Summary

This briefing focuses on the health of taught postgraduate courses (hereafter 'postgraduate education', as distinct from postgraduate research).

Although the number of students taking taught postgraduate courses has risen over the last decade, this masks a number of concerning factors:

- This increase is to a large extent driven by increasing numbers of students from outside the UK
- The vast majority of students are self-financing
- The system of support through Professional and Career Development Loans is flawed, with many students unable to access or afford these loans
- Postgraduate qualifications are increasingly important for career development in business and the professions.

Collectively, this raises what the Government’s adviser on social mobility has called a ‘social mobility timebomb’, with students from disadvantaged backgrounds unable to access postgraduate courses which are increasingly important for career development.

We are approaching an important juncture, when those students liable for undergraduate tuition fees of up to £9,000 a year will graduate. The implication of students graduating with this level of debt for postgraduate study is uncertain, but makes a long-term funding solution all the more pressing.

In addition to laying out the challenges facing the sector, therefore, we will also publish a series of annexes over the coming weeks exploring options to increase the availability of funding, including loans, for taught postgraduate study.

Background

Over the last decade, the number of students taking taught postgraduate courses has increased by 42% (although there was a decline of 3% last year). On the face of it the sector looks relatively healthy. However, this masks some concerning trends.

First, this increase has been largely attributable to increases in the number of overseas students coming to the UK to take courses, which is up 49%. The number of UK students has increased by a much more modest 23%. In 2002, there were four UK taught postgraduates at UK institutions for every three from overseas. Since 2008, they have been outnumbered every year. Put another way, UK students account for just a quarter of the growth in the taught postgraduate population over the past decade.

Second, while overall numbers have been increasing, fewer students enjoy financial support. The number of Research Council funded taught postgraduates has more than halved (with the bulk of the cut coming in the last year). The number with industry funding, which remained relatively stable in absolute terms over the past decade, fell by 10% in 2011.

Third, it is not yet clear what impact the introduction of full or near full-cost tuition fees and loans will have on the take-up of postgraduate study. Students graduating in 2015, and therefore applying for postgraduate courses next year, will be the first cohort to have incurred loan debts of this degree. Will these students be willing to take on further debt in order to...
fund postgraduate study? The Browne Review,\(^1\) a report which paid almost no attention to postgraduate funding and rejected any change in funding arrangements warned that "it is possible that, in the future if students are paying higher fees to enter undergraduate education, they will be less likely to participate in postgraduate study".

### The benefits of postgraduate education

Browne’s rejection of changes to the funding of postgraduate education was based on his conclusion that the benefits of postgraduate study are predominantly private.

Undoubtedly there are substantial private benefits. Statistics certainly seem to bear out Browne’s conclusion that the private benefits of postgraduate education make the personal investment involved worthwhile—LSE estimates that a master’s degree adds a premium of 15% to a graduate’s lifetime earnings.\(^4\)

In an increasingly crowded graduate market, obtaining a postgraduate qualification is a way for candidates to stand out to employers. Indeed, in some jobs a postgraduate qualification is becoming something close to a prerequisite for admission or promotion. The number of postgraduates whose courses are supported by their employers indicates that there is a definite “market value” for postgraduate study, over and above its intellectual value.

However, these private benefits mean that inequalities among the postgraduate population have important implications for social mobility. Indeed, Alan Milburn, the Government’s adviser on social mobility,\(^5\) has described the postgraduate funding situation as a “social mobility timebomb”.

This was rejected by Browne, who saw “no evidence that the absence of student support...had a detrimental impact on access to postgraduate education”.

In fact, evidence that access to finan-
cial support skews access to postgraduate education is present in Browne’s own report. He quotes data from the Sutton Trust showing that privately educated students are almost three times as likely to undertake postgraduate study but concludes that the problem lies with the socio-economic make-up of the undergraduate population. In fact, this data shows that even controlling for access to undergraduate study, there is a significant remaining social imbalance: 14% of the undergraduate population is privately educated, but this rises to 17% among postgraduates, suggesting that privately educated students are around 25% more likely to take postgraduate courses.

If candidates from modest backgrounds are effectively frozen out of postgraduate study, then this means that the best jobs and the enhanced career opportunities will remain the preserve of the better off. Attempts to widen participation in higher education could prove futile if all that happens is that obstacles to undergraduate study and therefore graduate careers are replaced with obstacles to postgraduate study and graduate careers which now require a postgraduate qualification.

In addition, however, there are substantial public benefits to derive from increased participation in postgraduate study. Postgraduates develop specialised areas of knowledge and skills which are of inestimable benefit to the economy as a whole. The government has recognised the value of research and innovation by ring-fencing the science budget, and by announcing an investment of £600 million in eight strategic areas of research in the latest Autumn Statement. In an age of austerity, our postgraduate population is the future—if we fail to invest in it, our economy will be all the poorer as a result.

Funding of postgraduate education

62% of UK students on taught postgraduate courses are self-funding. The average PGT fee for home students in 2011–12 was £4,451.

