

AN ANALYSIS OF THE HIGHER EDUCATION REFORMS

*Lorraine Dearden
Emla Fitzsimons
Alissa Goodman*

An Analysis of the Higher Education Reforms

*Lorraine Dearden, Emla Fitzsimons and Alissa Goodman**

Institute for Fiscal Studies

Executive Summary

1. The Higher Education Bill, narrowly endorsed by MPs in their vote on 27 January 2004, will abolish upfront tuition fees for students and introduce variable fees of up to £3,000 a year from 2006–07. Graduates will be entitled to a subsidised Graduate Contribution Scheme (GCS) loan equal to the value of their fees. Graduates from 2009 will contribute 9% of any earnings above £13,925 each year towards repaying the loan. The outstanding value of the loan will rise each year in line with inflation, with any sum remaining unpaid after 25 years being written off.
2. While at college, students from the poorest backgrounds will receive a bursary of at least £300 a year if the higher education institution charges full top-up fees. Under the most recent proposals, students from families with incomes of up to £33,630 will receive a means-tested grant of up to £2,700 a year. Students will also be entitled to a means-tested loan of at least £3,300 (for those living away from home and outside London), to help cover living costs.
3. These current proposals – which include the concessions introduced in January 2004 – differ from those of the White Paper published in January 2003 principally in the greater generosity of the support provided to students while at college, and especially to those from poorer backgrounds. Graduates will have to start repaying their loans at lower incomes than under the original proposals, but for graduates who remain on low incomes for a long time after leaving college, their outstanding debts will eventually be written off.
4. The largest government-sponsored debt that a student with parents on an income of up to £26,000 could incur for a three-year course living away from home outside London would be £19,335 in 2006–07 prices. The potential debt then rises to a maximum of £21,885 for a student whose parents' income is £33,630 a year (and therefore just large enough for the student to no longer be entitled to a grant). The potential debt then

* We would like to thank Stuart Adam, Robert Chote, Greg Kaplan, Leslie McGranahan, Judith Payne, Jonathan Shaw and Barbara Sianesi for invaluable advice and assistance. We would also like Peter Swift from the DfES for providing us with details of the reforms and for clarifying many issues. Despite all this help, the usual disclaimer applies. This research was funded by the ESRC Centre for the Microeconomic Analysis of Public Policy at IFS.

declines steadily again to £18,665 for students with parents on incomes above £44,000.

5. According to the National Union of Students, a full-time student living outside London and away from home would need £9,890 per academic year in 2006–07 prices to live and pay tuition fees of £3,000. We calculate that for students with parents on incomes of up to £15,970 a year, the combination of bursary, grant and loans would leave them around £335 a year short of this total. The shortfall then increases as parental income rises and as the student's entitlement to grant diminishes. Students from middle-income backgrounds (with parental income of around £25,000) could be £2,400 short and those from high-income backgrounds (parental income above £44,000) around £3,590 short.
6. Students receiving parental contributions or income from other sources which means that they do not need to take out the maximum loan available to them would still be well advised to do so because of the government subsidy. They could put the money in an interest-bearing bank account and make a profit.
7. Whatever amount a graduate earns, the loan repayment they will have to make is relatively small compared with their income tax and employee National Insurance bill. A graduate on £10,000 a year in 2009–10 would pay 13.9% of gross income in these taxes and no loan repayment; a graduate on £25,000 a year would pay 25.4% in tax and 4.0% in loan repayment; and a graduate on £50,000 a year would pay 30.3% in tax and 6.5% in loan repayment.
8. Imagine a graduate who completed a three-year course and then earned the median graduate income for their age until 55; in other words, if you were to line all graduates of the same gender up from rich to poor, they would be the ones in the middle in each year. A typical male graduate of this sort would have lifetime gross earnings of just over £1.2 million and would pay £329,996 in income tax and National Insurance. If the graduate had parents with income of £35,000, he would make £21,440 in loan repayments over 20 years, adding 6.5% to his tax bill and raising his working-lifetime average tax rate from 27.5% to 29.3%. (Of course, he would be paying a number of other taxes as well, which we do not consider.) He would also in effect have received a subsidy on the loan from the taxpayer of £6,103.
9. The addition to the tax bill on this definition for the equivalent female graduate would be 8.0%, which is higher because she could expect to earn less over her lifetime (which also means that the female graduate would take four years longer to pay off her loans). For both male and female graduates, the additional tax bill would be slightly smaller if they had come from low- to middle-income families (and had therefore received

bigger grants) or from high-income families (and had therefore not been entitled to such large maintenance loans).

