National Audit Office

Report
by the Comptroller
and Auditor General

Department for Education

Follow-up on alternative higher education providers

HC 411 SESSION 2017–2019 18 OCTOBER 2017

Key facts

£417m	34,000	112
amount paid out by the Student Loans Company to full-time students at alternative providers in 2015/16	number of students at alternative providers claiming full-time student support in 2015/16	number of alternative higher education providers designated for student funding as at September 2017

£36 million	total unrecovered ineligible payments in the six years to 2015/16
£10 million	ineligible payments made in 2014/15 and 2015/16
25%	average non-continuation rate for alternative providers in 2014/15 compared with 38% in 2012/13 (on the basis of indicative data)
11	number of alternative providers with higher than expected non-continuation rates when characteristics of their student population are taken into account (2014/15)
10	number of alternative providers with lower than expected non-continuation rates when characteristics of their student population are taken into account (2014/15)

The convention used throughout this report is that academic years are written as 2012/13 and financial years are written as 2012-13.

Summary

1 In December 2014, we published our *Investigation into financial support for students at alternative higher education providers*.[1] The report examined the arrangements for oversight and funding of alternative higher education providers. These are institutions that offer higher education qualifications but that do not receive direct funding from the Higher Education Funding Council for England (HEFCE). They do have students who access public funds through student support. At September 2017, there were 112 alternative providers accessing student support funding.

2 Our 2014 report focused on four specific concerns:

- students at some alternative providers had claimed support for which they were not eligible;
- some providers had recruited students who did not have the capability or motivation to complete their courses;
- some providers had recruited students in receipt of student support onto courses that the former Department for Business, Innovation & Skills (BIS) had not approved; and
- some providers had given the former BIS inaccurate information about student attendance.

3 The Committee of Public Accounts held evidence sessions in December 2014 and March 2015. In February 2015, it published a report which made recommendations for strengthening oversight of the alternative provider sector.

4 In July 2016, the Department for Education (the Department) assumed responsibility for higher education, including the alternative provider sector. Previously, BIS (now the Department for Business, Energy & Industrial Strategy) had responsibility. In this report, we refer to the department with responsibility for higher education as 'the Department'.

1 Comptroller and Auditor General, Department for Business, Innovation & Skills, *Investigation into financial support for students at alternative higher education providers*, Session 2014-15, HC 861, National Audit Office, December 2014.

Scope and approach

5 This follow-up report focuses on the issues we and the Committee of Public Accounts reported on in 2014 and 2015. Specifically, we examine the following:

- whether there are signs that the Department has resolved the major issues we identified in 2014 (Part Two);
- whether the evolving oversight arrangements offer protection to taxpayers and students (Part Three); and
- whether the Department has assessed the effectiveness of the policy of expanding the alternative provider sector (Part Four).

6 This report does not examine the full range of processes that the Department and its partner organisations use to oversee alternative providers or the financial sustainability of alternative providers. It focuses on students from England and the European Union who attend alternative providers and receive student support from the Student Loans Company (SLC).

Key findings

Size of the sector

7 **The number of students at alternative providers receiving student loans has declined from a peak of 51,000 in 2013/14 to 34,000 in 2015/16.** In November 2013, following rapid expansion in the number of students accessing support since 2010/11, the Department instructed 23 of the fastest-growing alternative providers to stop recruiting funded students. In 2014/15, the Department imposed additional student number controls. The total support paid to students has declined, from £724 million in 2013/14 to £417 million in 2015/16. The Department told us that it does not have a target size for the alternative provider sector as its aim is to manage a demand-led sector, by routinely using student number controls both to enable controlled growth in quality degree-level providers and as a sanction to limit the size of poorly performing providers (paragraph 2.9).

Ineligible payments

8 **The level of ineligible payments has fallen as a proportion of all payments made to students attending alternative providers, from 4% in 2012/13 to 0.5% in 2015/16.** The number of ineligible students receiving student support follows a similar trend. The Department attributes this reduction to new controls it implemented in response to the issues we raised in 2014 and analysing applications data on a daily basis to detect new problems emerging (paragraphs 2.2 and 2.3).

9 **However, the Department does not on a regular basis measure and analyse the scale of or reasons behind why ineligible payments are made to students attending alternative providers, because of limitations in how the SLC records ineligible payments data.** The Department considers that its annual audit to measure the overall rate of fraudulent or incorrect payments across the higher education sector is a proportionate and risk-based approach, given the drop in ineligible payments to students at alternative providers since our 2014 report. Nevertheless, improved management information and analysable data would help the Department measure the level of ineligible payments in a timely manner, explore what may be behind trends and further tighten controls where needed (paragraphs 2.4 to 2.7).

