving skills, people skills, firm specific skills, the tasks they use computers for and the routineness of their job. It is clear from the table that both sets of graduates do jobs with high skill and job task requirements.

However, in almost all cases the levels are higher (and significantly so) for postgraduates. For example, postgraduates have higher numeracy levels (especially advanced numeracy), higher levels of analysing complex problems and specialist knowledge or understanding.

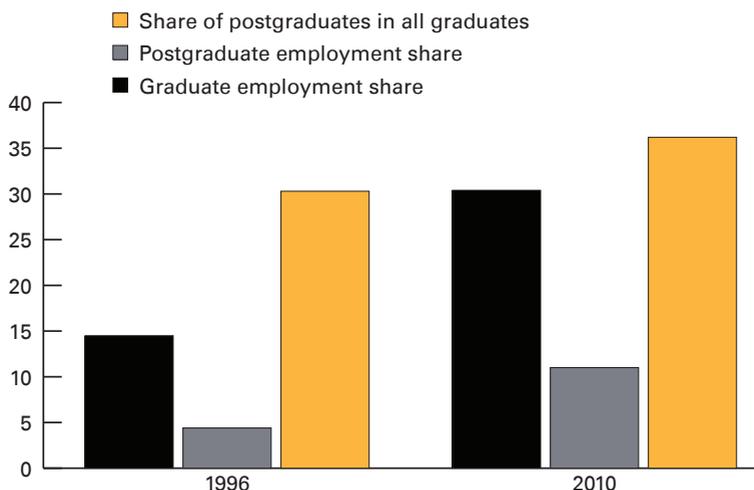
All in all, holding a postgraduate qualification in the UK labour force is not only becoming increasingly common, but it is also offers a route to a higher wage and a more skilled job since employers value such qualifications more today than in the past.

Research, however, shows that postgraduate study has increasingly been becoming the route taken by individuals from richer families.²⁶ In the face of higher fees for undergraduate students, there is a danger that this will become more concentrated in future and those who will reap the higher earnings returns from postgraduate study will be from richer families, both from home and abroad. This is likely to increase inequalities and reduce social mobility in the absence of a level playing field for individuals to participate in postgraduate study.

The economic case for ensuring that our best graduates – from all backgrounds – are attracted to postgraduate study is a strong one. It is very clear that the scope for these education investments to generate higher personal rewards for individuals whilst at the same time making a contribution to innovations and ideas that will be essential for the future economy. On the one hand, this would be good for growth and national prosperity, and on the other, for tempering inequality whilst advancing social mobility at the same time.

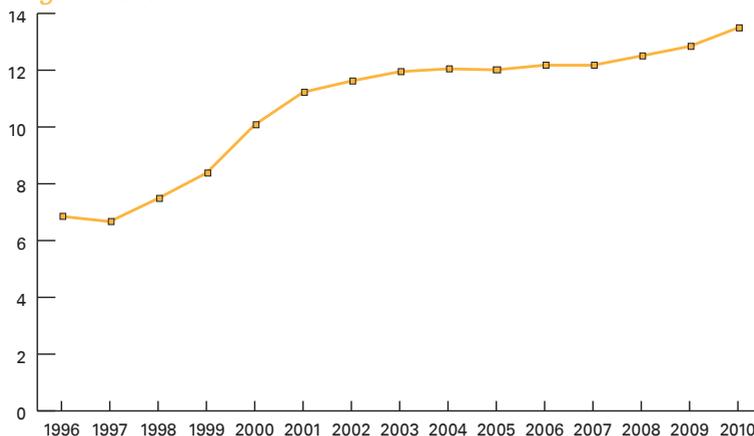
26 'The Quest For More and More Education: Implications for Social Mobility'

Figure 2: Employment shares of all graduates and postgraduates



Source: Labour Force Surveys. Employment shares are defined for people in work with 0 to 39 years of potential experience and aged 26 to 60.

Figure 3: Trends in postgraduate/first degree only percent wage differentials



Source: Labour Force Surveys. For full time workers with 0 to 39 years of potential experience and aged 26 to 60. Percent weekly wage differentials calculated from regressions that control for: gender, experience, experience squared, London and white. J Lindley and S Machin, 'Rising Wage Inequality and Postgraduate Education', Centre for Economic Performance Discussion Paper 984, 2011.

Table 1: What are the skills and job tasks implying postgraduates are more in demand than first degree only graduates?

Skill/job task	Postgraduates	College only
Cognitive skills		
Literacy	4.067	3.763
Simple numeracy (basic arithmetic)	3.606	3.583
Advanced numeracy (maths and statistics)	3.004	2.715
Problem solving skills		
Thinking of solutions to problems	4.311	4.277
Analysing complex problems	4.179	3.880
People skills		
Making speeches/presentations	3.658	3.148
Teaching people	4.023	3.843
Dealing with people	4.658	4.684
Firm specific skills		
Knowledge of products/services	3.817	3.831
Specialist knowledge or understanding	4.704	4.548
Computer usage		
Using a computer or computerised equipment	4.607	4.384
Proportion that do not use a computer	0.019	0.045
Simple (general purpose) computer users	0.074	0.109
Moderate computer users	0.428	0.486
Complex computer users	0.479	0.361
Routineness of job		
Performing short repetitive tasks	2.689	2.890
Variety in job	4.315	4.195
Sample size	257	1095

Source: 2006 Skills Survey. Most of the numbers in the table (with the exception of the proportions using computers) are based on a scale of 1-5 (5 being highest) from questions on task performance asking 'How important is this task in your current job?', with 1 denoting 'not at all important', 2 'not very important', 3 'fairly important', 4 'very important' and 5 'essential'.

: 3 - Voice of the student

Rachel Wenstone, Vice President (Higher Education), NUS and Adam Wright, Research and Policy Officer, NUS

So you've just finished your undergraduate degree, got a first, and a student loan debt of £40,000. What are your prospects? Well, the job market isn't looking too good at the moment. One in five graduates unemployed. Most having to take any old job they can find, with many having to take on internships to gain experience.

This is the dilemma that many graduates will be facing when they graduate, which is why postgraduate study is increasingly becoming a desirable option. An extra year's study for a master's is likely to greatly improve your employability. Those with master's tend to have higher starting salaries and earn more during their working lives than those with just a bachelor's degree.²⁷

This calculates into higher earnings and lower unemployment which will stimulate economic growth and increase public revenue streams and lower welfare costs for government. It also means that our communities are filled with highly educated, rounded citizens, with the social capital to be active and engaged.

Most graduates are reasonably aware of the benefits of a postgraduate degree, both individual and for the country as a whole. The problem is that so many top graduates are denied this possibility purely because they cannot find the money to pay tuition fees upfront.

The average tuition fee for a postgraduate taught course in 2011/12 was £6,184, up almost 25% from £4,989 the previous year.²⁸ With around one in three households holding less than £250 of accessible savings, it is not surprising to find that most students have no

27 'The Returns to Higher Education Qualifications'

28 L Lightfoot, 'Postgraduate students face funding gap', The Guardian, 6 March 2013, available from: <http://www.guardian.co.uk/education/2013/mar/07/postgraduate-students-face-funding-gap>

access to the finance they need to pay for fees.²⁹

It is a travesty that in 2013, our highest tier of education remains inaccessible on the basis of finance alone. As a country, we will never be able to tackle inequality and social mobility whilst access to postgraduate study is based on the ability to pay and not the ability to learn.

Of course, we mustn't forget that master's courses are not just for recent graduates. They are also a perfect way for people who wish to change their careers or develop their skills as part of their career plans. These prospective students will often study part time, but the current figures have shown a huge fall in part time recruitment at postgraduate taught level. Evidently, in an unpleasant and insecure financial climate, the cost of leaving full time work to re-enter education is proving a major barrier. People are tightening their belts and eating into savings as the cost of living continues to rise and wages stagnate. Employers are also seldom willing to put money up for their employees to upskill by obtaining a higher qualification.

