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The Government's proposals for increased university tuition fees
House of Lords Higher Education Fees Debate Tuesday 14 December 2010

million+ Briefing

1. **How will the taxpayer be better off?**
Coalition Ministers in the House of Commons have justified the Government's reform of HE funding and the higher fees cap of £9,000 on the grounds that the fiscal deficit must be cut by the end of the Spending Review period (2014/15). Whether or not the Exchequer and taxpayer will be better off as a result of these proposals is therefore a crucial question.

Contrary to the Coalition Government's assertions, the Office of Budget Responsibility have estimated that based on a £7,500 annual fee, the reforms will actually increase the government's net debt requirement will. Taking into account a the concessions agreed by Ministers just prior to the vote in the House of Commons and the possibility of £9,000 fees, the international consultancy firm, London Economics have estimated that the reforms will cost the taxpayer more.

On 29 November, the OBR estimated that the Government's proposals would lead to an additional cumulative net public debt requirement of £13bn by the end of the Spending Review period on an annual average fee of £7,500. The OBR also concluded that the additional debt requirement would level out any savings to the public borrowing requirement achieved as a result of the reduction in HEFCE teaching grant

These calculations were made before the last-minute concessions by Ministers which extend part-time fee loans to students who study 25% of a full-time course a year and which uprate the £21,000 earnings threshold for graduate repayments on an annual basis from 2016.

As a result of these concessions and based on a fee of £9,000 per annum, London Economics have estimated that the Exchequer will not generate significant savings, will need to borrow more and further that the Government will create a more complex system with massive administrative burdens. Specifically, the Exchequer will need to borrow between £5.5bn and £6.5bn more per annum than is currently the case.

- Will Ministers now say how much more the Exchequer will have to borrow per annum than is currently the case if fees are set at £9,000, taking into account the concessions made prior to the vote on the fee caps in the House of Commons?

2. Would the taxpayer, students and universities be better-off if some teaching funding was restored?
The Government's proposals assume that the majority of undergraduate courses will receive no public investment for teaching starting with those students entering university in 2012. By 2014/15 there will be no funding for arts, humanities, social sciences, computer science, design, architecture, economics – to name just a few of the subjects for which universities will receive no funding. Science and strategically important and vulnerable subjects will receive very little funding. This raises two further key questions which Ministers have yet to answer:

- **Would the taxpayer be better off if teaching funding were to be cut by 33%,** the fee cap was lower and the student loan book less than that required under a fee cap of £9,000 and an 80% cut in teaching funding?

- **Would the taxpayer be better off if teaching funding were to be cut by 40%** the fee cap was lower and the student loan book less than that required under a fee cap of £9,000 and an 80% cut in teaching funding?

3. Will graduates pay more?
According to the Institute of Fiscal Studies, middle income families will pay the most. When looking at parental income, the proposals are regressive

i) Approximately 77% of students will pay more under the current proposals than currently the case – including a lot of middle income graduates (with salaries of c. £25,000 aged 25)

ii) Specifically, "graduates coming from the 6th decile of family income (i.e. average) pay back the most, because they receive the highest maintenance loans and are not eligible for any support from the National Scholarship. This somewhat perverse distributional effect could have been avoided" (direct IFS quote)

iii) By decile of parental income, graduates from the poorest 30% of households would pay bac*k more* than under the current system (direct IFS quote) - the proposed system is not progressive throughout the top 4 deciles of graduates by *parental income*.

iv) The average graduate will pay approximately £9,400 more for their education than is currently the case (assuming a £7,500 fee)

4. Will the National Scholarship Programme really help disadvantaged younger students?
The Government says that the National Scholarships Programme (NSP) will help social mobility and young people from disadvantaged backgrounds. Ministers have said that the NSP will deliver free tuition to students progressing to university from free school meal (FSM) backgrounds. Frees school meals eligibility is a very poor proxy for poverty: there are approximately 20% of students eligible but whose families do not register for FSM; the eligibility criteria are themselves hugely complex and the 'working poor' do not qualify for FSM.

In addition free school meals pupils are not evenly distributed between universities. Of the total cohort of 15 year olds in English maintained schools who were in receipt of free school meals in 2002/3, **10,670** had progressed to higher education by 2006/7. Ministers and MPs quoted figures for Oxford ('only 45 FSM students studying at Oxbridge') during the House of Commons debate but **3,900 (36.6%)** of these **10,670** students studied at universities which currently affiliate to million+. 250 of these former free school meals pupils were studying at Birmingham City University and 250 at Kingston University

Ministers have said that £50M is to be allocated to the NSP each year.

- How many FSM students will this cover / be funded and at what level of tuition fee per annum if the NSP is going to fund a year's free tuition provided by the state?

