House of Commons

Committee of Public Accounts

Financial support for students at alternative higher education providers

Forty-first Report of Session 2014–15

Report, together with the formal minutes relating to the report

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Committee of Public Accounts

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Summary

The Department for Business, Innovation & Skills (the Department) has failed to learn lessons from past policies such as Individual Learning Accounts. It failed to heed warnings from organisations such as the Higher Education Funding Council and University and College Union. The Department allowed the rapid expansion of support for students attending private Higher Education providers. The Department allowed £3.84 million of public money to be given to ineligible EU students in the form of student loans and grants. Furthermore the Department has been unable to quantify how much money has been lost when it has funded students who have failed to attend, or failed to complete courses, or were not proficient in the English language, or were not entered for qualifications, or where courses themselves were poorly taught. The Department took over a year to tighten up some of its procedures to control public expenditure more effectively.

Introduction

Approximately 140 institutions offering higher education are termed 'alternative providers'. These alternative providers comprise a diverse range of organisations ranging from private companies to charitable institutions. They do not receive government grants directly but do access public funding through student loans which are used to pay their fees. Following the announcement of higher education reforms in 2011, and the associated increase in tuition fee loans, there has been substantial and rapid growth in the sector. 40% of the publicly funded students attending these colleges are EU students, compared to 6% in the rest of the higher education sector. Between 2010/11 and 2013/14, the number of students claiming support for courses at alternative providers rose from 7,000 to 53,000. Over the same period, the total amount of public money paid to students at alternative providers, through tuition fee loans and maintenance loans and grants, has risen from around £50 million to around £675 million. The Department has overall responsibility for oversight of publicly-funded higher education, including alternative providers with publicly-funded students. The Student Loans Company is responsible for paying out loans and grants to students.

Conclusions and Recommendations

1. **The Department pressed ahead with the expansion of the alternative provider sector without a robust legislative framework to protect public money**. Since the Government announced higher education reforms in 2010, there have been multiple warnings about the risks associated with a rapid expansion of the private higher education sector. In particular, this Committee, the Higher Education Funding Council for England (HEFCE) and the University and College Union raised concerns about proceeding without a robust regulatory framework. Although it became clear in 2012 that the legislation required to establish a new regulatory framework would not be passed within the current Parliament, the Department continued with implementation but failed to think through how it would manage the risks in the absence of the expected legislative powers. In particular the Department has no rights of access to alternative providers. In these circumstances, the Accounting Officer at the Department could have sought a Ministerial Direction to proceed, but did not, so must bear responsibility.

   Recommendation*: Accounting Officers should not proceed with implementing schemes without being assured that risks can be appropriately managed. If risks to public money cannot be sufficiently controlled, whether through legislative or other means, they should seek a Ministerial Direction.*

2. **The Department failed to identify and act quickly on known risks associated with the rapid introduction of schemes to widen access to learning**. The Department

did not learn from previous Government experience, in particular the introduction of Individual Learning Accounts where rapid expansion led to serious problems. Furthermore, the Department has been slow to react to warning signs. The rapid expansion in numbers was concentrated in five colleges that accounted for 50% of the expansion. 20% of students receiving funding were not registered for a qualification and drop-out rates were very high in some institutions. There was also evidence from whistleblowers that proficiency in English language was not tested, that some institutions were recruiting students on the streets, and that students claiming funding were not attending colleges. Rather than respond to the warning signs by conducting a broader investigation, the Department chose to focus on specific issues and specific providers, and even then has failed to apply adequate sanctions in some cases.

Recommendation***: The Department must systematically assess and control the specific risks identified by the National Audit Office and at our evidence session, and provide us with a clear explanation of how it will manage these risks in future.***

3. **The Department does not know how much public money may have been wasted.** The Department has not attempted any calculation of the total financial impact of its weak oversight. The Department was able to tell us that it had paid out £3.84m to EU students who were not eligible for student loans. The Department's record in collecting monies from EU students is already poor. Furthermore, it did not know how much public money may have been wasted where larger than expected numbers of students have failed to complete their qualifications, or how much funding has gone towards paying for additional EU students rather than for the intended purpose of widening access to higher education for students in England. The Department also does not know why there is a 20% difference between the number of students enrolled with alternative providers and the number registered with the qualification awarding body and whether this represented a misuse of public funds. It has not established whether there has been any waste of public money as a consequence.