10. Would students opting for longer courses find their loans a bigger burden? Imagine a female doctor graduating after five years at college and – as one might imagine for this sort of job – starting work three-quarters of the way up the female graduate earnings distribution. She would earn more, pay more tax and make bigger loan repayments than the typical female graduate. If her parents had income of £35,000, the loan repayments would add 7.4% to her tax bill.
11. What about a female graduate who starts work on relatively low earnings of £6,800 in 2006–07 prices – about a quarter of the way up the female graduate earnings distribution – and then takes five years out of the labour market at age 28 to start a family. She would not earn enough to repay all of her loan within 25 years and would therefore have received a much larger subsidy from the taxpayer – about two-thirds of the value of her debt. Her loan repayments would add around 5.8% to her working-lifetime income tax and National Insurance bill.
12. A high-flying male graduate starting work and remaining 95% of the way up the male graduate earnings distribution would pay off his debt in around 10 years and would therefore receive a smaller public subsidy in proportion to his debt than the typical male graduate. Because of the progressive nature of the income tax system, he would pay a bigger proportion of his income in tax, and his loan repayments would therefore add less than 2% to his tax bill.
13. All of these examples suggest that the repayment burden implied by taking out even the maximum student loan would be relatively small compared with the income tax and National Insurance that graduates would be paying anyway.
14. In costing its plans, the government currently assumes that 75% of courses will attract the full top-up fee of £3,000 per year and that the rest will remain at the basic fee level of around £1,200 (in 2006–07, when the top-up fees come in). Based on this assumption, top-up fees are likely to bring in around an extra £1 billion per year. Universities and colleges will be allowed to keep the additional revenue from the top-up fee, but will be required to pay back at least £300 per qualifying student in bursaries. This could cost them £50 million in total.
15. The top-up fees will therefore provide universities with up to an extra £950 million to spend on increased teaching resources, depending on how generous their bursaries are. This could increase teaching resources per head by around £1,250, or 22% on top of the current level of £5,600 (in 2006–07 prices).

16. As well as ensuring universities extra revenue, the government is also committed to increasing spending on student support. In order to pay for the extra grants that students will qualify for from 2004–05 and to subsidise the new loans, the government will have to find in excess of £1 billion. It has promised that this will not be taken from the higher education budget, but the amount will have to come either from other public spending categories or from general taxation.

1. Introduction

The government's plans for reforming higher education (HE) funding have been a source of great controversy. Much of this controversy has been focused on what the reforms will mean for students from different family income backgrounds and on the levels of debt they may need to incur to go to higher education. Concern has also been raised about how graduates will be affected by these debt repayments throughout their working lives, as well as whether or not the funds raised will improve the situation of universities significantly.

This Briefing Note addresses these issues, as well as describing the evolution of the proposed reforms to HE funding in recent months. In doing this, we set out and explain the system that is most likely to be implemented if the Higher Education Bill passes into law¹ and discuss the ways in which students, graduates and universities are likely to be affected. We also consider the possible effects on the taxpayer. Our Briefing Note builds on earlier work at IFS in which we provided a detailed assessment of the proposals originally outlined in the government's White Paper and compared these with proposals that were being put forward by the Conservatives.²

2. An Analysis of the Proposed Reforms

In analysing the proposed reforms, we answer five key questions, namely:

- (i) What are the proposed reforms?
- (ii) What will the reforms mean for student support in higher education?
- (iii) What will the reforms mean for students once they leave higher education?
- (iv) How much extra money can universities expect to see, and how may the bursary system affect this?
- (v) What are the costs to the taxpayer of the reforms?

(i) What are the proposed reforms?

The main features of the proposed reforms to the HE funding system are set out in Table 1. The first column shows the details originally set out in the White

¹ At the time of writing this report, the first vote on the Bill in the House of Commons had been endorsed by a majority of MPs, but the Bill had yet to go through the further stages of the parliamentary process.

² See Goodman and Kaplan (2003). This report also considered the economic principles behind the reforms.

Table 1
Details of the White Paper 2003 and the Higher Education Bill 2004
(2006–07 prices)

<i>Measures</i>	<i>White Paper January 2003</i>	<i>Higher Education Bill 8 January 2004</i>	<i>The 'new system': proposed changes to Higher Education Bill 19 January 2004</i>
FEEES			
UPFRONT FEES	<i>From 2006–07</i> No upfront fee.	<i>From 2006–07</i> As in White Paper.	<i>From 2006–07</i> As in White Paper.
DEFERRED FEES	<i>From 2006–07</i> Set by university. Initial cap of £3,000 p.a.	<i>From 2006–07</i> As in White Paper.	<i>From 2006–07</i> As in White Paper.
	Full exemption on fee up to £1,200 p.a. if family income < £22,580. Partial exemption on fee up to £1,200 p.a. if family income < £33,630.		Fee exemptions replaced by grants.
LOANS			
		<i>From 2006–07</i> Debt forgiveness after 25 years.	
LOANS FOR FEES	<i>From 2006–07</i> Graduate Contribution Scheme (GCS). Repayment terms same as for maintenance loans.		<i>From 2006–07</i> Increased GCS loans (equal to the amount of the fee exemption) for those who would have been eligible for fee exemptions, i.e. if family income < £33,630.
LOANS FOR MAINTENANCE Students living away from home outside London	<i>From 2006–07</i> £4,275 (£3,711) ^a p.a. if family income < £33,630.	<i>From 2006–07</i> £4,405 (£4,075) p.a. if family income < £33,630.	<i>From 2006–07</i> £3,555 (£3,225) p.a. if family income < £26,000. Represents a reduction of £850 on HE Bill proposal. Loan reduction of £850 is tapered away between family income of £26,000 and £33,630 (so that for family income of £33,630 the loan is as in HE Bill).
	Tapered to 75% of maximum value as family income rises to £44,000 (£42,500).	As in White Paper.	As in White Paper.