10 **Furthermore, the Department has not recovered £36 million of the £45 million ineligible payments it identified in the six years to 2015/16.** This total includes around £10 million of ineligible payments made in 2014/15 and 2015/16 (paragraph 2.6).

Non-continuation rates

11 **The proportion of students who drop out of their studies (indicative non-continuation rate) has reduced over time.**[2] Between 2012/13 (the most recent data available when we reported in 2014) and 2014/15 (the most recent data currently available), the overall indicative non-continuation rate for the alternative provider sector reduced from 38% to 25% (paragraphs 2.10 to 2.12).

12 **However, the indicative non-continuation rate at alternative providers is three percentage points higher than the sector benchmark, and 15 percentage points higher than for the rest of the higher education sector.** The benchmark non-continuation rates take into account the characteristics of each individual provider's student population such as age and subjects studied. For the alternative provider sector as a whole, the non-continuation rate in 2014/15 was 25% compared with a sector benchmark of 22%. The non-continuation rate for HEFCE-funded providers is 10%. These providers have fewer students with characteristics associated with high non-continuation (paragraphs 2.12 and 2.13).

2 The Department calculated indicative non-continuation rates using similar methodology to that used by the Higher Education Statistics Agency when publishing non-continuation rates for HEFCE-funded providers.

13 The three largest providers have non-continuation rates above their benchmarks. The Department has used the benchmark non-continuation rates published by the Higher Education Statistics Agency (HESA) to identify under-performing providers. For students beginning their studies in 2014/15, 11 providers had non-continuation rates that were between five and 55 percentage points higher than their individual benchmarks. Ten providers had non-continuation rates that were between four and 17 percentage points lower than their individual benchmarks. The remaining providers either had non-continuation rates that were not significantly different from their benchmarks, or had too few students for meaningful measurement of non-continuation rates (paragraph 2.15).

14 The Department has taken action against all 11 providers with high non-continuation rates in 2014/15. To make consistent decisions on sanctions where providers had high non-continuation rates in 2014/15, the Department used a framework comparing providers' non-continuation rates with individual benchmarks based on each provider's student population. The framework also considered the absolute non-continuation performance of each provider. Of the 11 providers with high non-continuation rates relative to benchmarks, three are no longer designated for student support and the Department has issued improvement notices to the remaining eight. It issued an improvement notice to one further provider where its non-continuation rate was considered unacceptably high in absolute terms (paragraphs 2.18 and 2.19 and Figure 6).

15 More timely and reliable non-continuation data would enable the Department to impose sanctions more promptly. The Department uses end-of-year data on non-continuation rates as the basis for sanctions on under-performing providers. However, depending on when a student stopped attending, end-of-year data may not become available until more than a year after the student dropped out. Although the Department also uses termly attendance data recorded by the SLC to investigate issues emerging and to inform engagement with providers, these attendance data are not sufficiently reliable to be the basis of sanctions. A HESA project to improve timeliness by collecting reliable data during the academic year is expected to be fully implemented in 2019/20 (paragraph 2.21).

Student registration

16 The Department took action in five cases where new data-matching checks identified non-compliance with requirements to register students with the awarding body for Higher National courses, Edexcel. Between 2014/15 and 2016/17, the Department identified five non-compliant providers (out of between 18 and 35 providers within the scope of the data-matching). The Department suspended payments for four providers while checks were being undertaken, and issued one with an improvement notice (paragraph 2.25).

Quality of provision

17 **The Department and partner organisations have taken action to address issues on quality of provision.** Since 2015, all alternative providers must have had a successful Higher Education Review by the Quality Assurance Agency (QAA) in order to receive student support payments.[3] The Department has revoked designation for student support payments from three providers on the basis of concerns raised by the QAA. In addition, since January 2015, the Department has investigated 14 providers where whistleblowers, data or engagement with partner organisations have raised concerns about quality of teaching (paragraphs 2.27 to 2.29).

Oversight of the alternative provider sector

18 **Since we reported in 2014, the Department has taken steps to strengthen its oversight framework.** In particular, providers' designation for student funding is limited to one year and the Department undertakes annual checks to reconfirm designation. Previously, designation for student support was not time limited. Alternative providers must now meet quality review requirements that are consistent with those met by HEFCE-funded providers, and provide comparable data to HESA. The Department has also developed a range of sanctions that it imposes on under-performing providers and has expanded counter-fraud activity (paragraphs 3.2 and 3.3 and Figure 9).