   Recommendation***: The Department should report back to us urgently with an assessment of how much public money is at risk of being wasted.***

4. **The Department has failed to protect the interests of legitimate students, the taxpayer and the reputation of those alternative providers who may be performing well**. The Higher Education Statistics Agency provides published data to enable students and others to assess and compare the performance of higher education institutions. No data is provided to assess the performance of private providers. In particular, whistleblowers told us that some institutions admitted students with unacceptably low fluency in English who were therefore not equipped to pursue qualifications for which they had enrolled. These students will have a poor experience, may fail or drop out, and will have taken on significant loans they may be unable to repay. With no reliable data, the reputation of all private higher education colleges is tarnished by the unacceptable standards in a few of the colleges.

Recommendation*: The Department needs to ensure that it has a much firmer grip on the quality of teaching and the standard the students can expect in private sector higher education colleges. It needs to identify poor performers and take appropriate action to protect students and the sector as a whole.*

5. **The Department does not monitor what it is achieving from expansion of the alternative provider sector.** One of the objectives of the Government's higher education reforms was to improve student choice by supporting a more diverse sector. More opportunities for part-time study, sandwich courses or distance learning were intended to widen access for groups who were previously less likely to enter higher education, for example older students or those on low incomes. However, the Department did not define any measures that would allow it to judge whether implementation of the policy has been successful. Furthermore, the Department has not collected sufficient data on the alternative provider sector, such as the number of students from lower socio-economic groups who have gained a higher education qualification. Such information would help the Department assess whether the policy is working.

Recommendation*: The Department needs to set specific, measurable objectives for this policy, and collect and analyse the right data in order to evaluate the full impact, taking account of any unanticipated impacts, such as the recruitment of EU students.*

1 Oversight of the alternative provider sector

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Business, Innovation & Skills (the Department), the Student Loans Company, the Higher Education Funding Council in England (HEFCE) and the awarding body for Higher National qualifications, Edexcel, about financial support for students at alternative higher education providers.[1] Approximately 140 institutions offering higher education are termed 'alternative providers'. They include a diverse range of organisations from private companies to charitable institutions. Alternative providers benefit from the public funding provided to students via tuition fee loans.[2]

2. In June 2011, the government published a white paper that introduced measures designed to encourage diversity and competition in the higher education sector. In particular, the government increased the maximum tuition fee loan available to students studying at alternative providers, from £3,375 to £6,000 a year.[3]

3. Evidence submitted to us, including from whistleblowers, highlighted a number of issues relating to the implementation of these changes:[4]

- The number of non-UK EU students at alternative providers claiming student support is now around 40% of the total publicly funded student cohort attending private colleges;
- £3.84m of student support paid to EU students who were not eligible for it;
- Dropout rates higher than 20% at some alternative providers;
- Evidence of inappropriate recruitment practices with colleges recruiting on the streets;
- Indications that students are not being registered for their qualifications; and
- Indications that some students were accepted onto courses without adequate English language skills.

