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Global trends in higher education financing: The United Kingdom

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ABSTRACT

Over the last 40 years, UK higher education has moved from a publicly funded system to a mixed publicly/privately funded system regulated as a tuition loans-based consumer market, in which both the student as graduate, and the higher education institution, are responsible for a significant proportion of total costs. It is nevertheless subject to robust government control. This is partly exercised indirectly through comparative assessments of institutional performance by public agencies that define common objectives and install a hierarchy based on measured performance, helping to differentiate HEIs within the market. Institutions remain partly dependent on government funding in the forms of research-related support, teaching subsidies and subsidization of the loan system through non-repayment of debt. The 2012 introduction of a £9000 maximum fee for full-time students and £6750 for part-time students in England, based on income-contingent repayment arrangements, was associated with a net increase in funding, growth in full-time first degree students, and a sharp fall in part-time and mature age students. Part-time students begin repayments four years after the commencement of their course of study. The long-term cost of the student loans scheme is uncertain and its sustainability is in question. After 15 years of declining funding for students, total systemic funding rose by 50% between 2000 and 2015 and per student funding also rose, mainly benefiting the research-intensive universities in the Russell group. These universities benefit most from funds allocated through the government's periodic national research assessments.

1. Introduction

The United Kingdom (UK) is a constitutional monarchy with a parliamentary system of government, located off the northwestern coast of continental Europe. With a 2014 population of 64.5 million (World Bank, 2015), it combines England, the dominant nation, Scotland, Wales, and Northern Ireland. Scotland, Wales, and Northern Ireland each have executive governments and parliaments, and are also represented in the UK parliament at Westminster, the sole government of England. The four UK nations differ in their detailed policies on higher education funding, as will be explained. The UK's GDP of US \$2942 billion in current prices in 2014 was fifth on the world scale, between Germany and France, and 16.9% of the economy of the United States (US). UK per capita income in 2014, US\$39,167 in purchasing power parity terms, was twenty-second in the world, compared to US \$54,630 in the US (World Bank, 2015). However, the UK is more influential in higher education and the associated research than its raw economic power would suggest. On most global rankings, it has the second largest number of world top 50 research universities after the US (e.g., ARWU, 2015), and it attracts the world's second largest number of

cross-border higher education students (OECD, 2015, p. 356). More generally, since the mid-1980s, associated with neoliberal financial government and the "New Public Management" in public administration, UK models of system and institutional organization have affected reform agendas in higher education in many nations (Regini, 2011; Shattock, 2012).

The remainder of this Section 1, the introduction, summarizes principal features of higher education in the UK. Section 2 reviews its history. Section 3 outlines the present financing system, including the tuition loans-based framework adopted in 2012. Section 4 addresses participation, equity and financing. Section 5 expands on system stratification, corporate behaviors at the institutional level, and revenue raising. The concluding Section 6 reviews the efficiency and sustainability of the financing system.

1.1. Higher education in the UK

The term *higher education* is used in the UK in two senses: in relation to institutions and in relation to levels of study and qualifications. In terms of qualifications, higher education programs exist mostly at the

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degree level, in contrast with the US inclusion of two-year programs. Most UK higher education institutions (HEIs) are universities. Since 2014, the UK no longer has formally required designated “universities” to conduct research and offer doctoral programs (Boliver, 2015, p. 611), but most universities are active in these domains. In the UK 11% of post-school students study in Further Education Colleges (FECs), mostly at sub-degree certificate and diploma levels, but there is also a small number of degree level students. Some such places are provided on a franchising basis for universities, while others are offered by FECs in their own right. Relations between FECs and universities, including transfer, are less developed than are the links between two-year and four-year provision in the US (Parry et al., 2012).

UK higher education is both similar to and different from the US sector. With the exception of higher education in Scotland, where no tuition is charged, the sector is explicitly modelled by government as a student loans-based market in which HEIs are expected to respond to the “customer.” As in the US, in the UK norms of institutional autonomy and academic freedom are strongly entrenched. Also as in the US, university autonomy is understood in terms of the model of the university as a stand-alone firm, led by a strategically-minded president and executive that are mindful of the need for revenue and prestige. UK universities answer primarily to their own governing bodies, they form and implement business plans and from time to time undertake borrowings from financial organisations to raise capital. Like their American cousins, they compete with other HEIs for students, money, and good academic staff (faculty). For elite institutions; prestige is the primary motivator.

The differences are also significant. First, UK students enter higher education later than in the US, typically at 18 years, many studying for three-year degrees. Second, in the absence of state governments and large non-profit and for-profit private sectors, there is less diversity of institutional mission and type. Third, with the important exception of the separate UK nations, system governance is centralized. Self-governing UK universities, once defined as “public” and now legally classified as “private,” are still shaped by government policy, regulation and funding, and in continuity with their “public” forebears. Government manages system shape, incentives and behaviors via performance-oriented comparisons like the Research Excellence Framework (REF). There is a fixed ceiling for tuition charges for UK citizens and European Union students, further reducing the scope for institution-driven variation. While the executive leaders of HEIs exercise considerable corporate freedom, their strategies and actions tend to fall within a comparatively narrow range of possibilities.

