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Education Bill 2011: House of Lords Committee Stage
million+ Briefing

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Education Bill

The Education Bill raises a number of issues of relevance to universities and students. This briefing note addresses in particular the proposals in the Education Bill to:

- extend the BIS Secretary of State's powers in respect of interest rates to be applied to student fee and maintenance loans
- provide fee loans for (new entrant) part-time higher education students from 2012.

Part 8: Student Finance: Powers of the BIS Secretary of State to set interest rates on student fee and maintenance loans
Clause 70

Extension of the Secretary of State's powers

The Bill provides the BIS Secretary of State with wide-ranging powers to adjust the interest rates to be charged on student loans for students entering English Universities as new entrants from 2012. Currently, adjustments to interest rates on student loans are subject to primary legislation. The Bill therefore represents an extension of the powers of the Secretary of State to make decisions in relation to interest rates which in turn have potentially significant implications for students, graduates and the taxpayer.

Current system: application of RPI

At present, the fee and maintenance loans of students who study at English universities attract interest while individuals are students and when they graduate. This is charged in line with a pre-determined measure of inflation (RPI). If no contributions (payments) are made, the size of the loans increases in *cash* terms but remains fixed in *value* terms. This means that the value of the money borrowed by students has the same value as the money repaid.

Impact of RPI and positive real rate of interest including on mature students

The Bill provides the Secretary of State with the power to introduce a positive real rate of interest *in addition* to RPI on fee and maintenance loans. Under a positive real rate of interest, the size of the loan increases over and above the rate of inflation. The size of the loan will increase annually in *real* terms if no contributions are made implying that graduates will eventually contribute a greater amount than they originally borrowed in *real* terms. Depending on the size of the loan, and the real rate of interest charged in excess of RPI, more graduates than at present are likely find that they do not pay-off their loans in full in spite of many making repayments of 9% of earnings over the *full* repayment period (30 years). A positive real rate of interest will impact in particular on the repayments of mature students who may reach the end of their working lives without paying-off their student loans. It is also likely to have an adverse impact on female graduates and on men in the bottom decile of earnings.

Ministers have indicated that, subject to the Education Bill, they intend to apply RPI plus a positive real rate of interest of 3% to the fee and maintenance loans of full-time students while they are studying, RPI to the loans of graduates earning below £21,000, RPI plus a taper of up to 3% for graduates earning between £21,000 and £41,000. Above earnings of circa £41,000, loans will increase by RPI plus 3%.

The removal of 80% of teaching funding, and the switch in funding from universities to students loans, means that overall loan 'debt' on graduation will be much higher than at present. The impact of a positive real rate of interest will therefore be significant and will lead to graduates paying more for their higher education and paying for longer than at present. Currently it is estimated that the cost of 'write-off' (the RAB charge) of the current system is approximately 27p-30p in the pound. BIS estimates of write-off for the new system are much lower than those of other commentators – for example, London Economics has estimated that the RAB charge will increase to 38p in the pound while Hepi has estimated that the RAB charge could increase to 50p in the pound. The Deputy Prime Minister has also stated that up to 60% of graduates are not expected to repay their loans in the future. As a result, many more graduates are likely to reach the end of the repayment period without paying off their loans. This has obvious consequences for the taxpayer.

The combined impact of rising levels of inflation and a real interest rate of 3% on student fee and maintenance loans is illustrated in Table 1. This models the impact of RPI plus 3% on a fee of £7,500 and assumes that fee and maintenance loans increase by inflation each year (as under the present system) and that RPI remains at current levels (4.8%). As the 'full-rate' of RPI plus 3% will be levied whilst students are still at university the final total could reasonably reflect debt on graduation of someone paying what BIS had previously assumed would be the average fee.

Table 1

Year	Fee	Maintenance	RPI	Real Interest	TOTAL
1	£7,500	£3,575	0.048	0.03	£11,939
2	£7,860	£3,747	0.048	0.03	£25,382
3	£8,237	£3,926	0.048	0.03	£40,474

Table 2 models the impact of RPI plus 3% on a fee of £9,000 and again assumes that fee and maintenance loans increase by inflation each year and that RPI remains at current levels (4.8%).

Table 2

Year	Fee	Maintenance	RPI	Real Interest	TOTAL
1	£9,000	£3,575	0.048	0.03	£11,939
2	£9,432	£3,747	0.048	0.03	£28,820
3	£9,885	£3,926	0.048	0.03	£45,956

Other issues for students and graduates

The application of a real rate of interest is not uncommon in other EU countries. For example, it is applied in the Netherlands on fee and maintenance loans and in Sweden on maintenance loans. However, student fees are not levied in Sweden and fees are much lower in the Netherlands with the result that the application of a real rate of interest on student and graduate debt has a much smaller impact on debt.

The application of a real rate of interest will have no impact on students who are wealthy enough to pay upfront and it will have a reduced impact on graduates who are able to pay off their loans early. However, it is well known that students from more disadvantaged backgrounds are both more debt and risk averse and that students from some backgrounds e.g. some Muslim students, may not feel able to

take our loans which accrue interest.