LOANS FOR MAINTENANCE Students living away from home inside London	<i>From 2006–07</i> £5,272 (£4,572) p.a. if family income <£33,630.	<i>From 2006–07</i> £6,170 (£5,620) p.a. if family income <£33,630.	<i>From 2006–07</i> £5,320 (£4,770) p.a. if family income <£26,000. Represents a reduction of £850 on HE Bill proposal. Loan reduction of £850 is tapered away between family income of £26,000 and £33,630.
	Tapered to 75% of maximum value as family income rises to £46,200 (£44,500).	As in White Paper.	As in White Paper.
REPAYMENT OF LOANS	<i>From 2005–06</i> 9% of income above £15,000. £15,000 to be uprated with inflation. Zero real interest rate.	<i>From 2005–06</i> 9% of income above £15,375. £15,375 to be fixed in nominal terms until 2010–11. ^b Zero real interest rate.	No change from HE Bill.
GRANTS			
MAINTENANCE GRANTS	<i>From 2004–05</i> £1,050 p.a. if family income <£10,510. Tapered to zero at family income of £21,015.	<i>2004–05 and 2005–06</i> £1,050 p.a. if family income <£15,970. Tapered to zero at family income of £22,260.	No change from HE Bill.
		<i>From 2006–07</i> £1,500 p.a. if family income <£15,970. Tapered to zero at family income of £22,260.	<i>From 2006–07</i> Replaced by a single combined HE grant.
SINGLE COMBINED HE GRANT	None.	None.	<i>From 2006–07</i> Means-tested maximum of £2,700 p.a., comprised of: (a) £1,200 if family income <£22,580. Tapered to zero at family income of £33,630. <i>plus</i> (b) £1,500 if family income <£15,970. Tapered to zero at family income of £22,260. ^c
BURSARIES			
	None.	<i>From 2006–07</i> Minimum of £300 p.a. if family income <£15,970 <i>and</i> university charges fees of £3,000 p.a. ^d	No change from HE Bill.

Notes to table appear on next page.

Notes to Table 1:

^a Throughout this table, non-parenthesised figures refer to first- and second-year students and parenthesised figures refer to final-year students.

^b The threshold being fixed in nominal terms means that its real value will be eroded over time. Its value in 2009–10, based on an expected inflation rate of 2.5% per annum, is £13,925 in 2006–07 prices.

^c These represent our best interpretation of the reforms published for discussion on 19 January 2004. The exact details of the combined grant and maintenance loan thresholds and tapers are yet to be determined, but some indicative figures were provided in Department for Education and Skills (2004c).

^d Any university with fees of over £2,700 will have to provide such bursaries to cover the extra fee above that level for students from the poorest backgrounds.

Note: All figures have been converted to 2006–07 prices using an inflation rate of 2.5% per year.

Sources: Department for Education and Skills, 2003, 2004a, 2004b and 2004c.

Paper on HE reform in January 2003, and the other two columns show the subsequent changes, or ‘concessions’, that have been made.

MPs voted on 27 January 2004 on the Higher Education Bill that was presented to Parliament on 8 January 2004 (middle column of Table 1), but the further modifications, published for discussion on 19 January 2004, probably resemble most closely any system that would actually be introduced were the Higher Education Bill to be passed through the rest of the parliamentary process. In what follows, we refer to this as the ‘new system’ (final column of Table 1).

The new system will see the abolition of upfront tuition fees for students and the introduction of variable fees of up to £3,000 a year from 2006–07. Graduates will be entitled to a subsidised Graduate Contribution Scheme (GCS) loan equal to the value of their fees. Graduates from 2009 will contribute 9% of any earnings above £13,925 each year towards repaying the loan. The outstanding value of the loan will rise each year in line with inflation, with any sum remaining unpaid after 25 years being written off.

While at college, students from the poorest backgrounds will receive a bursary of at least £300 a year if the higher education institution charges full top-up fees.³ Students from families with incomes of up to £33,630 will receive a means-tested grant of up to £2,700 a year. Students will also be entitled to a means-tested loan of at least £3,300 (for those living away from home and outside London), to help cover living costs.