Put simply, lifelong learning is becoming a thing of the past, and mainly because government have neglected to put in place a funding system that provides access to part time postgraduate study. Ultimately this will cost the country greatly as our workforce will be unable to retrain to become more flexible and highly skilled to develop a sustainable and prosperous future for our economy and society.

Of course, even if a student can scrape together the money for tuition fees, securing a basic income to live on can be just as much of a struggle. The NUS Pound in Your Pocket research revealed that 60% of postgraduates received no funding and 87% of this group were studying for a PGT degree.³⁰

Those without funding were far more likely to worry about their financial situation. Over half of self funded postgraduates worried regularly about meeting their basic living expenses such as rent and utility bills, more than twice as many as those with full funding. Self funded students were also around twice as likely as fully funded students to find their financial worries were affecting their ability to

29 First Direct, '6 million UK households could not survive until the weekend on savings according to First Direct', 9 January 2012, available from: http://www.newsroom.firstdirect.com/press/release/6_million_uk_households_could

30 NUS, 'Understanding the Impact: A Review of Impact and Effectiveness of Student Financial Support in English Further and Higher Education', 2012, available from: <http://www.poundinyourpocket.org.uk/downloads/PIYP-Survey-Report.pdf>

concentrate on their studies. Many of these students claimed they had considered leaving their course for financial reasons.³¹

The government have recently suggested improving the Professional and Career Development Loans (PCDLs) available from commercial banks as a way to improve access to finance. Yet most students who have applied for PCDLs have done so as a last resort, because there is simply no other choice of finance available. Their experiences have often been highly negative. More than half of those taking out PCDLs are left with severe concerns about their future levels of debt, and over three quarters had at least some increased concern. Considering the fact that the loans are not income contingent and must be paid off over a maximum of five years, at an interest rate higher than most personal loans, anyone can see why this might leave students in a nervous state. In fact, the terms of PCDLs are so unfair on students, that the popular advice website MoneySavingExpert.com encourages students with PCDLs to pay them off after leaving study by taking out a personal loan.³²

It's hard to see how government can compel banks to improve PCDLs. Currently, only two banks offer the loans, and they are lending fewer and fewer of them each year. Looking to the private sector for finance is only going to increase the amount of money students have to pay back in interest, and that money is being used for nothing other than to increase the profits of the banks.

So what is the student experience?

Well for thousands of people every year, there isn't a student experience, because they have failed to find the funding to take on postgraduate study. We are wasting so much talent by denying access to education. Not to mention the damage this is doing to our society in terms of raising aspirations and creating equal opportunity. It is so sad to have seen successive governments fail to tackle the financial barriers in postgraduate education. You increasingly have to be either extremely rich, extremely lucky, or an extreme gambler, willing to take on dangerous levels of debt, to take a master's in this country.

And for those who do make it into the lecture halls, a majority experience crippling financial worries – as the case studies below illustrate. Some will fail to complete their course because of

31 NUS, 'Pound in Your Pocket Briefing – Postgraduates: Funded vs Self-funded', 2013, available from: <http://www.nusconnect.org.uk/news/article/38530/Pound-in-Your-Pocket-Briefing-Postgraduates-funded-vs-self-funded>

32 See www.moneysavingexpert.com/students/career-development-loans#savings

financial troubles. Others will be forced to take on high risk debt from overdrafts, credit cards and payday lenders just to put food on the table. Most of those with PCDLs will graduate knowing that in a month's time, they will have to find the first repayment of their loan, regardless of whether they've found work.

Case studies

Rob, MA Continental Philosophy (funded by PCDL)

After finishing my undergraduate studies I decided that I wanted to continue in further education in order to advance my career prospects. Unfortunately funding became an issue. I decided to investigate a Professional and Career Development Loan, which sounded great, I was informed of a potential payment break and automatically accepted with minimal checks. I decided to go for it and pursue postgraduate education.

I took out a five year loan and I pay roughly £180 back a month or £42 pounds a week. The loan was for £8,000 and after the repayments are up I will have paid the bank over £12,000.

The finance was secured through a bank but the loan agreement was made through the Career Development Loan Company. The result of this is that my bank take payments for the money borrowed monthly but are unable to offer any administrative assistance with the finance. I was made unemployed in 2011 and after contacting the bank regarding reducing my payments until I found work I was told that the bank could offer no assistance as all agreements are outside their control. The only help offered was to talk me through bankruptcy procedures.

The result of the loan has been that I have been tied down with inflexible monthly payments since graduating, with no clear avenue for any assistance. The financial burden has made it impossible for me to move to London to pursue work as I would have liked as the wages I could expect to earn would not cover my outgoings. Due to this I consider the further education I pursued to have been of detriment to my career prospects rather than an asset. I continue to advise others against taking the same avenue for funding of their own postgraduate education.

Mark, MA Communication Design

I did not receive any funding. I tried [to obtain a PCDL] but was declined on credit score analysis! I do not know of any PG student who has been approved.

It was and still is difficult to meet funding. I have an arrangement to pay [my tuition fees] monthly by direct debit. It has and remains to be very hard to manage finances.

My well being and ability to study is under constant threat of worry about meeting financial obligations. My family has supported me but they also have suffered. My teenage boys consider my study to be selfish and stupid at my age (51). To clarify it has been very difficult to remain effective with studies.

Arianna, MSc Comparative Social Policy

When I learnt I had been accepted by the University of Oxford to attend their MSc in Comparative Social Policy, I was absolutely enthusiastic. I was however not able to secure any of the few scholarships made available by the university for taught master's students, as these fall way short of demand. I was lucky enough to have been in a relatively well paid, full time job for the previous year which meant that I had been able to save up enough money to pay for the tuition fees for my course – which amounted to around £9,000.

But that was all my savings basically gone. And before I was even able to take up my place, I was also asked by the university to provide financial proof that I had enough funds available in my bank account to cover all living costs – estimated by the university as a much higher figure than what any student would normally live on when an undergraduate. At this point, I had to ask my parents and relatives to lend me money to cover the shortfall. This was a very stressful process, getting the money together wasn't easy, and I was only able to rely on this option due to my very lucky family situation.

I have been trying all year long to live on as little as possible, living in the cheapest accommodation I could find and working part time to try and pay my parents back as quickly as possible. Even if it's been difficult, I know that I am still incredibly privileged as I have been able to avoid incurring

in any commercial debt to fund my postgraduate studies. I think this is exactly where the problem lies: the ability to do a master's should not be determined by how privileged your family situation is, ever.

Melanie, Graduate Diploma in Law

From being at sixth form I had always planned to do postgraduate study in order to 'get ahead' in the jobs market. I knew my family wouldn't be able to pay for it and I didn't want to get a bank loan, and so I chose to study at the University of Manchester because I knew I would be eligible for one of their scholarships. I eventually got 3 As at A-level and, being from a low income family, was eligible for the Manchester advantage scholarship which provided me with £5,000 a year throughout my £3,000 a year degree.

I am from Bolton and always wanted to move away to university, but couldn't really turn down the opportunity of the £15,000 that would fund my postgraduate study even if it did mean studying half an hour away from where I live. Instead of using my bursary while at university (to help pay for rent, books, travel), I saved the majority of it in an ISA to pay for my course.

I am now studying the Graduate Diploma in Law (GDL) at the College of Law and have to study this part time so I can work alongside it in order to fund my London living costs. I work three days a week, attend lectures and workshops on two evenings and study for two days at home. I am quite lucky: most people on my course work full time and study on the weekends.

My dream job is to be a solicitor for the Crown Prosecution Service but they only accept training contract applications from those who already have the Legal Practice Course (LPC). This would cost another £12,000 on top of what I have already paid for my GDL. I can't afford to do this again!

I was fully supportive of the campaign against the hike in fees to £9,000, but these fees were already commonplace in postgraduate study and without any assistance from Student Finance England. Sometimes it feels like postgraduate students' needs are ignored!