19 **In addition, the Department has increased its engagement with providers and its investigative capacity, and has taken action where it has had concerns.** In 2015 the Department, along with HEFCE, established a joint Alternative Provider Intelligence Unit, which as at September 2017 had 16 staff members. In 2016, it developed risk-based engagement plans with all providers. Between January 2015 and November 2016, the unit considered 32 potential investigations, of which 31 are now closed. Overall, the Department has taken action against providers in more than 30 cases where its investigations or data on, for example, non-continuation rates, have identified providers who are not performing at expected levels (paragraphs 3.2 to 3.6).

Assessing whether government is achieving its policy objectives

20 **The government's policy of expanding the alternative provider sector appears to be widening access to under-represented groups.** The Department is developing its data collection approach and does not yet have full data to allow it to evaluate the policy impact. Nevertheless, data for 2015/16 from HESA show that 55% of alternative provider students are over 24 years old (compared with 22% at HEFCE-funded providers) and 52% come from ethnically diverse groups compared with 22% at HEFCE-funded providers (paragraph 4.5).

3 The QAA is a not-for-profit body independent of government that monitors and advises the public on standards and quality in UK higher education.

21 **However, early indications are that graduates who studied at alternative providers have lower rates of progression into employment or further study, and lower salaries than graduates of HEFCE-funded providers.** In July 2017, the Destinations of Leavers from Higher Education (DLHE) survey included, for the first time, data for all alternative providers with undergraduate designated courses. For 2015/16, 84% of alternative provider graduates were working or studying six months after graduating, with a median salary of £20,500. In comparison, 90% of graduates who studied at HEFCE-funded providers were working or studying six months after graduating, with a median salary of £21,500 (paragraph 4.9).

22 Appendix Three presents the actions taken by the Department to address the recommendations the Committee of Public Accounts made in 2015 on the basis of our 2014 report.

Conclusion

23 The Department has made progress towards addressing weaknesses in its oversight of the alternative provider sector in response to our 2014 report and the Committee of Public Accounts' 2015 recommendations. For example, the Department has strengthened its oversight framework and it has suspended or revoked payments to providers where intelligence from third parties or its own analysis has identified under-performing or non-compliant providers. In addition, there are indications that expansion of the alternative provider sector has helped widen access to higher education for unrepresented groups of students.

24 However, the Department still has important issues to address before it can provide assurance that it has a firm grip on current or emerging problems. While the Department has reduced the number of ineligible payments to students at alternative providers, it does not have sufficiently timely and specific data to allow prompt measurement of the level of ineligible payments or analysis of trends. The rate of students at alternative providers who drop out of their courses has fallen, but it remains much higher than in the rest of the higher education sector. Furthermore, the Department also lacks reliable and timely data on non-continuation rates so does not impose prompt sanctions on under-performers.

Recommendations

25 The Higher Education and Research Act, which received Royal Assent in April 2017, will change the way higher education is regulated. In future, English higher education providers, including alternative providers, will be registered by the new Office for Students (OfS). The OfS will take a risk-based approach to regulation, focusing its attention on providers which represent most risk to student interest and value to the taxpayer.

26 Our recommendations are aimed at supporting the Department and the new OfS as part of continuing efforts to take a data-driven approach to manage the alternative provider sector and to develop a data strategy for alternative providers, a group where some providers present risks. As responsibility for regulating alternative providers transfers from the Department to the OfS, there will continue to be a need for timely, reliable and specific data that allows early warning of issues emerging in the sector. We recommend:

a **As part of wider action to improve the SLC's information systems, the Department should work with the SLC to strengthen analysis of applications and payments data** for students attending alternative providers to support early detection of issues emerging and enable analysis of the reasons ineligible payments are made, so that controls can be tightened where needed.

b **The Department should work with HESA to ensure that its project to improve data on higher education providers will result in timely and reliable in-year non-continuation data** that will allow the OfS to impose prompt sanctions on under-performing providers and on providers that do not submit accurate and timely data.

c **In developing and implementing the new regulatory framework, the OfS should drive further reduction in non-continuation rates.** It should take steps to address the underlying reasons why students with certain characteristics and backgrounds are less likely to complete their studies, by encouraging providers to take appropriate action and make effective support available to students at all providers where evidence suggests they are less likely to complete their studies.

d **The Department should consider using alternative sources of data and new techniques to promptly identify problems in the sector.** For example, the OfS could develop the National Student Survey further or work with HESA to develop methodologies that allow it to identify specific or emerging issues with quality.