- If universities are required to match fund with a second year's free tuition, will this mean that universities which already take large numbers of FSM students will have to spend millions of pounds more than others (e.g. more than Oxbridge)?

- Where will these universities find the money to offer a free year of tuition to FSM pupils other than from levying higher fees from all students including many other students from disadvantaged backgrounds, including older students who will not qualify for the NSP?

- What is to stop universities avoiding recruiting FSM students if to do so will cost them additional funding at a time when 80% of teaching funding and other funds are being cut?

- If only some universities can afford to offer a second year's free tuition, does this mean that some FSM students will be treated differently from others?

- How can this be fair for students from disadvantaged backgrounds or for universities which already do most for widening participation and FSM students?

- Will the link with free tuition and FSM discourage some parents from working who might otherwise have done so?

As the IFS have noted universities will face perverse incentives and many will not have the resources to match-fund the NSP. As a result, they will be forced to pass on the costs of the NSP to other students in the form of higher fees. This will worsen the impact on students of the HE reforms and increase the proportion that will pay more in future.

5. How will the Access Agreements work?
The higher fee cap is conditional on universities wishing to charge in excess of £6,000 and up to £9,000 agreeing an Access Agreement with the Office for Fair Access (OFFA). At present only draft guidance has been issued. Universities do not yet know how the NSP will work or what the combined potential financial implications of the NSP / Access Agreements will be.

- How can the House of Lords vote for fee caps in advance of understanding the financial implications for universities of the NSP and the Access Agreements?

6. Do the proposals take into account the impact on student debt?
Ministers have argued that it is the level of monthly payments and the increase in the earnings threshold to £21,000 and annual uprating of the latter, which make their proposals more progressive. However, BIS assumes that the average fee levied will be £7,200 per annum and many universities will have little option but to increase fees well above £6,000 to offset the dramatic loss (75-80%) of teaching funding.

Students and graduates will be affected by the **total** package i.e. the total amount of the loan, the repayment period of 30 years and the accrual of RPI and for those earning above £21,000, an additional interest rate of up to 3%. This is why members of the House of Lords need to examine the overall impact of the proposals and not just monthly repayments.

The loss of teaching funding will double or treble debts in relation to fee loans. As a result students will graduate with very high levels of debt once maintenance loans are taken into account.

For example as per the Government's student finance proposals[1]:

If fees are set at £6,000

- **A student from a household earning £25,000** who borrows to pay for tuition fees of £6,000 pa and borrows £3,875 pa (on top of an annual maintenance grant of £3,250) **will graduate with a debt of £29,625**
- **A student from a household earning £42,600** who borrows to pay for tuition fees of £6,000 per annum and the full £5,500 annual maintenance loan **will graduate with a debt of £34,500**.
- **A student from a household earning £62,125** who borrows to pay for tuition fees of £6,000 per annum and the maximum £3,575 annual maintenance loan that they are eligible for **will graduate with a debt of £28,725**.

If fees are set at £9,000

[1] BIS (2010) The Government Student and Graduate Finance Proposals

- **A student from a household earning £25,000** who borrows to pay for tuition fees of £9,000 pa and borrows £3,875 pa (on top of an annual maintenance grant of £3,250) **will graduate with a debt of £38,625**
- **A student from a household earning £42,600** who borrows to pay for tuition fees of £9,000 per annum and the full £5,500 annual maintenance loan **will graduate with a debt of £43,500**.
- **A student from a household earning £62,125** who borrows to pay for tuition fees of £9,000 per annum and the maximum £3,575 annual maintenance loan that they are eligible for **will graduate with a debt of £37,725**.

7. What is the impact of inflation (RPI) and the introduction of a real rate of interest?
With much higher levels of debt, the impact of introducing a real rate of interest on loans will be significant. In the last five years RPI has varied from 1.7% to 6.8%. The tables below illustrate how, irrespective of earnings, 'zero-rate' interest might accrue depending on the balance of the loan and the value of RPI. For those earning more than £21,000, whose loans will be subject to an additional rate of interest of up to 3%, interest will accrue at an even greater rate. This raises the prospect that many graduates will never pay off their loans and that their loans will grow in size.