■ 4 - Voice of the employer

David Cairncross, Senior Policy Adviser, Confederation of British Industry (CBI)

There is general consensus that higher level skill shortages of various kinds are a serious problem for business in the UK and are likely to worsen: this is particularly true of STEM skills, notably engineering. But very little evidence is available on the respective impact of these shortages across undergraduate and different levels of postgraduate qualification, notably PGT and PGR.

Research Councils UK and the funding councils have commissioned research into the impact that doctoral graduates have in their workplaces, and Universities UK are also commissioning research into employer engagement with postgraduate taught provision, following a recommendation from the Wilson Review.³³ This should go some way to clarifying the picture but much more evidence is needed.

The 2010 Postgraduate Review chaired by Professor Adrian Smith, on which the CBI was represented, concluded: “A more coherent approach to understanding and communicating employer skills needs, and providing prospective students with more comprehensive information on courses and employment outcomes could reduce the incidence of...market failures.”³⁴

The review also referred to “evidence from industry suggesting that employers were finding it difficult to recruit postgraduates with the specific skills they needed” – and as the Wilson Review put it: “It would help HEIs to respond more effectively if better information were available about employer demand for postgraduate skills... The information available to customers also needs to be made more accessible – enabling prospective students to make more informed choices”. It recommended that “[universities] should

33 T Wilson, ‘A Review of Business-University Collaboration’, 2012

34 ‘One Step Beyond’, p 11

work closely with vitae, employers and other stakeholders to provide better information, advice and guidance on career choices for postgraduate research students.”

Even where specific subject shortages can be identified at graduate or postgraduate level, the most important concern for employers is around more general employability skills, including problem solving and the ability to work as part of a team and manage time effectively. Recruits with postgraduate education may be more likely than others to have these skills, but an index which is more popular with employers is relevant work experience, such as an industrial placement or internship: this is a key factor for two thirds of graduate recruiters, and an increasing number of firms are now offering these opportunities to students.

There are also signs of a widening of the market for postgraduate education, away from traditional routes, as is also apparent in undergraduate education. In December, skills minister Matthew Hancock announced amendments to Specification for Apprenticeship Standards for England (SASE) regulations which will permit higher apprenticeships to continue up to master’s level. But to some extent this announcement lags behind the development of courses on the ground. For example, as a product of the higher apprenticeships fund, some sectors have already come together to design master’s level apprenticeships, such as the Professional Services Sector Higher Apprenticeship, led by PwC.

Many employers also offer in house routes to postgraduate qualification in collaboration with university partners, such as Jaguar Land Rover’s Technical Accreditation Scheme, developed in collaboration with university partners, enabling employees to work towards master’s level qualifications by a series of business relevant modules. Rolls-Royce has partnered with Warwick University to offer school leavers four and a half year training contracts that include funded study to master’s level. At doctoral level GlaxoSmithKline, which currently supports over 250 PhD students at UK universities, has recently introduced an in house industry based doctoral training programme in collaboration with the University of Strathclyde.

Another apparent trend is for employers to give preference to their own internal training programmes for graduate – or postgraduate – recruits, sometimes provided by an external commercial training provider, rather than academically accredited postgraduate education.

Within the university system, engineering doctorates (DEng) and other doctoral training programmes that include exposure to industrial research, design and technology are particularly appreciated by business. In many ways it provides an opportunity for UK businesses and universities to apply the lessons embodied in the recent Dutch report on the German innovation ecosystem, *Vasthoudend Innoveren*:

“There is an especially good relationship between industry and universities in the field of PhD programs. Most engineers and almost all chemical students earn their PhD title, often on projects which have been proposed and financed by industry. Thus people who have earned their doctorate degree have obtained broad experience in project management and project research and are therefore directly employable in industry.”³⁵

The Knowledge Transfer Partnership (KTP) programme is an exceptionally effective way of simultaneously addressing a strategic business challenge within the company concerned and equipping the KTP associate – who frequently has master’s or doctoral level qualifications – with valuable in depth understanding of business requirements. Nearly three quarters of participating KTP associates are offered employment by the host business on completion of the KTP project and all of them benefit from an opportunity to develop their careers and employability.

The CBI has launched a project this year on skills for growth sectors which will focus on higher skill levels in sectors like manufacturing, engineering, IT and research. It will look at sustainable paths to higher skills on STEM for a larger number of people, and the changes needed to deliver it. As the UK economy becomes increasingly knowledge based it is crucial that we develop better understanding of what is and what is not needed in postgraduate provision.

35 T Nijhuis, ‘Adviesraad voor het Wetenschaps en Technologiebeleid’, Duitsland Instituut, 2012.

: 5 - Voice of academia

In this chapter, Professor Nigel Vincent of the British Academy and Dr Wendy Piatt of the Russell Group explain why a postgraduate funding settlement is crucial to securing the future of academic research in the UK.

Between PGT and PGR: Doctoral programmes at home and abroad - British Academy

Professor Nigel Vincent FBA, Vice President for Research and Higher Education Policy, British Academy

Current conversations around postgraduate education and its funding are too often distorted by an overly simplistic reliance on the traditional dichotomy between PGT and PGR. There are of course many types of postgraduate programme for which the label PGT is appropriate, as described and discussed elsewhere in this report. These are typically one year full time courses, or the part time equivalent delivered over two or three years, and they serve either to provide advanced specialist knowledge, ancillary skills or 'conversion' to a new field. For many who undertake these courses the aim is to enhance their attractiveness in the job market and they have little or no intention to go on to further study.

Conventionally contrasted with students on taught courses are those who undertake an extended period of original research leading to a doctorate (PhD, DPhil or equivalent), often, though not always, with the aim of going on to an academic position of one kind or another. What however must not be ignored is that even PGR programmes involve a significant proportion of teaching, and that such teaching is not always delivered in separate classes or seminars from those whose intention is not to continue to research.

In this connection then there are three significant conclusions to be drawn:

- In the modern context a taught component within a doctoral programme is essential if it is to deliver people with the relevant knowledge and skills, whether inside or outside academia.
- This necessity is recognised and provided for within the best doctoral programmes all around the world.
- Current UK funding models, particularly in the humanities and social sciences, do not respond to this need, with the consequent risk that we lose competitiveness at home and abroad. Those trained overseas take the available jobs in the UK while those trained in the UK are not in a position to compete overseas.

Let me expand on each of these points in turn.

The taught component of a doctoral programme may constitute a freestanding master's year leading to the award of an MA, MSc or MRes, or it may be rolled into the composite offerings of a four year Centre for Doctoral Training. Either way, the course will offer material that is a necessary preliminary to or companion of doctoral research, including research skills (fieldwork, digital, laboratory or archive oriented as appropriate), ethics, plus additional specialist subject content. It also typically includes a short dissertation which can serve as a pilot study for a larger, doctoral scale, project. In the extreme case of economics these preparatory skills and techniques are so central to an individual's future success in the field that instead of the conventional split into one year of taught work plus three for research (so called one plus three) it has now become standard in major centres both in the UK and the USA to follow a so called two plus two route. Whatever the precise structure and content of these programmes, one thing is clear: immediate passage from a bachelor's to a three year, dissertation only doctoral period is a thing of the past.

The need for this kind of preparation for a doctoral research constitutes what we can call the 'internal' justification for a four year period of study. It is balanced and supported by the 'external' evidence which can be derived through comparison with what is found in all the best institutions and programmes around the world. The norm in continental Europe is five years since there a master's – what in Bologna terminology is called the second cycle – is the necessary prerequisite to doctoral research and standardly lasts for two years.