Administrative complexity
Ministerial decisions in relation to interest rates have the potential to increase complexity in an already complex system. For example, for graduates on PAYE, employers calculate and deduct repayments based on earnings. HRMC collects and advises the SLC of repayments and the loan balance is adjusted. However, the SLC has to be informed at the end of the tax year and graduates can wait up to 18 months for the adjusted balance statement. In future, the system will require the balance statements of graduates to be adjusted by RPI, plus / minus a taper of up to 3% and to be further adjusted for the annual uprating of the earnings threshold. It is therefore difficult to see how the application of interest rates to the fee levels approved by Parliament, as currently proposed by Ministers, will provide a more transparent and accurate system for students and graduates in the future. BIS has also conceded that the changes will increase employers' administrative costs.

Parliamentary Scrutiny
At face value, it can be argued that the Bill offers the BIS Secretary of State appropriate powers to apply and adjust a real rate of interest on student loans. However, the extension of the Secretary of State's powers does imply less Parliamentary scrutiny in the future on matters which are of importance to students, graduates and taxpayers as well as to universities. As tabled, this extension of powers offers no guarantee that any additional revenue which is raised as a result of the application of real rates of interest on student and graduate loans will be spent on universities or higher education in the future.

Part 8: Student Finance, Fee Loans for part-time students
Clause 71

Fee Loans for part-time students and a unified system
14.1 million+ welcomes the principle that part-time students will be eligible for fee loans. Part-time students are not confined to 'part-time' institutions such as the OU and Birkbeck. In many modern universities, over a third of students study on a part-time and flexible basis. million+ submitted evidence to the Browne Review but also to a series of Select Committee Inquiries advocating a unified system of student support.

Subject to the Education Bill being approved, part-time course grants will be removed and part-time students will be entitled to access fee loans (but not maintenance loans) if they study at 25% intensity or more per annum. Part-time student loans will have the same conditions attached to them as for full-time students for the first three and half years of study i.e. loans will attract RPI plus interest at 3%. Thereafter part-time students whose earnings rise above the earnings threshold of £21,000 will be required to start repaying loans at 9% of earnings. It is not clear whether their fee loans will then attract interest charged at RPI plus a taper of 3% or RPI plus 3% (the rate applied to be applied to full-time students while they are studying). Part-time students will therefore be subject to different repayment regimes when compared to their full-time peers. This means that the Government has not yet adopted the more unified system which is applied to student support in many other EU countries where no distinction is made on the basis of mode of study of the student.

BIS has provided the following in the explanatory notes for the Bill:
"*The Bill also proposes to give the Secretary of State the power to specify in regulations the maximum tuition fee that higher education institutions (HEIs) may charge part-time undergraduate students in a given year. The level of the cap will be set through regulations, and the Impact Assessment will be published at that stage. The current proposals for the cap, taken in isolation, will have no significant costs and benefits that can be monetised. This is because our analysis suggests that part-time course*

tuition charges do not currently exceed the maximum amounts proposed for the cap. The upper fee amount will be £6,750. The lower fee amount will be £4,500. From the latest analytical information we hold on part-time tuition fees, the Student Income and Expenditure Survey published in 2009 – the average cost of tuition at that time was £1,006. The purpose of the measures is not to reduce the amount that HEIs currently charge part-time students, but to mitigate the risk that HEIs sharply increase their charges, following the proposed changes to the loan arrangements for part-time students."

The proposed fee caps of £6,750 and £4,500 relate to 75% of a £9,000 full-time fee and 75% of a £6,000 full-time fee respectively. However, the proposal is predicated on the assumption that part-time students do not study at more than 75% and that universities would be seeking to raise part-time fees excessively if the part-time fee cap was higher than that proposed by BIS. This fundamentally misunderstands how part-time students study because in practice there is a good deal of flexibility in relation to the intensity of study which may vary according to circumstances e.g. work, family commitments and the number of modules that students have been able to study in previous year(s).

Both part-time and full-time study is based on modules and credits rather than on percentage 'intensity'. There are 120 credits in an academic year. Accordingly it would be much more helpful for students if universities were able to charge part-time fees on a pro-rata basis linked to the credits undertaken and the full-time fee set by the university for the course in question (with an eligibility floor of 25% intensity). This would provide more flexibility for students and would be no more costly overall in respect of fee loans – especially since part-time students will not be eligible for maintenance loans or grants from 2012.

Funding accelerated learning and degrees from 2012

15.1 BIS also needs to resolve the problems of funding accelerated degrees from 2012. The statutory regulations tabled in relation to full-time fees have the effect of limiting the fee that universities can charge for accelerated degree courses. For example, if the university offers a three year degree course at £9,000 per annum, the university will receive £27,000 in fee income. However, if the three year course is taught under an accelerated programme of two years, the university can charge a maximum of £18,000. As a result, accelerated degree students and courses remain less attractive in funding terms for an institution. It should be noted that, if this is resolved, accelerated students could provide Exchequer benefits as they would only be eligible to claim, using the example above, two rather than three years maintanance.

Currently, funding is predicated on Hefce grant which is proportionally increased by a multiplier for part-time study and 'long' courses. This off-sets the additional administrative costs of running part-time provision and the additional teaching associated with accelerated learning. However, there is no such provision in the new fees-only system. Hefce regulations on loading refer to the expected overall duration of the course, accessibility of SLC funding and overall 'study hours' which, for a full-time course is stipulated as 21 hours per week for 24 weeks.

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October 2011