

## Behind the Headlines Summary

### *Higher education funding in England: Do the alternatives add up?*

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The higher education funding system in England has undergone rapid change over the past two years. Amidst some concerns about the sustainability and equity of the current funding model, two alternative funding models have been mooted, the first involving a maximum tuition fee of £6,000 and the second based on a graduate tax to cover the costs of tuition fees. Yet to date few concrete details have emerged as to how these alternative proposals might work.

Given the potential for further debate about higher education policy and funding, this pamphlet, the third in the *Behind the Headlines* series, explores these two proposals and compares them to the funding system introduced in England in 2012-13.

We adopt two underlying principles when assessing the resource implications of each proposal for the key stakeholders in the higher education system. First, that the per unit resource available to universities should be no lower than under the current system of fees and funding. Second, given the wider economic climate, that the economic cost to the Exchequer would be no more than is currently the case.

#### Key Findings

The analysis in *Higher education funding in England: Do the alternatives add up?* shows that there are financially viable alternatives to the current system of higher education funding in England. It is possible to structure both a funding system premised on a tuition fee of £6,000 and one involving a graduate tax or Higher Education Contribution System so as to preserve the unit of resource available to universities and result in no additional Treasury cost in economic terms over the repayment or contribution period.

Under a **£6,000 tuition fee** modelled on the parameters used for this analysis:

- Participation would most likely increase by approximately 12,500, producing a host of benefits for these individuals, society and the Treasury in the long-term.
- The short-term costs of funding these additional student places and the increased funding that would be required by universities could be recovered over a 30 year period through amended repayment terms for graduates.
- Lower tuition fees would reduce inflation and government spending on (for example) inflation-linked welfare benefits and the government's cost of borrowing.

Under a **graduate tax or Higher Education Contribution System** modelled on the parameters presented in this analysis:

- Less is known about likely rates of participation but Treasury borrowing would decline marginally compared to the 2012 System and the system would in *economic* terms cost no more than the current system.
- However from an accountancy perspective the introduction of a Higher Education Contribution System would lead to an increase in BIS departmental expenditure and an adjustment in the accountancy rules would be required to negate this.
- Students would graduate with lower levels of debt under both the £6,000 fee cap and the Higher Education Contribution System but this does not necessarily mean that graduates would contribute less to the costs of their higher education over their working lifetimes since the rate and extent of their contribution would be determined by Government.

Overall, *Higher education funding in England: Do the alternatives add up?* demonstrates that there are viable alternatives to the current funding system. It highlights the need to consider the participation implications of any funding proposal but also raises questions about the relative influence of economic costs versus accountancy costs in political decision making.

This is, of course, only one part of the story. Successive governments have focused on funding and student support systems for young, full-time students. When reviewing options for higher education funding, there is a strong case for a more holistic approach. Such an approach would take into account the diversity of the student profile, participation by those who want to study for a degree later in life or on a more flexible basis. It would also consider the potential impact of any undergraduate funding system on postgraduate funding and participation and on participation by students who wish to study for a second degree or for another higher education qualification.

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### About million+ and London Economics

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- million+ is a leading university think-tank, working to solve the complex problems in higher education [www.millionplus.ac.uk](http://www.millionplus.ac.uk).
- London Economics is one of Europe's leading specialist economics and policy consultancies, and undertakes work for a range of public and private clients, including Government.

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