Similarly, in the US doctoral students usually follow either a master's or some other form of qualifying study for at least two years before embarking on the dissertation. Similar or even longer periods are required at leading Asian institutions such as the National University of Singapore, the University of Tokyo and the University of Hong Kong. An instructive lesson in this connection is provided by the Engineering and Physical Sciences Research Council (EPSRC), which in 2010 commissioned a review of the state of the mathematical sciences in the UK. The subsequent report was in general complimentary about the quality of mathematics research in this country. Its one reservation was that the typical UK PhD programme did not last long enough and provide enough in the way of the advanced teaching that was deemed to be necessary for international excellence. In short, in world terms, four years of postgraduate work before the conferment of the title of doctor is the absolute minimum, and the funding and scholarship models of our competitor countries are constructed accordingly.

In this context, if research councils and other funders do not provide support for the initial phase of a postgraduate research programme, it opens up a funding gap precisely at the crucial transition point from undergraduate to postgraduate. Potentially excellent doctoral students are thus faced with a stark choice either to fund themselves for the crucial transitional year or not to embark on a research oriented programme in the first place.

Alternatively, institutions have to step in and divert funds received for other purposes to provide scholarships to cover the missing year. None of these solutions is satisfactory, and none are the routes that are followed by our best competitors or indeed by the best systems operative in other disciplines outside the humanities and social sciences. And yet it is precisely in these fields where the numbers of potential students are quite small, where doctoral and master's students have to come together in shared courses, where there is not the financial flexibility to deliver generous scholarship programme and yet where there is a long and deserved tradition of UK academic excellence. The dangers then are:

- ⋮ That the crucial master's year will wither away in some of our small and specialised fields, particularly in the humanities and social sciences, and that in consequence UK graduate education in those areas will fall off the international pace.
- ⋮ That the master's year will be retained but the places on it will be taken by fully funded international students, with a

consequent impairment of the UK's ability to develop its own future generations of academic talent.

- That the programmes continue to recruit home students but only from those who feel able to take on the necessary additional burden of debt. This outcome has self evident adverse consequences for widening participation, an agenda which it is as important to pursue at the postgraduate level as it is at the undergraduate level.

In short, recent moves towards an integrated taught and research programme are very much to be applauded. However, such developments challenge the simplistic distinction between PGT and PGR which characterises current conversations about funding at the postgraduate level. Integrated programmes require integrated support for the students on them. Anything less threatens to undermine the UK's position within the increasingly competitive world of postgraduate research.

Don't forget PGR funding – Russell Group

Dr Wendy Piatt, Director General, Russell Group

In the debate about how to make sure postgraduate education is properly supported it is easy to focus on postgraduate taught students who make up a far greater proportion of the UK's postgraduates. However, policymakers would be making a grave mistake if they disregarded the often distinct needs of postgraduate research students.

The 24 Russell Group universities are especially concerned about postgraduate research because they are the major providers of research degrees and account for 54% of all postgraduate research students in the UK. But postgraduate research students should be of concern to everybody. They are vital to the UK economy, to driving growth and innovation and tackling major business challenges. The UK's ability to provide enough people skilled to this high level is an important factor in attracting global investors to locate high value businesses here.

Some postgraduate research students set up their own companies as a result of their successful research projects, whilst others are in high demand from research and development-intensive companies and public sector organisations. They also contribute to wider cultural and social benefits through their essential contribution to UK research. But whilst overall postgraduate numbers have

increased steadily in recent years, the vast majority of this growth has been on taught programmes, not amongst postgraduate research students. Between 2007 and 2011, the total number of postgraduate taught students in the UK grew by nearly 52,000 while the number of postgraduate research students grew by only 15,500.

The UK has an international reputation for high quality postgraduate education, and is an attractive destination for European and overseas research students. Our leading universities are competing for postgraduate students in a global marketplace. Russell Group universities are already hugely successful in attracting talented researchers from around the world. The proportion of staff who are not from the UK stands at 33% compared to 19% in other UK universities. More than 40% of students on postgraduate research degrees within the Russell Group now come from outside the UK.

Whilst we certainly celebrate the fact the UK is so attractive to international students, we also need to remain appealing to the best home students interested in postgraduate research. There is clearly a danger that many of the best and most committed home students will choose an institution outside the UK where financial support is more readily available. So what can we do to encourage them to stay?

Current funding for postgraduate researchers comes from a diverse range of sources. For postgraduate research provision, public funding is essential within the overall funding landscape. The UK research councils invest more than £350 million a year in funding postgraduate researchers and support more than 30,000 researchers at any one time.

Block grants are allocated by research councils to universities, which are then responsible for selecting which students receive funding. A recent and welcome development has been the introduction by several research councils of the Centre for Doctoral Training model which has enabled universities to do more to integrate advanced teaching and research, provide opportunities to work across disciplinary boundaries, and promote collaboration between institutions.

The government must continue to support postgraduate research students through research council (and HEFCE) funding. To maximise the UK's position in the global market, public investment should be directed towards those institutions which can deliver excellent research degree provision and ensure the next generation of researchers receive world class training and support.

But even within the Russell Group less than a quarter of postgraduate researchers receive research council or British Academy funding. We would like to see government funding for postgraduate research students increased but we are not just relying on that. Our universities put a huge amount of effort into fundraising to help support postgraduate students, and they currently grant fee waivers or other discretionary awards to about one in six of their postgraduate research students.

Universities want to increase the availability of bursaries and scholarships for both home and international research students, through fundraising from alumni, businesses and charities. The government could support their efforts to raise funds for postgraduate scholarships through philanthropy and business contributions, through, for example, match funding or additional tax incentives.

Student loans for postgraduate students could remove some of the barriers to participation, particularly for students from disadvantaged backgrounds. But the postgraduate sector is diverse so a 'one size fits all' approach to student finance is unlikely to be appropriate or effective. Research students, who will usually be embarking on several years of postgraduate study, may well be reluctant to take on the sizeable loans required to cover the full costs of their course. Moreover, a loan to support a PhD student for three years would almost certainly be perceived as a riskier investment for the loan provider than the smaller loan required by a one year master's student. For postgraduate research students, therefore, a loan scheme could only ever be part of the funding solution, alongside publicly funded grants, institutional scholarships, and support from employers and others.

All these measures will help but more is needed to protect the UK's international competitiveness in attracting internationally mobile research students. The UK still does not do as much as it could to enable and encourage PhD students to remain and work in the UK once they have achieved their qualification.

Future policies relating to the funding of postgraduates must fully consider the particular needs of students on research degrees, as well as those on master's and other taught degree programmes. One clear priority is to maintain and, if possible, widen access to postgraduate study for home students. Equally important for the UK, however, is to strengthen its ability to compete internationally for the best postgraduate students.

: 6 - The case for postgraduate loans

This chapter builds upon the undergraduate style loan models previously put forward by CentreForum and NUS. We believe the case for offering such loans is strong. It will support economic growth by increasing the number of graduates with PGT level qualifications. It will support social mobility by widening access to students from poorer backgrounds. It will be cost neutral and, as we explain below, it can be piloted within existing budgets.

CentreForum

(A more detailed explanation of the Tim Leunig loans model can be found in the CentreForum report ‘Mastering postgraduate funding’, published in October 2011.)

Loans for PGT students can either be income contingent, or conventional, but income contingent loans are much to be preferred. They offer students the assurance that if life does not pan out as they hope, no repayment will be required. Providing loans in this way is potentially costly to the taxpayer, but the extent of this cost is mitigated by charging a positive real rate of interest to students who go on to get more highly paid work.

From the point of view of the taxpayer it makes little sense for PGT students to take out an additional year’s debt on the undergraduate terms. Many students would not repay all of their undergraduate debt, and as a result would not pay back any of their postgraduate debt, since the loans would be paid back sequentially. There are, therefore, two choices. Either the two loans are paid back simultaneously, by raising the percentage of income that is taken at source, or the graduate loan is repaid from a different slice of income. There are good reasons to oppose simultaneity. In particular, it would imply an extremely high marginal rate on students: 20% income tax, 12% national insurance, 9% undergraduate loan repayments, and an additional percentage on top for the postgraduate loan

repayment. The repayments would be even higher for higher rate taxpayers, and would be well over 50% in total. In addition, having two deduction rates makes life more complicated for HMRC and employers.