The current proposals – after the concessions introduced in January 2004 – differ from those of the White Paper published in January 2003 principally in the greater generosity of the support provided to students while at college, and especially to those from poorer backgrounds. Most of the additional support

³ In fact, any university with fees of over £2,700 will have to provide bursaries to cover the extra fee above that level for students from the poorest backgrounds.

provided for in the HE Bill is designed to give the poorest students the option to avoid incurring debt for any fees that universities may choose to charge. This increased generosity was brought about by increasing the level of the maintenance grant⁴ and by increasing the maintenance loan allowances for all students, though particularly for students in their final year and for students in London. The HE Bill also introduced proposals for mandatory bursaries to be paid to students by universities.

Graduates will have to start repaying their loans at lower incomes than under the original White Paper proposals, but for graduates who remain on low incomes for a long time after leaving college, their outstanding debts will eventually be written off.

The further reforms published for discussion on 19 January 2004 would convert what is currently a fee remission (for the basic fee) for students from the lowest income backgrounds into a grant, and would modify the borrowing entitlement of students accordingly, to ensure that there are no extra costs to the exchequer.

Before proceeding, it should be noted that throughout this Briefing Note, we present all figures relating to the reforms in 2006–07 prices, *not* current 2003–04 prices.⁵ The corresponding figures in today’s prices are available from the authors.

(ii) What will the reforms mean for student support in higher education?

Our assessment of student support in higher education focuses mainly on the system described in the final column of Table 1. Although the exact details of this system are still the subject of government consultation and have not yet been fully established,⁶ we believe it to be the most likely system to be implemented if the Bill is passed through the rest of the parliamentary process. As with Table 1 above, we express all monetary amounts in 2006–07 prices, and we consider how the system will impact on students who enter higher education from 2006–07.

The proposed system is fairly complex, and in order to examine how it will affect students’ finances whilst they are in higher education, we illustrate it graphically, showing the different effects for students across the parental income spectrum. For illustrative purposes, we assume that the student lives away from home and is in either the first or second year of higher education.⁷

⁴ The level of parental income at which students are entitled to receive the grant was also made more generous.

⁵ This follows the government’s own approach in its presentation of the key features of the reforms.

⁶ In particular, we think that the exact details of the tapering of the grants and loans in the income range between around £22,000 and £33,000 are likely to be modified.

⁷ It should be noted that final-year students are entitled to a lower maintenance loan.

We also show how the proposed support package compares with NUS estimates of the cost of living for students, giving us one estimate of the expected ‘shortfall’ in support. This is the amount the student must obtain from non-government sources.⁸ There are also some differences in the generosity of maintenance loans for those living in London. We illustrate the effects on London students in Appendix A, Figure A1. We also show the effects of the system published in the Higher Education Bill (i.e. without the new single combined HE grant) in Appendix A, Figures A2 and A3.

How much debt will a student incur?

Figure 1 shows that the maximum level of government-sponsored debt (i.e. loans for fees and maintenance loans combined) that a student will be able to take out each year is £6,555 for a young person with parental income less than £26,000 and reaches its maximum level of £7,405 for those with a family income of £33,630. Because the maximum level of the maintenance loan is tapered away for those from higher-income backgrounds, students whose parental income is above £44,000 will be able to borrow a smaller amount than those from low- and middle-income families (£6,300). A quirk of the new system that has not yet received much attention is that students whose parental income is £33,630 will be able to borrow the most. This is because those on lower family incomes, who will be given more money upfront in the form of grants, are likely to have their maintenance loans somewhat restricted to keep government costs down.⁹

Taking into account the amount that students will be able to borrow in their final year, these annual debt figures imply that a student on a three-year course with fees set at the maximum £3,000 cap could graduate with government-sponsored debt of £19,335 if they are from lower- or middle-income backgrounds (as we have defined middle income here¹⁰) and £18,665 if they are from the highest-income backgrounds. These levels are shown in Table 2, together with the maximum levels of debt students may incur at present and over the period of transition up to 2006–07.