Impact of RPI alone in year following graduation (£6,000 fees)[2]

Household Income	Student Debt	RPI = 1%	RPI = 2%	RPI = 3%	RPI = 4%	RPI = 5%
£25,000	£29,625	£296	£593	£889	£1,185	£1,481
£42,600	£34,500	£345	£690	£1,035	£1,380	£1,725
£62,125	£28,725	£287	£575	£862	£1,149	£1,436

Impact of RPI alone in year following graduation (£9,000 fees)[3]

Household Income	Student Debt	RPI = 1%	RPI = 2%	RPI = 3%	RPI = 4%	RPI = 5%
£25,000	£38,625	£386	£773	£1,159	£1,545	£1,931
£42,600	£43,500	£435	£870	£1,305	£1,740	£2,175
£62,125	£37,725	£377	£755	£1,132	£1,509	£1,886

Ministers should answer the following questions

- How much more will the average graduate pay for their higher education with a £9,000 fee than is currently the case?

- With a loan on graduation of £40,000, what salary will a graduate have to earn to ensure that the capital on their loan is being repaid once their loans attract RPI plus a 3% interest rate?

- With a total fee and maintenance loan of £40,000 on graduation, what percentage of women e.g. those graduating at 30 years of age will never repay their loans compared to the present system and what amount of the loan on average will they have outstanding according to their income decile?

- With a total fee and maintenance loan of £40,000 on graduation, what percentage of mature students e.g. those graduating at 30 years of age will never repay their loans

[2] Student debt figures are based on maintenance grant and loan parameters in 10/11 prices as set out in BIS (2010) The Government Student and Graduate Finance Proposals
[3] ibid

compared to the present system and what amount of loan on average will they have outstanding according to their income decile?

8. What is the impact on women?
Once students earn over £21,000, interest of up to 3% will also be added. The larger fee loans, longer repayment period and the addition of interest will impact in particular on women, who as a result of family and caring commitments, will pay off for longer and in many cases will never repay.

9. What is the impact on families?
Many younger graduates setting up home for the first time will find that as a two-person household they will have debts and loans related to their participation in higher education of between £75,000 and £85,000. If either partner stops work to look after children or works part-time and earns less than the repayment threshold, their loans will still increase by RPI. Their partner will continue to repay and if their earnings are more than £41,000? , their loans will accrue interest at RPI plus 3% even if they are the only earner in the household. In many two person graduate households earning average wages, one or in some cases both graduates are likely to have outstanding loan debts when their own children apply to university.

The age at which students enter university will also affect when graduates repay their loans. For example, a woman primary school teacher who enters the profession at 30 will pay less per month but will never repay and is likely to have an outstanding loan of more than £21,000 at the end of the 30 year repayment period i.e. when she is 60.

- What assessment has the Government made of the increase in household debt which will arise if individual graduates leave university with loans of £40,000 each?

10. What is the impact on Muslim students?
The Government's interim equality assessment recognises that loans which attract interest are not attractive to some students e.g. Muslim students

What proposals does the Government have to mitigate this impact, given the size of fee and maintenance loans that will be required?

11. What are the likely write-off costs to the taxpayer of the proposals?
BIS has calculated that only 25% of graduates will repay their loans in full. It is unlikely that this will be considered to be progressive by the 75% of graduates who will carry debts associated with their higher education for the majority of their working lives. However, this also has implications for taxpayers and the Exchequer. London Economics have estimated that even without the concessions, the write-off costs are likely to rise to 42p in the pound from the current 27p in the pound. The write off costs (the RAB charge) will also impact on the future sale of the student loan book which Ministers want to undertake by 2016. Ministers should now confirm:

- **What percentage of graduates will not pay off their loans in full** and what will the additional costs to the taxpayer compared to the current system?

- **What will the RAB charge (the loan write-off costs) be compared to the present**, taking into account the extension of part-time fee loans and annual uprating of the earnings repayment threshold?

- What assessment has the Government made of the impact of their proposals including the extension of part-time fee loans and the annual uprating of the earnings repayment threshold on the prospects of the **future sale of the student loan book which will be affected by the RAB charge and by the percentage of graduates not expected to pay-off?**

12. What is the impact pact on the Exchequer of non-progression to higher education?
If qualified students who are debt or risk averse choose not to progress to higher education, this will have a long-term impact on the Exchequer in terms of loss of revenues regardless of any loss of opportunity for the individual.

- What estimate has the Government made of the number of students who may no longer progress to higher education if fees are raised to £7,000, £8,000 and £9,000 per annum?
- What will be the cost to the Exchequer in terms of loss of revenue as a result of this number of people not having graduate qualifications?

13. What are the Transaction costs of the reforms?
The proposals make an already complex system even more complex. There are huge inefficiencies in transferring all funding to students, then transferring funding to universities in the year in which students are studying, expecting universities to use some of this funding for widening participation activities, institutional bursaries scholarships and the NSP – and then collecting the funding back from graduates over 30 years. Moreover the loan calculations are not straightforward. RPI be added to all loans; RPI plus up to 3% will be added to loans for graduate earnings over the repayment threshold and the latter will be uprated annually.