For that reason, Tim Leunig at CentreForum proposed that income contingent loans of £10,000 should be offered to students with good first degrees (2:1 or above), but with repayments due on incomes above £15,000, rather than on incomes above £21,000. The repayment rate would continue to be 9%. At its simplest, any students with a PGT loan and earning over 21,000 would repay £540 a year until they had repaid the full £10,000. Clearly there would be students who fail to earn more than 21,000, despite having a PGT qualification, but this number is likely to be low. It is for that reason that Leunig argued the cost to taxpayers was likely to be in the hundreds of pounds per loan, rather than anything more.

It is overwhelmingly likely that the students will pay more in other taxes as a result of taking a master's degree, and enhancing their earnings prospects. We would therefore expect government to receive a net gain from increasing numbers. Given the extremely low rates of interest that currently prevail, it is difficult to imagine any scenario in which government would lose money by introducing this policy.

Then again, if government was reluctant to finance a loans scheme through additional borrowing, it could always find savings from existing higher education expenditure. We have calculated, for example, that phasing out maintenance loan support for undergraduates from more affluent households could raise around £75 million a year.³⁶ This money could be reinvested in a loans scheme for postgraduates.

Political difficulties aside, the problem with reallocating existing resource in this way is that it would necessitate a cap on numbers and tighter eligibility criteria than simply 'anyone with a 2:1 or above'. One option would be to focus on PGT courses which serve some kind of 'public good', or where there is a market failure. Yet

36 Parliamentary question from Lord Willis of Knaresborough (26 April 2011: Hansard Column WA66) available from: www.publications.parliament.uk/pa/ld201011/ldhansrd/text/110426w0002.htm The government has estimated that 30% of maintenance loan applicants have household income above £60,000 at a cost of £450 million over the current spending review period. 10% have household income above £80,000 at cost of £150 million, and around 1% have income above £100,000. We can estimate from these figures that around £300 million could be saved from halving maintenance loan support for households in the £60,000 to £80,000 bracket and withdrawing it completely from households with income above £80,000. That equates to £75 million a year which could be reinvested in a loans scheme for postgraduates.

such criteria would fail to tackle any social mobility barriers which exist in courses that do not qualify, not to mention the considerable problems inherent in 'picking winners'. Eligibility could be restricted to those with exceptional talent, but such individuals are those most likely to qualify for either research council funding or support from respective universities anyway.

That leaves socioeconomic qualifiers. The government could target a loans scheme at those who were assessed to be in need of support for their undergraduate degree. In 2010 just over a third of all undergraduates were in receipt of full state maintenance grant support, and nearly half were in receipt of some form of additional support.³⁷ As a starting point, loans might only be made available to these groups.

However, only one in five postgraduate students undertake their course immediately after university. The typical postgraduate student is over 25 and studying part time. It is thus likely that most of those entitled would have had the opportunity to earn money towards a postgraduate taught course already. And this criteria alone would not help those with parents who are no longer able to support them, or whose circumstances have changed.

Qualification based on undergraduate support, therefore, could be time limited, expiring two years after graduating. At the same time, additional criteria could be introduced for those who choose to undertake a PGT course later on. There are a number of qualifiers that could be used. Housing benefit, for example, is only available to those who are not studying, have a low income, have limited savings and are not living with a close relative. And it should be relatively easy to assess eligibility with the introduction of universal credit.

These dual sets of criteria would disqualify those who may otherwise be able to afford a PGT course straight after graduating, and promote social mobility among those who hold a degree but cannot afford the upfront costs later on. The qualifier based on degree achieved – 2:1 or above – could still remain.

Finally, to ensure greater gains for the Treasury, the government could look at recouping costs from those who benefit most from the scheme. Additional rate taxpayers, for example, could accrue higher interest rates on their loans, given the propensity for

37 Office for Fair Access, 'Access agreement and widening participation strategic assessment monitoring: Outcomes for 2010-11', 2012, available from: www.offa.org.uk/wp-content/uploads/2012/07/2012-05+2012-13-OFFA+HEFCE-Access-Agreement-outcomes-web.pdf

PGT courses to increase future earnings. All of this would allow government to pilot the loans model without prejudicing planned reductions in short term government spending. However, when compared to a less restricted system of PGT loans, a pilot scheme would ultimately hinder UK competitiveness, suppress growth and reduce income for the government.

Funding a loans scheme through additional government borrowing is therefore our preferred option. It is also the route favoured by NUS.

NUS

Adam Wright, Research and Policy Officer, NUS

In Chapter 3, NUS set out the experience of students who wish to enter, or have already entered postgraduate funding. For many, that experience was one of financial hardship or complete denial of access for financial reasons.

It is true that the funding crisis in postgraduate education has boiled over at a difficult economic time for the country and for the government. It is widely understood that public spending has to be carefully managed and that there is no pot of gold in the Treasury to delve into.

But government cannot stand by idly and wait for a miracle to happen in the private sector. The private sector may see the merit in investing in education, but in a recession, banks and businesses are unable to free up capital to do so. We cannot expect private investment without government intervention. Ultimately, if government is interested in the country's economic future, it needs to build new partnerships to invest in the top end skills that postgraduate study offers; and it needs to do it sooner rather than later.

In November 2012, NUS published proposals for a postgraduate loan system that would be cost neutral to government, and cheap and easy to implement.³⁸ The system we proposed was a combination of three streams of student loans. The point of having three different streams is that a postgraduate funding system must reflect the diversity of student needs.

38 NUS, 'Steps toward a fairer system of postgraduate taught funding in England', 2012

We identified three main ‘segments’ in taught postgraduate provision: access to the professions, part time professional development, and the ‘traditional’ segment. Each segment needs a funding model that reflects the requirements of students and relevant stakeholders such as employers.

Access to the professions

The access to the professions segment is made up of individuals hoping to progress into a specific professional career, such as law, journalism and accountancy, among others. Hitherto, access to such professional careers has been rather exclusive, and individuals from low socioeconomic backgrounds and cultural and ethnic minority groups tend to be underrepresented.

We are suggesting that professional bodies work in partnership with government to provide income contingent loans to individuals who demonstrate the aptitude and the ambition for a particular profession. The scheme would be aimed in particular at graduates from disadvantaged backgrounds. Eligibility would likely be limited to individuals that received, or would have received, the full maintenance grant at undergraduate level.

Government could facilitate this scheme in a number of ways. Ideally, if enough professional bodies are willing to get involved, government could simply underwrite loans that are funded by these bodies. In reality, government may initially need to put up some of the capital for the loans. We hope, however, that the scheme could expand through seeking philanthropic investment from the private sector.

Part time professional development

The part time professional development segment is aimed at individuals looking to develop their skills to improve their employability and support their career paths. Around half of postgraduates study part time, but this number is falling mainly because the costs of financing a part time degree are becoming difficult to manage and are often seen as outweighing the overall benefits of study.

There are huge benefits of study for professional development to employers and we hope that with support from government, a system can be created where employers can co-fund student loans for their employees.

As with the access to professions segment, there are several ways in which government and employers could partner this scheme. We suggest that a cost effective approach would be for employers to pay a cash fee to government to cover a portion of the loan. This would help to offset the cost to government for administering the loans and remove the risk of government incurring a Resource Accounting and Budgeting (RAB) charge through loan write offs.³⁹

We believe the loan model will prove particularly efficient for smaller businesses, as they would be able to back several employees for the same cost of paying the course fees of just one employee.

The 'traditional' segment

By traditional, we are simply referring to the collective group of graduates who have a desire to study a master's degree, whether full time or part time, and who do not fall into either of the other segments and are not studying courses that already attract specific financial support, such as in teaching or healthcare.

The traditional master's student would benefit from an income contingent loan that would provide the funds to cover the upfront course costs and perhaps also provide some surplus to cover living costs.