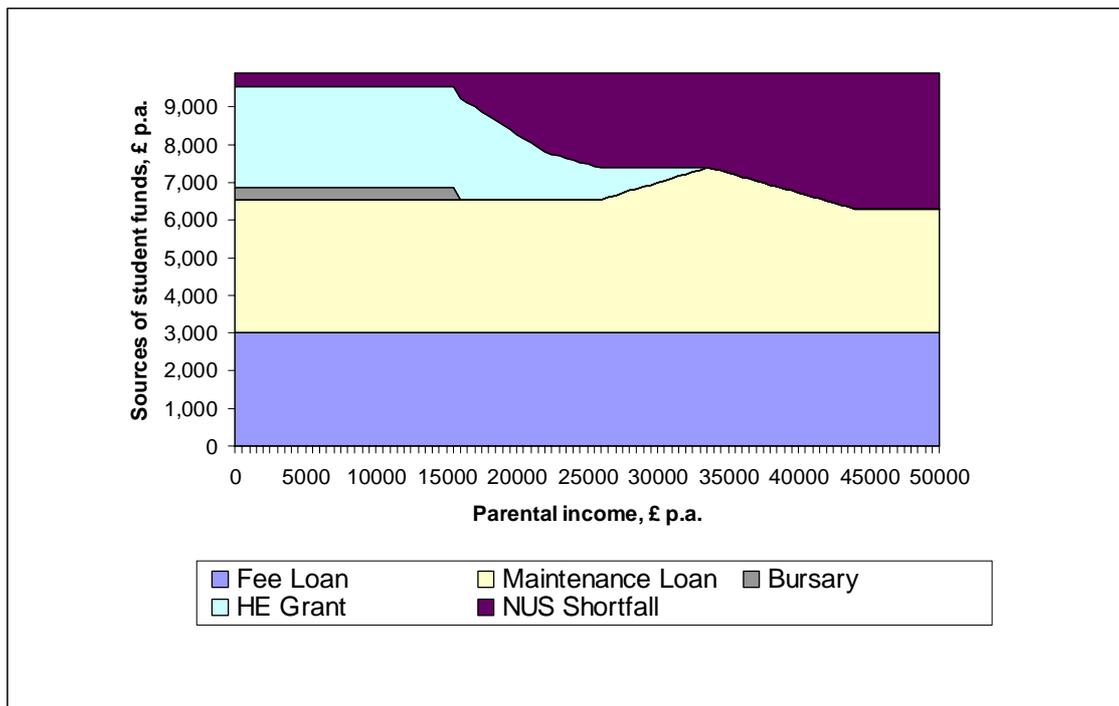
The highest permitted level of debt at graduation for a three-year course outside London would be £21,885 (not shown on Table 2). This is for a student whose parents’ income is £33,630 per year. From Table 2, we see that a student from a family earning £35,000 per year could have a debt up to £21,440 for a three-year course outside London.

⁸ For example, it may come from parental support, student savings or part-time earnings.

⁹ For further explanation, see Department for Education and Skills (2004b).

¹⁰ Our middle-income family is assumed to be on £25,500 per annum. This leaves the student with a maximum maintenance loan of £3,555 per year.

Figure 1
Non-London student finances under the new system with fees of £3,000 p.a.



Notes: Bursaries are zero at incomes of £15,970 and over, with no tapering. We assume the student is in the first or second year of a three-year course.

Table 2
Maximum level of debt upon graduation for a three-year course attracting the maximum top-up fee, by year of higher education entry

TOTAL LOANS: FEES plus MAINTENANCE	Year of higher education entry:			
	2003–04	2004–05	2005–06	2006–07
Low income (up to £15,970 p.a.)	£12,355	£13,045	£13,490	£19,335
Middle income (around £25,500 p.a.)	£12,355	£13,470	£13,490	£19,335
Upper middle income (around £35,000 p.a.)	£11,925	£13,450	£14,740	£21,440
High income (above £44,000 p.a.)	£9,265	£10,720	£11,995	£18,665

Notes: This table applies to students living away from home outside London on a three-year course that charges the maximum top-up fee. All monetary amounts are expressed in 2006–07 prices. The figures are calculated on the basis of the following likely features of the new system:

Variable fees apply only to new students in 2006–07.

Fee deferral is allowed for all students from 2006–07.

Maintenance grant component of the single combined HE grant increases from a maximum of £1,000 to £1,500 for new students only from 2006–07.

Fee grant component of the single combined HE grant (maximum £1,200) applies to all students from 2006–07.

How much will be available through grants?

Figure 1 also shows the level of upfront support (i.e. that students will not have to repay) under the new system. Including the minimum mandatory bursary for

those who attend a higher education institution that charges the maximum fee of £3,000,¹¹ those from the lowest-income backgrounds can expect to receive £3,000 per year from the single combined grant. The implication of this is that these students need not take out any debt for fees, if they use the whole combined grant plus bursary to pay for these. However, as we will show in the next subsection, it is unlikely that students without generous parents, or without other sources of income, or without a higher bursary, will be able to cover all of their living costs without putting at least some of their grant towards these. It is also important to realise that even if they could afford to spend their entire grant on fees, these students would be well advised to take out the maximum level of debt available to them, and to save any money they could have put towards fee repayment in an interest-bearing bank account. This is because of the large government subsidies involved in the loan repayment terms.

The single combined HE grant will then be tapered away in a non-linear fashion¹² between income levels of £15,970 and £33,630. No one whose family income lies above £33,630 will be eligible for any grant.

Will all this be enough to live on?

Finally, Figure 1 allows us to assess whether the total amount of loans and grants payable to students will be enough to live on, or whether they will still need to find external sources of funding to meet their daily living needs. According to the National Union of Students (2003), a full-time student living outside London away from home needs £9,890 per academic year to live, inclusive of tuition fees of £3,000.¹³ On the basis of our calculations, the support available to students from the lowest-income families should come close to providing the income required, so long as the student takes out the full loan available to them (in this case, funds available from the state will leave them around £335 per year short of what they need, assuming the minimum bursary from the higher education institution¹⁴). However, where poor students are very debt averse, and as such do not want to take out any debt for fees, the system will leave them £3,335 per year short of what they need.

