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Behind the Headlines

Summary Report: *Are the changes to higher education funding in England cost-effective?*

The higher education funding system in England has changed radically since 2010.

At a time of significant change it is vitally important to map and understand the direct costs and benefits of the new funding regime. Given the potential for unintended consequences associated with any policy change, it is also important to explore the wider macroeconomic implications of the shift from direct to indirect taxpayer funding for higher education. *Are the changes to higher education funding in England cost-effective?* presents new modelling of the higher education funding regime in England adopted from 2012. It is undertaken by London Economics on behalf of million+.

Based on previous analyses, London Economics has factored in a 30,000 reduction in UK-domiciled undergraduate students entering English HEIs between 2010/11 and 2012/13[1]. All the estimates presented here combine the various resource flows between students/graduates, higher education institutions and the Treasury. These include short term costs and benefits when students are participating in higher education, as well as over a working lifetime, including the 30 year period following graduation up to the point that outstanding student loans would be written off.

The main findings – displayed in present value terms – are as follows:

- Overall the Treasury will contribute £1.166 billion *less* to the funding of the smaller 2012/13 cohort of students overall compared to the 2010/11 cohort of students. This saving is driven primarily by the shift away from the provision of HEFCE teaching grants towards increased loan-supported tuition fees.
- However the reduced higher education participation rate in 2012/13 and changes to the funding system will in the long term cost the Treasury approximately £6.268 billion. These long term costs include £3.001 billion and £0.444 billion in reduced expected earnings and employment outcomes (at undergraduate and postgraduate level respectively) and £2.360 billion and £0.463 billion in lost taxation revenues at undergraduate and postgraduate level respectively.
- There are a range of additional impacts associated with the new funding regime that must also be considered when weighing up the costs and benefits of this policy change. For example higher education tuition fees make up 0.646% of the basket of goods and services that the ONS uses to calculate the Consumer Price Index. Our calculations suggest that the

[1] London Economics modelled the impact of changes in student support arrangements on higher education participation. In written evidence to the BIS Select Committee Inquiry into higher education fees and funding, the London Economics' analysis forecast that the change in fees and funding arrangements would result in a reduction in first time undergraduates of approximately 45,000 (both FT and PT). http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/885/885.pdf. In this report, we provide a more conservative estimate of the reduction in student numbers so as to provide a lower estimate of the impact of changes in fees on funding on economic outcomes.

increase in tuition fees will have 0.24 percentage point impact on the headline CPI inflation rate and a 0.22 percentage point impact on the Retail Price Index.

- Since a proportion of the government's costs of borrowing are directly related to the Retail Price Index and since the government has issued £294 billion in index-linked gilts, a rise in the Retail Price Index of 0.22 percentage points is likely to cost the government £655 million in additional interest payments in the first year of higher tuition fees (2012/13).
- Despite the cap on *working-age* benefits introduced in Parliament in January 2013 we have calculated that the 0.24 percentage point effect on CPI would result in additional Treasury payments on *non-working age* benefits of £42 million on public sector pensions, and £163 million on state pensions.
- Given that the higher tuition fees will be implemented over three cohorts of students, we would also expect to see further inflationary effects in 2013/14 and 2014/15 that are of similar magnitude *unless* the government takes action to counter these inflationary shocks.

Overall, *'Are the changes to higher education funding in England cost-effective?'* finds that "the combined costs of increasing higher education fees is estimated to be almost 6 ½ times as great as the potential Treasury expenditure savings.

About million+ and London Economics
For more information please contact Jean Candler, Head of Public Affairs on 0207 717 1659 or out of hours 07900 277 819.

- million+ is a leading university think-tank, working to solve the complex problems in higher education 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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