Our proposal is that government provide a restricted number of these loans through the existing student loans structures used for undergraduate degrees. We recommend that the loans are for a minimum of £6,000 and that institutions that wish to take students with such loans agree not to raise their course fees above £6,000.

Prospective students would apply for the loan in a similar way to an undergraduate loan, although to be eligible, students would need at least a 2:1 in their undergraduate degree.

Unlike the other loan schemes, this scheme would be financed wholly by government. However, by limiting the size and the number of loans available, and by using existing structures to implement them, the cost to government would be small. In fact, when NUS costed the scheme using the government's student loan repayment 'ready reckoner', the RAB charge on the loans could be reduced to zero by changing the repayment threshold to £15,000 instead of the current undergraduate loan threshold of £21,000.

39 The RAB charge represents the cost of loans that the government estimates will not be repaid.

The benefits

The benefits of the three schemes to students are obvious. The loans remove the main financial barrier to study by providing students with the ability to pay up front for their tuition fees. It provides greater financial security to students during their study, and prevents students accumulating unmanageable levels of debt.

Institutions will also benefit from the financial security of knowing that a bulk of students each year will have access to the funding needed to pay up-front for fees. Having their fee income relatively guaranteed, institutions can plan more effectively for the future.

For the part that employers and professional bodies play in financing the loans, they pose to benefit from a highly qualified and highly skilled workforce, which is likely to improve their productivity and drive innovation and growth.

Government stand to make their own financial benefit. For a scheme that is effectively cost neutral, they have been able to make a sizable investment in the human capital of the country's workforce. This will have major economic and social benefits. A more skilled workforce will not only increase productivity and stimulate economic growth, it will also increase average lifetime earnings, producing higher revenues in tax and national insurance for government in the mid and long term.

Considering the wide benefits of the scheme, as well as the minimal costs, there really isn't a practical reason why government could not implement it. What is plainly obvious to the majority of people working and studying in higher education is that should government refuse to act now, the consequences could be catastrophic for the sector, and would likely cost government and the country far more in the long run.

: 7 - What else can be done?

While CentreForum and NUS fully support the introduction of a government underwritten loans scheme for postgraduates, we do not consider it a panacea to the funding problem. More has to be done to widen access to postgraduate education, as the contributors in this penultimate chapter carefully observe.

Government talks, flexible learning and private finance

Joel Mullan, Senior Researcher, Policy Connect

The Higher Education Commission (HEC) inquiry into the future of postgraduate education concluded that there is a strong case for state backed student loans to be introduced for some segments of postgraduate provision. It identified clear market failures, whereby existing financial institutions were failing to provide competitive sources of finance. The commission's report makes clear that this situation is not sustainable if the UK is to maintain its reputation as the home of a world class university system.

We do not believe, however, that the government holds sole responsibility for finding solutions to the shortcomings in postgraduate student finance. Postgraduates are key to the financial and academic sustainability of the UK higher education system. Universities need to own their futures and think creatively about what they can do to improve the funding situation. Below, we make three suggestions:

Begin a dialogue with government

To date government has been hesitant to introduce a loan system, stressing that with additional money the Treasury would insist on additional conditions and controls. David Willetts told the House of Commons in January that "it would be a great pity if this open and

diverse sector found itself with a highly regulated loan scheme that constrained its growth.”⁴⁰

There is however a diversity of views about the form, scope and extent loan regulation would need to take. One would imagine, for example, that there would be less regulation required in a system constructed along the lines proposed by Professor Nicholas Barr, in which institutions and students take responsibility for loan RAB charges rather than the Treasury and taxpayer.⁴¹ To move the debate about government backed postgraduate loans forward university representative groups should enter into dialogue with the government about what form of regulation would be mutually acceptable.

Expand opportunities for part time study

Part time or flexible study, which allows students to combine study with full time work, is one way in which students can reduce the costs associated with postgraduate study. It is also a ‘safer’ option for those already in work – removing the risk of unemployment at the end of the study period.

This is already an attractive prospect for many students, with over 50% of current postgraduates studying flexibly. However, more needs to be done to develop flexible alternatives. Students participating in the HEC roundtables spoke of the difficulties of trying to find institutions offering the course they wanted on a flexible basis, whilst a number of academics expressed frustration with the slow progress their institutions were making in improving part time provision. The commission recommended that universities review their provision and consider whether their offer meets student demand for flexible and part time provision.

Explore alternative sources of finance

The commission’s report did not focus exclusively on state supported modes of finance. It set out a broader vision for a truly “mixed economy funding system, with diverse funding streams and sources of income”.⁴² Postgraduate education should be paid for by a combination of individual students, employers, universities and

40 House of Commons Debate ‘Access to postgraduate study’ (23 January 2013: Hansard Column 438) available from <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130123/debtext/130123-0004.htm>

41 N Barr and N Shephard, ‘Towards setting student numbers free’, LSE, December 2010, available from: http://econ.lse.ac.uk/staff/nb/Barr_Setting_numbers_free_101217.pdf

42 ‘Postgraduate Education: An Independent Inquiry’, pp 48-49

the government. It is unrealistic, and indeed unappealing, to expect government to provide all funding for all forms of postgraduate education.

There is therefore a need for universities, irrespective of the government's policy choices on state backed funding, to consider carefully what they can do collectively or as individual institutions to relieve the postgraduate finance problem. A number of contributors to the HEC inquiry suggested institutions should seek to make their own arrangements to provide postgraduate students with access to finance. One proposal, developed by commission member Jon Wakeford, envisages groups of universities, possibly based on mission group or geography, sourcing funds from the financial markets, with the cash raised from bond issuances being used as a facility for students to draw down loans. Participating institutions would need to offset the risk of non-repayment and would themselves be able to choose which courses to target loans on. In effect, institutions would be investing in their own future pipeline of postgraduate students.

Wakeford argues that universities should be an attractive prospect for investors looking for stable investment products, given the predictability of their revenue streams and the longevity of their business models.⁴³ Market precedents to date suggest university backed bonds would be able to secure investment grade ratings, and therefore provide a facility for student loans priced at rates below those currently offered commercially. The Russell Group has also set out a number of options for securing alternative sources of investment, which merit further consideration.⁴⁴

Such approaches would not come without shortcomings. Inevitably, there will be a cost to institutions in developing and administering such a scheme. There are also questions about equity, with some groups of universities finding it more difficult or expensive to raise funds from the bond markets. The success or otherwise of such an approach will ultimately come down to design and implementation. Private finance solutions must avoid simply duplicating the problems associated with the existing government backed system of PCDLs.

As the HEC itself concluded: "there is a role for private finance... however private finance alone will not be sufficient" Alternative

43 J Wakeford, 'Postgraduate Funding: UK HE Compact Bonds', 2012 (paper circulated to the Higher Education Commission)

44 Russell Group, 'Funding Higher Education in England: What are the Options?', Submission to the Independent Review of Higher Education Funding and Student Finance, 2010

finance may help fill some of the gaps, but a state backed system of some sort will also be needed if we are to reach a situation where no student is excluded from postgraduate education on the basis of ability to pay. For Britain to achieve its ambition to be “the leading knowledge based economy of the world” all the major beneficiaries of postgraduate education, including government, employers and universities, will need to invest in securing its future.

Endowments

*Conor Ryan, Director of Research and Communications,
Sutton Trust*

Sutton Trust research has highlighted the growing importance of postgraduate degrees in today’s labour market. Stephen Machin and Joanne Lindley have shown that 11% of 26-60 year-olds in the workforce now holds a postgraduate qualification, up from 4% in 1996.⁴⁵

They also showed that somebody with a master’s can on average expect to earn over £200,000 more over a 40 year working life than someone only holding a bachelor’s degree.⁴⁶ The Sutton Trust report highlighted how the recent growth in UK postgraduates, dominated by international students, poses a threat to social mobility.

This makes it all the more important that postgraduate courses are affordable to the brightest graduates, regardless of financial circumstances. Universities and government need to think imaginatively about how to fund them. Without action to enable bright students from all backgrounds to access postgraduate qualifications based on their ability rather than their ability to pay, this could become yet another barrier for those from low and middle income homes.