¹¹ The exact means-testing surrounding the bursaries is not yet clear. We have assumed that the minimum levels that are required by the government will be in line with the means tests applied to individuals on the maximum level of grants. It may be the case that some universities choose to pay higher bursaries or to means-test in a more generous way than this.

¹² This non-linearity arises from the fact that the new single combined HE grant is comprised of two separate elements of the previously proposed White Paper and HE Bill systems – namely, the maintenance grant and the fee exemptions. These were tapered at different rates and on different income thresholds. It is likely that the detail of this tapering will be worked on and altered before implementation.

¹³ Source: *NUS Press Pack 2003–2004*. We have converted the estimated living costs in 2003–04 into 2006–07 prices, and have added the full top-up fee for our example.

¹⁴ Indeed, as is illustrated in Appendix A, Figure A1, in London, students from the poorest backgrounds will receive around £200 more than current NUS estimates of the cost of living in London from state support and bursaries if they borrow up to the maximum amount.

The level of the estimated shortfall in money to pay for living expenses increases sharply with parental income above £15,970. Depending on the exact operation of the various tapers, students from middle-income backgrounds (i.e. with incomes in the region of £25,000) could be up to £2,400 short each year if they take out all of the loans available to them. At the very highest income levels, the shortfall that would need to be met from external sources of funding (e.g. parental contributions) is around £3,590 a year.

(iii) What will the reforms mean for students once they leave higher education?

The impact of these reforms on the longer-term outcomes for students once they leave higher education will crucially depend on their lifetime labour market earnings and employment patterns. There is convincing evidence that in the UK, HE graduates have significant private returns to undertaking this additional education compared with similar non-graduates.¹⁵ Despite these significant private returns, however, critics of the scheme are still concerned that the level of debt students may incur during their studies will create a significant burden on them throughout their working life and that fear of this may affect their HE choices. Before looking at individual examples, it is interesting to look at what repayments students will face at different earnings levels. One key feature of the scheme is that regardless of the level of government-sponsored debt, the amount of graduate repayments will be identical for all graduates earning the same income after graduation. By 2009–10, all graduates with such debt will pay 9% of their gross income above £13,925 (in 2006–07 prices).¹⁶ The only way the level of debt affects graduates differentially is through the number of years they continue repaying their loan. All loans are written off after 25 years.

What we see from Table 3 is that the GCS payment increases average tax rates at all gross salaries above £13,925, but that these levels are very modest at most income levels. A graduate earning £25,000 per year (in 2006–07 prices) will have his or her average tax rate increased from 25.4% to 29.4% and will pay an extra £19.17 a week in tax. So, instead of taking home £358.87 per week, they will take home £339.70, a decrease in net pay of 5.3%.

¹⁵ Recent work undertaken at IFS suggests that an otherwise identical woman receives, on average, somewhere between 25% and 27% higher earnings as a result of undertaking higher education. The corresponding return for men is somewhere between 18% and 21%.

¹⁶ We are assuming a rate of inflation of 2.5%. The amount in 2005–06 will be £15,000 (which is £15,375 in 2006–07 prices), but because this threshold is not going to be uprated with inflation until 2010–11, it will steadily decrease in real value between 2006–07 and 2009–10, but thereafter remain at £13,925 in 2006–07 prices. In all of the estimates presented below, we use the £13,925 figure as this will be the figure applying to students entering the HE system from 2006–07 when the new system comes into play.

Table 3
What graduates pay at different earnings levels

<i>Gross income</i>		<i>Income tax plus employee National Insurance payments (% of gross income)</i>		<i>GCS payments (% of gross income)</i>	
Annual	Weekly	Annual	Weekly	Annual	Weekly
£10,000	£192.31	£1,389 (13.9%)	£26.72	£0 (0.0%)	£0
£15,000	£288.46	£3,039 (20.3%)	£58.44	£97 (0.6%)	£1.87
£20,000	£384.62	£4,689 (23.4%)	£90.17	£547 (2.7%)	£10.52
£25,000	£480.77	£6,339 (25.4%)	£121.90	£997 (4.0%)	£19.17
£30,000	£576.92	£7,989 (26.6%)	£153.63	£1,447 (4.8%)	£27.83
£35,000	£673.08	£9,519 (27.2%)	£183.06	£1,897 (5.4%)	£36.48
£40,000	£769.23	£11,033 (27.6%)	£212.17	£2,347 (5.9%)	£45.13
£50,000	£961.54	£15,133 (30.3%)	£291.02	£3,247 (6.5%)	£62.44

Notes:

1. All figures are in 2006–07 prices.
2. These figures apply to all graduates who complete their studies in 2009–10 or afterwards.
3. The income tax and National Insurance calculations take no account of any in-work benefits that might apply and use 2003–04 tax rates and thresholds updated to 2006–07 prices.