Browne rejected the argument that taught postgraduate students should receive the same support as undergraduates, but failed utterly to consider the wider question of how postgraduate study should be funded, and whether taught postgraduates should receive some degree of state support. Given that the public does already support postgraduate education in a variety of ways (for instance, through research council studentships and discretionary awards), this was an unfortunate omission. His reasoning could be taken as supporting the withdrawal of funding for postgraduate education without any assessment of the impact of doing so. And indeed, the research councils did withdraw almost all support for taught master’s degrees, except as part of a Ph.D course. (The AHRC retains two master’s schemes, while the ESRC retains master’s funding for a single discipline: population studies.)

The number funded mainly by a Research Council has fallen sharply in recent years, from 1,555 starting in 2006–07 to just 635 in 2011–12—most of this decline having occurred in the last year.

Likewise, while the number of postgraduates funded primarily by industry remained relatively static over the decade to 2011, the number starting industry-funded master’s courses fell by 20% in 2011–12.

The raising of the maximum annual tuition fee to £9,000 from 2012—making the majority of undergraduate degrees self-financing—represents a cultural shift that brings undergraduate study into line with the situation that already exists for most
taught postgraduate students. But it creates two challenges.

First, it could create an upward pressure on master’s fees. The average fee for a one-year master’s course is approximately half that of the annual fee for an undergraduate degree.

Second, the cohort of students leaving university in 2015 represent a potential flashpoint for the future of the postgraduate sector. Will they be more likely to accept borrowing as a condition of studying? Will they accept that their undergraduate study has been funded by an income contingent loan, and that they are therefore not “in debt” in the traditional sense? Will they be able to see far enough ahead to realise the benefits of postgraduate study? If so, they may view the additional debt as a necessary step towards a career.

Alternatively, graduating with a debt of over £30,000 will they be reluctant to take on a further liability? Will they conclude that the “postgraduate premium” is not high enough to justify the levels of investment?

It was this latter scenario which led Browne to conclude that trends in postgraduate study should be carefully monitored once tuition fees were raised. We are likely to see the first signs of this impact next year, when students due to graduate from three-year degree courses begun in 2012 begin to apply for courses starting in September 2015.

### Funding models

Students’ ability to self-finance postgraduate education will typically depend upon their ability to access lending.

Around 10,000 students use the Professional and Career Development Loan (PCDL) system each year.

The 1994 Group have argued that there is insufficient competition in the loans market to ensure that the terms represent a good deal for students. PCDL interest rates are typically higher than comparable personal loans, and the House of Lords Science & Technology Committee concluded that PCDLs’ “terms and repayment conditions are considered to be fairly onerous.”

In recent months, the government has called on the banks to offer greater provision to postgraduates, whilst dismissing the idea that there could be any kind of government backed loan scheme. However, it is not clear why banks should do so. There is a clear problem of market failure. Banks lack information on the credit worthiness of many postgraduate students who have neither credit records nor employment histories.

Some measures could be introduced to address this problem. For instance, in the mortgage market (which suffers a similar problem) loans have been made available with parental assets acting as a guarantee (although this raises issues of inequality, given that it will typically be relatively ad-
Figure 4: The percentage of Research Council funded postgraduate taught (PGT) students as a proportion of the total UK PGT population.

The RAB charge—the effective government subsidy for student loans—varies widely among students, depending to a large extent upon their future earnings. For the highest earning students, the RAB charge is negative—the Government effectively profits because their repayments exceed amount borrowed and the effective cost to the Government of subsidising the loan. As already noted, students taking master’s degrees substantially improve their earning potential. Moreover, master’s study will often, but not always, be limited to those with good degrees in the first place. Students with good degrees who go on to take a postgraduate qualification should start to repay their students faster and are more likely to repay their loans in full. This means extending student loans to certain master’s students—perhaps those with a 1st or 2:1, and limited, as CentreForum propose, to home students—might have little or no underlying cost to Government.

Moreover, Professional and Career Development Loans carry a cost for the government, which pays the interest for the duration of a postgraduate’s course plus one month. This interest rate—around 9.9%—is far higher that the ordinary cost of government borrowing. By limiting support to one expensive model of lending, the Government may actually be wasting money that could be saved under an alternative model. We estimate the cost of subsidising PCDLs for postgraduate students may be as high around £55m per year. Although further analysis is necessary, scrapping this subsidy may be sufficient to put in place a system of low-cost postgraduate loans for the best and brightest students.

Further work

The 1994 Group has previously urged policymakers to look for a long-term solution to nurture the next generation of researchers and scientists, and in a series of annexes we will look at a range of long-term funding reforms proposed. However, in the short term, a mixed package of measures may be more deliverable.

Over the coming weeks, we will publish a series of annexes to this briefing exploring ways to increase the availability of funding. Possible options for change include:

- Making government-backed student loans available to master’s students, although not necessarily on the same terms as to undergraduates;
- Addressing some of the information issues to encourage banks to make more PCDLs available, and at more affordable interest rates;
- Relaxing restrictions on integrated ‘3+1’ master’s courses;
- Lending by HEIs, perhaps on a pooled basis, to support high-performing students who are most likely to go on to academic careers;
- Working with industry and the professions to support particular master’s courses of value to those businesses.