The Trust supports targeted government backed loans for postgraduates. But government remains concerned about affordability, given the growing cost of the current student loan scheme. One way to keep costs lower would be develop income related bursaries funded by universities through their alumni alongside means tested loans for postgraduates.

⁴⁵ ‘The postgraduate premium’

⁴⁶ This is a gross figure, so it does not allow for lost earnings, fee costs, extra taxes due or inflation, as some other analyses showing smaller premiums have done.

Funding today

Centreforum's research has shown that while there is some funding available through university bursaries, research councils and other sources, fewer than 4% of students on taught master's programmes receive sufficient funding to cover their fees in full. Most universities offer some partial bursaries, but these are often a fraction of the costs of fees and living costs, which can be £18,000 to £20,000 a year, depending on the course.⁴⁷ This is an expensive proposition for graduates with debts already set to exceed £40,000 from their undergraduate studies.

Endowments

In the US, many universities, including the Ivy Leagues, fund undergraduates from low and middle income homes fully through their endowment funds. Many also use their endowments to provide targeted support for postgraduates (as well as to develop new buildings and facilities, often their primary purpose in the UK.)

With a state regulated system of undergraduate fees and loans in the UK, and substantial mandated access funds linked to the new fees regime, there is a strong case for focusing a growing endowment pot on postgraduate studies and research. For this to happen, UK universities need to grow their endowments. Only Oxford and Cambridge currently have endowment funds comparable in size to the top 20 US universities, with the next largest, Edinburgh, significantly smaller at £248m.⁴⁸

The 2004 Thomas report led the Labour government to introduce a match funding scheme designed to stimulate greater fundraising by English universities from alumni, and the development of larger endowment funds.⁴⁹ That scheme, which ran from 2008 to 2011, had some success, as annual fundraising by UK universities rose from £513 million to £694 million.⁵⁰ The total rose to £774 million in 2011 to 2012, according to more recent research, although half of this extra funding went to Oxford and Cambridge.⁵¹

47 Cambridge suggests these figures for most courses at <http://www.admin.cam.ac.uk/students/studentregistry/fees/costs/coursecost/costs2013v9.pdf>. Taught course fees for home or European students at Sheffield and Newcastle universities are typically £5,000 to £6,000 a year, with research fees starting at around £4,000 a year, but often much higher depending on the course.

48 See Sutton Trust, 'University Fundraising – An Update', 2006, drawing on data from 'Caritas Higher Education Yearbook' data in the UK and the US 'Chronicle of Higher Education'.

49 DfES, 'Increased Voluntary Giving to Higher Education', 2004

50 HEFCE, 'Review of Philanthropy in UK Higher Education', 2012

51 A Harrison, 'Record philanthropic fundraising for UK universities', BBC News, 11 April 2013, available from: <http://www.bbc.co.uk/news/education-22091866>

But the potential is much greater. While US Ivy Leagues have always had large endowments, much American alumni fundraising is relatively new. Many government funded universities have only developed their funds in the last 50 years: for example, the University of Florida increased its annual donations from \$2 million in 1976 to produce an endowment fund now worth \$1.3 billion.⁵²

Only 1.2% of UK graduates donate to their universities regularly, compared with 9% of US alumni. A HEFCE report in 2012 proposed a target of 5% for the UK within the next ten years, with some universities achieving double digit rates, to put the UK onto the US track.⁵³

Explicitly linking some of those funds to support for postgraduates could make giving more attractive to some donors. Some universities already do this. Sheffield has Alumni Fund Scholarships, funded by donations from 1500 alumni each year, worth £2,000 each, and targeted at bright students who might not otherwise be able to study there.⁵⁴ However, such scholarships remain small scale: in 2013, they plan to provide them to 15 students, but only provided six in 2012.⁵⁵ Others with larger endowments say they are relatively generous. Oxford, with £3.7 billion in university and college endowment funds, says that 62% of its research students and 17% of its students on taught master's courses receive full scholarships covering fees and living expenses.⁵⁶

Building endowments into wider postgraduate funding

Such endowments may not cover all postgraduate costs, but they could make a significant contribution, when coupled with targeted student loans for those of modest means. Sheffield targets its scholarships to those who received maintenance grants as undergraduates. A similar approach more widely applied to those able enough to study as postgraduates would help ensure such support was well targeted where it was needed most.

Government may not want to cover the full cost of postgraduate studies and living costs, given the prevailing climate. While wealthier UK and overseas graduates may be able to turn to family

52 See 'Increased Voluntary Giving to Higher Education', p 25 and University of Florida website for latest data: <http://www.uff.ufl.edu/AboutUFF/Endowment.asp>

53 'Review of Philanthropy in UK Higher Education'

54 See University of Sheffield website: <http://www.shef.ac.uk/ssid/finance/alumni>

55 Information supplied by University of Sheffield. The University also uses alumni funding to provide £3,000 scholarships for undergraduates.

56 See University of Oxford website: <http://www.ox.ac.uk/feesandfunding/prospectivegrad/scholarships/> and http://www.ox.ac.uk/about_the_university/facts_and_figures

funds, those for whom a postgraduate degree is the final rung on the social mobility ladder are unlikely to have access to such resources. Such students should have access to more means tested bursaries, funded by universities through alumni fundraising. For that to happen, universities will need to improve their fundraising capacity. Government should make it easier for them to do so: the tax system needs to be simpler for large donations, and more pump priming should be available to enhance fundraising capacity.

Postgraduate studies are the next social mobility frontier. It is now widely accepted that we need to do more through nursery education, schools and undergraduate access to enable bright young people from low and middle income homes to fulfil their potential. They must not encounter a brick wall when it comes to postgraduate study. A new partnership between alumni, universities and government could help ensure they don't.

Pricing and competition, supportive rules and regulations

Andy Westwood, Chief Executive, GuildHE

There is little doubt that we have a problem in postgraduate policy. Demand is falling, particularly in the UK, with a 27% fall in part time study since 2010 and similar drops amongst full time postgraduate taught courses. 50 vice chancellors recently wrote to the Observer to raise this issue and to request intervention from the government to arrest this decline.⁵⁷ Indeed many universities have suggested that postgraduate taught numbers have been in decline for several years. Ministers have responded by asking for imaginative suggestions and are clear that they are open to considering anything.

Here's one for ministers and policymakers – don't do anything rash. This might sound bizarre given the decline in postgraduate numbers and the prospect that in a couple of years the first 'Browne graduates' may turn their noses up at years of further study and debt. But these are also reasons why we need to think carefully before we reach for immediate policy interventions. Better access to finance, whether through employers or through improved career development loans or more commercial arrangements for individuals, may help some but may not be a panacea for all of the problems in demand for postgraduate study.

57 D Boffey, 'University leaders protest at disastrous neglect of postgraduates', The Observer, 6 January 2013, available from: <http://www.guardian.co.uk/education/2013/jan/05/university-protest-disastrous-neglect-postgraduates>

My starting point is that considered in isolation there are many valuable aspects of the current regime that make postgraduate funding a pretty good system. It might be described as 'one country, two systems' with different undergraduate and postgraduate funding regimes (and with further differentiation between postgraduate taught and postgraduate research but with few looking to PGR as a problem with benefits from the science ringfence and HEFCE quality related funding). Of course it is also important to state that the government hasn't actually cut postgraduate funding. There are pressures, but given the additional support for PGT in Band C subjects, overall funding has slightly increased since 2010.

And unlike the undergraduate system, it still captures a philosophy of combining government and individual investment (and also institutional and employer support) in a pretty good balance. All beneficiaries have some kind of stake in the system. There should be a good reason to want to change that framework. David Willetts remains to be convinced that extending large government backed loans is the answer because the cost will inevitably bring extra regulation on numbers and increase financial pressures elsewhere in higher education.