4. Following announcement of the higher education reforms, various bodies and stakeholders had warned the Department about the consequences of expanding the alternative provider sector without a robust regulatory framework to protect public money. In particular, this Committee recommended that the change in higher education funding

1 C&AG's Report, *Investigation into financial support for students at alternative higher education providers*, Session 2014-15, HC 861, 2 December 2014

2 C&AG's Report paras 1.1, 1.8

3 Department for Business, Innovation & Skills, *Higher Education: Students at the Heart of the System*, white paper, Cm 8122, June 2011; C&AG's Report para 1.4

4 Qq 20, 72, 80, 86-87, 226; C&AG's Report paras 7-8, 2.2, 2.11-2.12

arrangements would require a new system of regulation and accountability. We recommended that new powers would be required to regulate institutions that receive little or no direct public funding but whose students have access to publicly-provided loans which are used to pay the institutions' fees.[5] HEFCE and the University and College Union also raised concerns about the risks and the need for new regulatory powers.[6]

5. The Department initially planned to bring forward legislation to establish a new regulatory role for HEFCE from the 2013/14 academic year.[7] However, when, in 2012, it became clear to the Department that there would be no new legislation within this Parliament, the Accounting Officer did not seek a Ministerial Direction to proceed with implementation of the policy in the absence of legislation. The Accounting Officer told us that it would be very helpful to have legislation as early as possible following formation of a new Parliament in 2015.[8]

6. The Department could not demonstrate that it had drawn on previous government experience before proceeding with expansion of the alternative provider sector. In 2003, our predecessor Committee reported on the implementation of Individual Learning Accounts by the former Department for Education & Skills. Under the scheme, which was intended to widen participation in learning and reduce financial barriers faced by learners, particularly amongst those who lacked skills and qualifications, private providers received public funding for running training courses. However, our predecessors concluded that the scheme had been poorly thought-through, had been put in place too quickly, and lacked adequate risk assessment and risk management.[9] Although many of the issues were similar when the Department implemented the 2011 higher education reforms, the Department does not appear to have taken lessons from Individual Learning Accounts into account when considering how it would oversee the expansion of provision by alternative providers.[10]

7. The Department was then slow to identify and respond to warning signs that the alternative provider sector was not developing in the way originally anticipated. Between 2010/11 and 2013/14 the numbers of students attending alternative providers grew from 7,000 to 53,000. Half of the total growth is accounted for by just five providers.[11] These providers are also amongst those with higher numbers of ineligible student loan applicants or high dropout rates. The Department acknowledged that the growth of the sector was much greater than expected and that, although in 2013 and 2014 it took action to limit further growth, it was a fair challenge that it should have responded earlier.[12]

5 HC Committee of Public Accounts, *Regulating financial sustainability in higher education*, Thirty-sixth report of Session 2010-12, HC 914, June 2011

6 Qq 10-11, 62, 108

7 C&AG's Report para 1.14

8 Qq 100, 108, 242

9 Committee of Public Accounts, *Individual Learning Accounts*, tenth report of Session 2002-03, HC 544, April 2003

10 Qq 6, 63, 110-122

11 C&AG's Report para 1.6, Figure 2; Qq 62, 65

12 Qq 63-65; C&AG's report paras 1.9-1.10

8. Another signal that the expansion of the alternative provider sector was leading to unintended consequences was large numbers of applications for student loans from ineligible EU students. The Student Loans Company told us that, at the time of the hearing, £3.84m had been paid out in student support to 832 EU students who had either chosen not to or had been unable to prove that they met eligibility criteria on residency.[13] Payments were made to ineligible students because the Student Loans Company did not routinely require supporting evidence to confirm applicants met residency criteria. The Student Loans Company told us that the process has now been tightened.[14]

9. We asked the Department what it had done to investigate evidence in the NAO report of inappropriate recruitment by some alternative providers, such as advertising higher education courses as if they were English language training or paid employment.[15] We highlighted further cases where we have been told that some providers were recruiting by approaching prospective students on the streets.[16] Although the Department asks alternative providers whether they are using recruitment agents, it told us that it has not conducted a specific investigation into the activities of recruitment agents because this is outside of the scope of its statutory remit.[17]