Having established what the GCS means for students earning different incomes, we now move on to a few illustrative examples to see what the new package of reforms means for different types of students from different backgrounds and to see just how much the GCS will ‘burden’ students. We also compare lifetime GCS payments with the expected income tax and National Insurance contributions that graduates are likely to make throughout their working life.

In what follows, we choose a number of different career paths and see how this affects students from different backgrounds. The purpose of these examples is merely illustrative, but they give some insight into the longer-term impact of the GCS and its effect on graduates’ net earnings over their working life.

Earnings profiles of median graduates and non-graduates

In our first example below, we look at the situation for male and female graduates who remain in employment throughout their life and earn median graduate earnings. In 2006–07, we estimate that the median starting salary will be around £12,100 for a 21-year-old male HE graduate and around £11,700 for

a 21-year-old female HE graduate.¹⁷ We have used the panel element of the Labour Force Survey to estimate wage-growth profiles for both men and women at different points in the income distribution.¹⁸ We have also carried out a similar exercise for non-graduates. In Figures 2 and 3, we show our estimated wage-earning profiles for median male and female graduates and non-graduates. Some caution must be exercised in comparing the profiles of a non-graduate on median earnings and a graduate on median earnings. The path for the median non-graduate is unlikely to reflect the path that the median graduate would have taken had he or she not pursued HE. If, for example, graduates on average have higher ability than non-graduates, we may expect the median graduate to have started further up the non-graduate earnings distribution because of this higher ability.

Figures 2 and 3 are for illustrative purposes only. One point that they illustrate is that an important part of the cost of undertaking HE is the forgone wages a graduate could have received if he or she had not undertaken his or her course. This clearly needs to be taken into account when an individual is deciding whether or not to undertake HE. In addition, although the lifetime earnings of graduates are generally higher than those of non-graduates, non-graduates may still earn more than graduates when young because of their greater labour market experience.

In the rest of this Briefing Note, we focus on the earnings profiles of graduates only. In particular, we ask the question, ‘What do these earnings profiles mean for graduates and for the repayment of their debts?’. To look at this, we compare the implications for students coming from low-, middle-, upper-middle- and high-income families, as outlined in Table 2. Under the system likely to be in place for students from 2006–07, the debt faced by students coming from low- and middle-income families will be the same, so we consider these individuals jointly. As with Table 2, we also look at the example of an individual coming from a family earning £35,000, as it is students coming from these medium- to high-income families who will face the greatest debt.

It should be remembered that what follow are only illustrative examples. In all of the examples, we assume that students borrow the *maximum* amount available to them. We compare their GCS debt repayments with their income tax and National Insurance contributions over their working lifetime.¹⁹ We also calculate how long it will take them to pay off their student debt, the contribution of the taxpayer to their loan and the increased tax payments brought about by the GCS.

¹⁷ This is based on the latest Labour Force Survey estimates updated to 2006–07 prices.

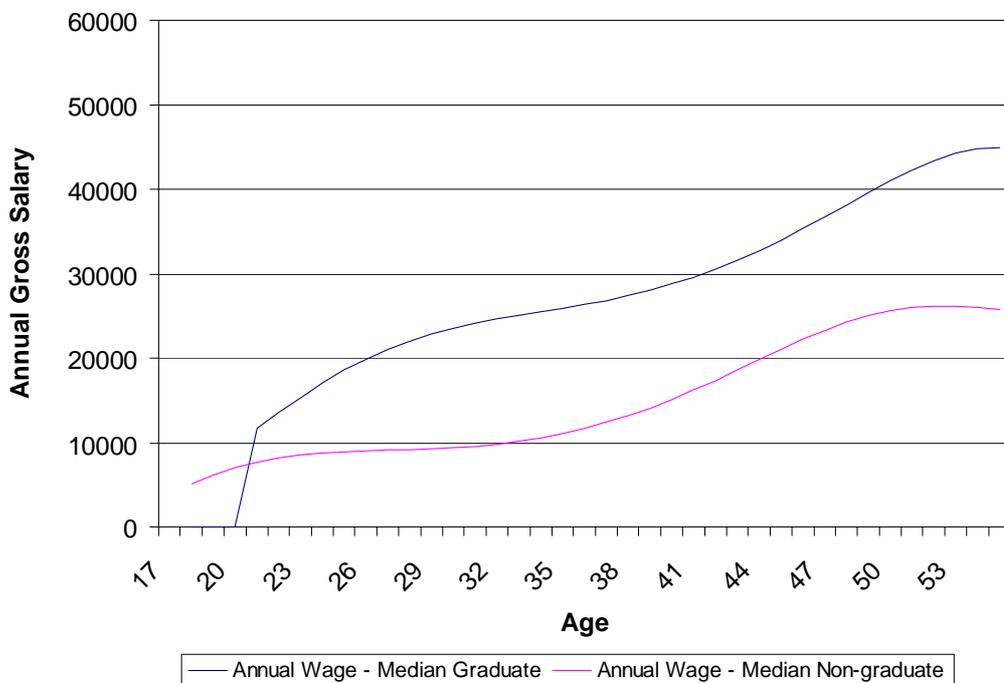
¹⁸ Full details of this are available from the authors.