The principles of autonomy and freedom in British universities are combined with the centralized British state, with its normalizing Treasury-driven polity and uniform systems, to an extent that seems paradoxical, though it is typical of UK governance. The universities are not seen as outside the state, as is the case with their US counterparts, not even Oxford and Cambridge, which are closest in form to the American Ivy League. Universities occupy a place in British life analogous to the national broadcaster, the BBC—both are public institutions and institutions of the middle class, formally independent while relying on a sympathetic government. Yet the annual public opinion survey by *The Guardian* finds that, after the National Health Service, the universities are the most trusted institutions in the UK, ahead of the police, monarchy, and judiciary (Mann, 2015). Fourth, however, the service tradition and public engagement are weaker than in the US with its land-grant ethos, independent trustees, and popular sports. Certain civic universities have a long history of region building, and in general UK higher education is closer towards US practice in relation to both localized engagement (Goddard and Vallance, 2014) and the “impact” of and commercial applications of research. Yet the instinct for external social referencing is less developed in the UK. The state is the main external agent, a de facto collective “consumer” that positions itself as operating on behalf of both students and society—which is ironic, given that, nominally, market reforms are designed to

free buyer-seller transactions from state control.

2. History

UK universities are resilient. Their economic and social weight has grown continuously, through the transition from the welfare state of 1945–1980 to the high capitalism of the neoliberal era, in which the UK’s comparative international advantage is centered on the finance sector, business services, and selected technologies (Allas, 2014). Throughout the last half-century, there has been a broad consensus in support of the expansion of opportunities through growth in higher education, despite continuous changes in government policy, especially the financing arrangements and periodic under-funding.

However, UK higher education was slower off the mark than the US. The US developed diverse mass higher education before World War II and, in 1975, reached 50% participation in two- and four-year programs. In the UK in 1950, fewer than 5% of young people entered higher education. The *Robbins Report* (1963) stated as a policy principle that all qualified students who aspired to higher education should be able to enter, but growth did not fully achieve the Robbins projections (Shattock, 2012; Callender, 2014b). The UK’s main period of accelerated growth was between the late 1980s and the late 1990s (Boliver, 2011) and it reached a gross tertiary enrollment ratio (GTER) of 50% only in 1997 (Fig. 1). Most of the growth was in the less prestigious universities and the polytechnics, which in 1992 were combined with the university sector in a unitary system.

The number of students in UK higher education rose further from 1.95 million in 2000–01 to peak at 2.50 million in 2010–2011, before falling to 2.27 million in 2014–2015 (Fig. 2 below; HESA, 2016). Between 2011 and 2015, the number of 18–20 year-olds in the UK declined from just over 2.5 million to less than 2.4 million (HEC, 2014: 28–29).¹ This explains only half of the decline in enrollments, suggesting that the rate of participation declined after 2010–11. This happened in a country in which participation in all forms of tertiary education has never been especially high by world standards. In 2012, the GTER in the UK was 61.9%, compared to a GTER of 94.3% in the US.

In passing, it should be noted that although the quantity of participation in the UK is moderate, the quality is stronger than in the US. In the UK a higher proportion of the tertiary enrolment is at degree level, and four fifths of the students enrolled in degrees graduate successfully. The UK’s age cohort graduation rate at degree level was 47.8% in 2012, compared to 40.1% in the US (UNESCO, 2016).

The trend from elite to mass and high participation education (Marginson, 2016a) and the later fluctuations in total UK enrollments were accompanied by changes in financing mechanisms. In 1975, the high point of public funding per student, UK higher education consisted of predominantly publicly funded universities based on formal equivalence, with funding distributions on the basis of entitlement. By fits and starts, it was changed into a mixed public and private funding system, modelled as a tuition-based market ordered not by prices, but by the positional hierarchy in higher education, mediated by performance competition. There have also been changes in student composition, as will be discussed later in this paper.

Prior to World War II, a third of university income was from student tuition and a third from government. After the war, tuition diminished and dependence on government grew (Shattock, 2012, p. 12). Funding per student rose sharply between the late 1940s and the mid-1970s, faltering in the second half of the 1960s. It then fell sharply until the early 1980s, rose in the next four years, a period of little enrollment growth, and resumed its downward trajectory, which accelerated in the 1990s expansion. Between 1975 and 1995, per student funding declined by almost 50% in real terms (p. 131). Research funding grew

¹ The number of 18–20 year olds is projected to continue falling until 2021 when it bottoms out at about 2.15 million, 14% below the 2011 level (HEC, 2014, p. 28).

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