10. There have been a number of cases where the Department has investigated individual providers about specific issues, such as student attendance rates, and the Department told us that it has responded to concerns about the sector by increasing the Student Loans Company's budget for tackling fraud. However, the Department told us that while it can look into allegations, it has to follow legal processes and cannot proceed without sufficient evidence.[18] The Department has no rights of access to alternative providers and this affects the extent to which it can investigate when concerns are raised.[19] Nevertheless, the Department has not taken practical steps to establish whether, for example, providers are recruiting prospective students from the streets.[20] Nor has it carried out broader investigations into the issues identified by the NAO, such as data suggesting that 20% more students are claiming student loans than have been registered with the qualification awarding body. Unless students are registered, they will not be able to attain the qualification they have enrolled for.[21]

11. The Department's oversight arrangements are failing to protect the interests of legitimate students and the reputation of those providers who may be performing well. Higher education institutions that receive funding from HEFCE are required to provide performance data to the Higher Education Statistics Agency (HESA). HEFCE uses this

13 Qq 86-98

14 Qq 104, 125

15 Qq 81, 188-194; C&AG's report paras 2.11-2.12, Appendix Five

16 Qq 204-206; 222-224

17 Qq 190-197

18 Qq 203-212, 218-225

19 C&AG's report para 1.15

20 Qq 226-231

21 Qq 50-61

data to produce benchmarks, identify which institutions need more attention, and which institutions merit a lighter touch. Although for the 2014/15 academic year onwards, alternative providers are also required to provide this data to HESA, comparable data on alternative providers is not yet available.[22] Therefore, it is difficult for prospective students to assess the relative performance of alternative providers, and the Department is also unable to identify which providers are doing well and which may require more intense scrutiny.[23]

12. Qualification awarding bodies, rather than the Department, set minimum entry requirements for higher education qualifications. In the case of Higher National qualifications, Edexcel does not specify entry requirements but, regarding English language, recommends that all students should be at least between level 4 and level 5 in the International English Language Testing System (IELTS).[24] We asked Edexcel whether it thought that this was a reasonable level of English to be taking a Higher National qualification. Edexcel told us that it has decided to introduce an entry requirement for English language and will be consulting on the appropriate level, which could be IELTS level 5.5 or above.[25] In the meantime, low entry requirements may have led to students without the required ability being accepted onto courses, struggling with language and consequently dropping out, contributing to the high dropout rates at alternative providers reported by the NAO.[26]

2 Securing value from the sector

13. When the government introduced changes to allow expansion of the alternative provider sector, one of its key policy objectives was to improve student choice by supporting a more diverse sector, with more opportunities for part-time or accelerated courses, distance learning and higher-level vocational study. This would widen participation in higher education, particularly amongst groups who have not traditionally had such opportunities. Although this high-level aim was clear, the Department did not develop specific measures that would allow it to monitor the extent to which it was achieving the policy objectives.[27] In particular, the Department was not able to tell us what impact it expects from the expansion of alternative providers in terms of outcomes for their students and the longer-term potential benefits of the sector for the wider UK economy.[28]

22 Qq 22, 100, 108, 239

23 Qq 174, 239

24 C&AG's report paras 3.16-3.17; Q 156

25 Qq 156-165

26 Q 186

27 Department for Business, Innovation & Skills, *Higher Education: Students at the Heart of the System*, white paper, Cm 8122, June 2011; Q240

28 Q 240

14. Furthermore, the Department is not collecting information that would help it determine whether or not the expansion of the sector is working. Some providers may be achieving more towards the government's aim of increasing diversity and participation, and the NAO has provided evidence that some providers may be performing well in some respects. For example, the NAO report shows that some providers have dropout rates that are lower than those of many publicly-funded providers.[29] However, the Department lacks sufficient information on what the better-performing alternative providers are doing differently and whether older students or those on low incomes are gaining qualifications.[30]

15. The Student Loans Company paid out a total of £1.271 billion in financial support for students at alternative providers in the four years from 2010/11 to 2013/14.[31] We questioned the Department and the Student Loans Company over how much of this money was spent in ways not originally intended or expected. Although the Department had identified some elements of the cost it was not able to provide us with an overall figure. It did not think it would have a full figure until a full cohort of students completes its studies, in two to three years' time.[32]