Various loan models have been put forward including the CentreForum and NUS schemes set out in this report. But it must still be a concern that the availability of a loan facility might not fully address the fall in demand that we are currently experiencing. Look at loan funding for part time undergraduate courses, and particularly from older learners. There is a demand problem now even before current undergraduates liable for higher fees and longer term loans work their way through the pipeline.

We also know that there is significant and growing international competition for postgraduate recruitment and that in pricing terms we may not be as competitive as other countries in Europe and across the OECD. International recruitment has accounted for around 50% of overall numbers for some years now and alongside global competition we also have the UK Border Agency and immigration reform to look to for exacerbating the issue, although given the time frame it can't all be down to them.

The recession and difficult labour market conditions are clearly a factor and just as in part time and mature applicants for undergraduate courses, many people may not be taking up study options because they are worried about risk and/or cost. This is likely to be an opportunity cost or a time preference reason where

many are unprepared to risk even the income from insecure or poorly paid work whilst the economy is in such a shaky state. And given that the typical postgraduate is part time and over 25 then such decisions can't be easily dismissed.

Employer funding is also a problem for similar economic reasons. Both public and private sector employers always find it hard to subsidise training in difficult economic conditions and the costs of postgraduate courses can be significant. It has also been observed that the public sector has traditionally been a large scale sponsor of MAs and MScs and that austerity has hit this source of subsidised demand too.

During this time postgraduate courses have also increased in price, maybe not by quite as much as undergraduate tuition fees, but certainly by inflation and across the sector, by as much as 10% this year. We need to be careful and must certainly not assume that postgraduate courses should automatically be priced at similar levels to new sticker prices at undergraduate level. Price increases of even small amounts will have an impact when money in people's and employers' pockets is tight. Rather than simply increasing prices and calling for loans to pay them, universities might look for new and innovative ways to understand and to stimulate demand.

So let's look at pricing and competition, at affordability in difficult economic conditions and at international competitiveness. Let's consider an ongoing campaign to promote the benefits of all types of higher education including postgraduate study. Let's continue our efforts to persuade the Home Office and others that immigration restrictions are counterproductive and just plain daft. Let's encourage universities to invest in postgraduate support too and enable them to do so via a more supportive regulatory system.

And let's not jump to a solution that sacrifices a system that carefully balances contributions from individuals, the state and from employers and institutions. Rather let's better understand how and why each of these might better see the benefits and act to improve their contributions and efforts and to increase demand overall.

8 - Conclusions and recommendations

Postgraduates need more funding. This must come from a variety of public and private sources. Banks and other commercial lenders can fill part of the funding gap, while universities and employers continue to deliver initiatives such as the University of Sheffield's Alumni Fund Scholarships, and employer support offered by companies like PwC, Jaguar Land Rover, Rolls-Royce and GlaxoSmithKline. Given that government is in the unique position of being able to borrow at 0% real interest rates over a long period, we repeat our call to ministers to implement an income contingent loans system along the lines suggested in Chapter 6.

All of these funding streams are important but not by themselves sufficient. Commercial lenders will generally only offer credit to affluent individuals deemed most likely to repay their debt. Universities and employers can only offer a limited amount of funding, to a limited number of elite participants, before the pot runs dry. And while a new government backed loans scheme is necessary, it must not be allowed to squeeze out other sources of finance.

In addition to discussing funding, the contributors to this report have highlighted the importance of supportive rules, regulations and structures around postgraduate study. This is mainly the responsibility of government (HEFCE, Home Office etc). But there is also a role for universities to play in ensuring that postgraduate provision is meeting the needs of students, not least in relation to flexible learning. Our recommendations therefore are not just about raising funding levels for postgraduate study but ensuring that the rules, regulations and structures put in place to support this funding are fit for purpose.

Without action, the UK will find itself outcompeted with a society that is increasingly stratified. The time for better funding and better access to postgraduate education is now.

Key recommendations for government

Government should prioritise the collection of data to establish whether current funding arrangements are suppressing demand for postgraduate education. HEFCE has already committed to obtaining an early estimate of undergraduate intentions towards postgraduate study so it can monitor changes in trends over time, and then match stated intentions to actual enrolments.⁵⁸ It should also require universities to collect and submit details of successful home applicants who decline their offer of a place for financial reasons. Such data will allow government and universities to make informed choices when addressing shortfalls in postgraduate funding.

A representative pilot should be commissioned to test the postgraduate loans models put forward by CentreForum and NUS. This recommendation has the potential to tackle the exclusivity of postgraduate education and create a larger, highly skilled workforce, enabling Britain to compete with its international rivals. For these reasons it should be treated as a priority, and a full loans model financed through additional borrowing should be considered. Ultimately, any loans scheme should replace the PCDL scheme. This would release incremental resource for other areas of higher education expenditure.

Government should amend Home Office rules on the employment of overseas students in the UK workforce after finishing their studies. Immigration rules that deter non-EU students from enrolling at UK universities leave institutions financially worse off and have a knock on effect on fees and course choice for home students. The government has started to undo some of the reputational damage caused by the closure of the post study work route in 2012 by allowing up to 1,000 non-EU graduates with MBAs to stay on in the UK to work for 12 months. The Graduate Entrepreneurs Scheme, as its known, should be expanded and its scope widened. In addition to those with expertise in business administration, the scheme should include overseas graduates with qualifications that enable them to work in growth sectors.

Funding and scholarship models for postgraduate research should be structured around a four year minimum period of study (not three). By international standards, four years of postgraduate work before the conferment of a doctorate is the absolute minimum. The UK has been moving in the same direction

58 Update on HEFCE postgraduate policy – January 2013

with the introduction of integrated taught and research programmes, supported by the research council Centre for Doctoral Training (CDT) model. It is important that future funding policy keeps pace with changes in the way postgraduate research programmes are structured.

Key recommendations for universities and the private sector

Groups of universities should source funds from financial markets and use the money raised from bond issuances as a facility for postgraduate students to access. Predictable revenue streams and long term business models make universities a safe bet for investors. Institutions should explore the corporate bonds model devised by Higher Education Commission member Jon Wakeford.

The tax treatment of large donations to universities should be made simpler to incentivise giving and help institutions increase their endowment capacity. This could be done along the lines suggested by the 2004 Thomas report, whereby higher rate taxpayers would be allowed to claim full income tax relief through self assessment rather than the current gift aid arrangements. Universities might also take note of research carried out by the Cabinet Office Nudge Unit, which has found that charitable giving can be increased through the application of certain 'behavioural insights'.⁵⁹

Universities should link a proportion of their endowment funding to a postgraduate scholarship programme targeted at students from low income backgrounds. The University of Sheffield, for instance, has Alumni Fund Scholarships which are funded by donations from 1,500 alumni each year, and worth £2,000 each.

Successful collaboration between universities and business should be actively promoted by the sector. There are plenty examples of best practice, including PwC's Professional Services Sector Higher Apprenticeship and Jaguar Land Rover's Technical Accreditation Scheme. Businesses continuing to take an active role in the design and provision of postgraduate courses will ensure that demand for specialist skills is more adequately met.

⁵⁹ Behavioural Insights Team, 'Applying behavioural insights to charitable giving', Cabinet Office, 2013

As a matter of urgency, universities must review their flexible learning arrangements to ensure they can cater for students who do not wish to commit to full time postgraduate study. The Higher Education Commission found evidence that many universities had only a “marginal commitment” to part time provision.⁶⁰ This is unacceptable at a time when part time enrolments are falling rapidly, and when there is evidence that employers and professional bodies support more flexible provision.⁶¹ In future it is likely that part time and distance learning, together with accelerated degrees, will become increasingly popular options for study.

60 Universities UK is currently conducting a review of part time undergraduate and postgraduate study. It is expected to publish its findings in autumn 2013.

61 Higher Education Academy, ‘Final evaluation of the HEFCE-funded Flexible Learning Pathfinder projects’, 2011 p 5