Currently universities receive teaching funding in the form of an annual grant from the Higher Education Funding Council (HEFCE) and additional fee income 6 months later in the academic year. However, fee income will substitute for teaching grant and will have to be transferred from the Student Loan Company at the start of the academic year otherwise universities will have to find up to 6 months operating costs from reserves.

The proposals are more complex, less transparent, more administratively burdensome and will create perverse incentives and significant administrative burdens compared to the current system.

14. How will the annual uprating of the earnings threshold work in practice?
There are real complications for employers and graduates as well as the SLC and HMRC of administering an annual uprating of the earnings threshold. Graduates are likely to find the system even more complex and less transparent than at present and there will be a lot more money / loans at stake. For example:

- Who will have responsibility for the annual uprating of the earnings threshold, when will the latter be announced and to what tax year will it apply?

- How will the tapered additional interest rate of up to 3% on earnings over the earnings threshold now apply? (SLC will also have to add / adjust RPI).

- When will HMRC and SLC apply the annual uprated earnings threshold and calculate what graduates owe / what their repayments should be (if any)?

- These repayments / deductions are made by employers – when will they be told?

- How much will this cost administratively and what risk assessment has been undertaken in terms of accuracy and transparency for graduates?

15. Will the proposals increase social mobility?
Social mobility in higher education is not just the number of students progressing to Oxbridge from disadvantaged backgrounds. Social mobility is also about enabling students from disadvantaged backgrounds to enter higher socio-economic occupations and improve their earnings compared with their backgrounds, whichever university they study at. The real risk from the current proposals is that they will damage participation by students who are more debt and risk averse. They are also likely to risk the participation of older students, many of

whom are from widening participation backgrounds and who progress to university in their twenties and thirties rather than straight from school.

A recent Ipsos MORI survey of 11-16 year olds found that the prospect of increases in tuition fees had significant deterrent effect on participation. One in six (17%) said they were unlikely to go if tuition fees increased to £5,000 and almost half (46%) if fees increased to £10,000 a year[4]. Students with less family and financial support are more debt and risk averse and the survey found that fee increases had a greater deterrent effect amongst 11-16 year old from more disadvantaged backgrounds[5].

Irrespective of the graduate repayment system and whatever Ministers say about lower monthly repayments vis a vis the current system, higher fees and higher levels of debt are likely to deter students from lower socio-economic backgrounds – who already leave university with the greatest amount of debt[6].

16. What assessment has been made of the impact of other decisions on students from disadvantaged backgrounds?
The decision to cut a variety of initiatives together with the impact of higher fees is likely to damage participation from disadvantaged backgrounds. For example:

- Funding will be withdrawn from the flagship national access scheme 'AimHigher' (annual spend £78m) with effect from April 2011

- Education Maintenance Allowance (worth £450 million per annum) will end completely by the end of the 2010/11 academic year and is likely to have an adverse impact on the progression of college and sixth form students from disadvantaged backgrounds.

- No assurance has been given about the future of the 'Widening Participation Premium' which is currently paid to institutions in recognition of the additional costs of teaching widening participation students while they are at university and is worth £340m per annum.

17. Do the proposals ensure a properly funded university sector and will they improve the quality of teaching?
The Government is asking members of the House of Lords to vote for proposals which, in their present form, will lead to the withdrawal of public funding from the majority of undergraduate courses in universities in England.

Only by charging much higher fees, of between £7,500 and £9,000, will universities have any chance of retaining their current levels of funding. Even if the House of Lords votes to permit such high fees, there will be no guarantee that these increased fees will provide better teaching or university facilities or that they will improve the student experience. The House of Lords would also be voting for the highest fees in Europe as well as in many state-funded US universities.

18. The Alternative
There is an alternative. If public investment in undergraduate teaching was cut not by 80% but by 38% cut – a significant belt-tightening and comparable to other public sector cuts – it would restore £1.46bn to teaching funding. Under this scenario, the fee cap could be lowered to £5,000. Exchequer borrowing for the student loan book under a £5,000 tuition fee loan would

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[4] Ipsos MORI (2010) Young People's Omnibus 2010: A research study among 11-16 year old on behalf of the Sutton Trust
[5] ibid
[6] HECSU (2010) Futuretrack Stage 3 Working Paper 3. The impact of paid and unpaid work and of student debt on experience of higher education

be £5.1 billion compared to £7.445 billion per annum under a £7,500 tuition fee and matching loan. This would present a much better deal for students and graduates and universities.
It would recognise that higher education is a benefit to society and the economy and not just to the individual. Crucially in present economic circumstances, the taxpayer and the Exchequer would also be better off.

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