16. In introducing its reforms, the government intended to widen access for students in England who previously had fewer opportunities to enter higher education. However, approximately 40% of publicly-funded students at alternative providers come from the rest of the EU, compared with 6% of students in the rest of the higher education sector.[33] While some EU students will be UK residents, others will return to EU member states after their studies and it is more difficult for the Student Loans Company to recover loans from EU students resident overseas than from students resident in the UK.[34] The Student Loans Company told us that, across the higher education sector, there are 22,000 EU borrowers living overseas with a total debt of £145 million. A third of these borrowers are in arrears, owing a total of £19 million. We are concerned that public money may be lost if large numbers of EU students at alternative providers fail to repay their loans.[35]

17. The Department expects to recover some of the £3.84 million paid out for the 832 ineligible EU students. Of the total £3.84 million, £951,000 has been recovered and the Student Loans Company expects to recover £442,000 million from future payments to alternative providers. The Student Loans Company will pursue the remaining £2.447 million from individual students.[36] It has not estimated its potential loss after taking account of anticipated recoveries.[37]

29 C&AG's report Figure 7, Figure 8

30 Qq 1-4, 238-246

31 Qq 248; C&AG's report Figure 2

32 Qq 6-19, 248-253

33 Q 80; C&AG's report para 2.2

34 Qq 78, 80

35 Qq 80, 133-155

36 Qq 86-98, Q128

37 Qq 133-138

18. The Department told us that it lacked data to allow it to readily estimate how much public money was at stake when larger numbers of students than expected failed to complete their qualifications.[38] Dropout rates were higher than 20% at nine alternative providers in 2012/13.[39] The Department expects dropout to be higher on average in alternative providers than in the traditional HEFCE-funded sector due to factors such as students at alternative providers often being older or from lower socio-economic backgrounds.[40] However, the Department has not defined an expectation of what might constitute an acceptable dropout rate, or investigated those providers with high dropout rates. The Department has also not examined to what extent high dropout rates indicate a poor quality of teaching and support, and the impact this might have on genuine students.[41]

19. There is a 20% difference between the number of Higher National students enrolled with alternative providers and the number registered with Edexcel, the qualification awarding body. The Department was not able to explain the difference although it told us it was pursuing the matter with Edexcel.[42] However neither Edexcel nor the Department knew for how long the 20% gap had existed. The Department told us that it would be introducing a measure to prevent unregistered students from receiving student support but that this would not be in place until January 2015.[43] The Department had not carried out any investigation to reconcile the difference in the data, or to confirm the absence of fraud in the system.[44]

38 Qq 248-253

39 Q 72; C&AG's report para 3.4, Figures 7 and 9

40 Qq 71, 237-238, 248; C&AG's report paras 3.8-3.9

41 Qq 72-73, 186-187, 248-249; C&AG's report para 3.10

42 Q 20; C&AG's report para 3.13

43 Qq 25-30, 35, 42-45

44 Qq 38, 48-61

Formal Minutes

Monday 2 February 2015

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon
Guto Bebb
Mr David Burrowes
Stephen Hammond
Chris Heaton-Harris
Stewart Jackson
Austin Mitchell
John Pugh

Draft Report (Financial support for students at alternative higher education providers), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-first Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 9 February at 3.00pm

Witnesses

Monday 15 December 2015 *Question numbers*

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/pac.

Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills; **Professor Madeleine Atkins**, Chief Executive, Higher Education Funding Council for England; **Rod Bristow**, President, UK and Core Markets, Pearson; and **Mick Laverty**, Chief Executive, Student Loans Company Q1–255

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/pac. CHE numbers are generated by the evidence processing system and so may not be complete.

1 Business, Innovation And Skills (CHE0003)

2 Department Of Business, Innovation And Skills (CHE0002)

3 Pearson (CHE0001)

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Thirty Sixth Report	Implementing reforms to civil legal aid	HC 808
Fortieth Report	Excess Votes 2013–14	HC 1046