¹⁹ These calculations ignore any tax credits or benefits the graduate may receive, to keep the examples simple. We also do not take into account any income tax payments after retirement.

Figure 2
Wage-earning profiles for median male graduate and non-graduate (2006–07 prices)



Figure 3
Wage-earning profiles for median female graduate and non-graduate (2006–07 prices)



Example 1: graduates who earn median earnings throughout their life

Our first example looks at graduates who follow the gross earnings path of the median male and female graduate as estimated in Figures 2 and 3. As we stated above, for this exercise we assume that the male graduate starts on a salary of £12,100 at age 21 and the female graduate starts on a salary of £11,700 at the same age. We assume that they have no breaks from the labour market and consider earnings between the ages of 21 and 55. We look at the implication of the proposed system of HE funding for students coming from families earning less than £26,000 per annum, families earning £35,000 per annum and families earning above £44,000 per annum. The results of this exercise are shown in Table 4.

Table 4
Long-term impact of GCS for median male and female graduate earners

	<i>Student from family earning <£26,000</i>	<i>Student from family earning £35,000</i>	<i>Student from family earning >£44,000</i>
<i>Male undertaking three-year course</i>			
Debt	£19,335	£21,440	£18,665
Taxpayer subsidy on debt	£5,301 (27.4%)	£6,103 (28.5%)	£5,050 (27.1%)
Years to pay debt	19	20	19
Amount of debt not paid	£0	£0	£0
Lifetime gross earnings	£1,201,004	£1,201,004	£1,201,004
Working-lifetime income tax and NI	£329,996	£329,996	£329,996
Percentage increase in tax payments	5.9%	6.5%	5.7%
<i>Female undertaking three-year course</i>			
Debt	£19,335	£21,440	£18,665
Taxpayer subsidy on debt	£5,910 (30.6%)	£6,842 (31.9%)	£5,620 (30.1%)
Years to pay debt	23	24	23
Amount of debt not paid	£0	£0	£0
Lifetime gross earnings	£1,016,838	£1,016,838	£1,016,838
Working-lifetime income tax and NI	£267,640	£267,640	£267,640
Percentage increase in tax payments	7.2%	8.0%	7.0%

Notes:

1. All figures are in 2006–07 prices and apply to individuals who graduate from 2009–10.
2. We assume that 2003–04 income tax and National Insurance (NI) rates and thresholds are in force and uprate them to 2006–07 prices.
3. We assume a government borrowing rate of 2.5% to calculate the taxpayer subsidy of the deferred loan. We also include any unpaid debt after the 25-year remission.
4. The level of maximum debt shown in the table is for a student living away from home who takes a course outside London.

The first interesting point to note is that the overall student debt in all three example families is much smaller than the expected income tax and National Insurance payments that a graduate on median earnings will pay over their working lifetime. For male students from families earning less than £26,000, overall working-lifetime tax payments are increased by 5.9%, whereas for those from families earning £35,000, tax payments are increased by 6.5%; graduates from high-income families have their payments increased by 5.7%.

The percentage increases in tax payments for females are higher than those for males, due to the fact that they are expected to earn less during their lifetime.

What also varies between male and female graduates is the number of years it will take them to pay off their student loan. Female graduates, on average, will take an extra four years in this example because of their expected lower earnings.

An additional calculation we have made (not shown in our tables) is the difference in income tax and National Insurance payments over their working lifetimes of a ‘typical’ graduate and a ‘typical’ non-graduate. The difference is approximately £154,000 for median male earners and approximately £152,000 for median female earners.²⁰ This increase in direct tax associated with becoming a graduate is large compared with the additional deferred fees graduates are being asked to pay.

Example 2: female graduate doctor undertaking a five-year course

One important concern raised by some critics is the level of debt faced by students who undertake courses that are longer than three years. In this example, we consider a female doctor who graduates and starts on a salary of £21,000 at age 23.²¹ This would place her at about the 75th percentile of the female earnings distribution at this age, and in the example below, we assume that she stays at around this percentile throughout her working life (again until the age of 55). The likely effect on such a graduate from different family types is shown in Table 5.

Table 5
Long-term impact of GCS for female doctor taking out maximum loan

	<i>Student from family earning <£26,000</i>	<i>Student from family earning £35,000</i>	<i>Student from family earning >£44,000</i>
<i>Female undertaking five-year course</i>			
Debt	£32,445	£35,956	£31,271
Taxpayer subsidy on debt	£7,568 (23.3%)	£8,852 (24.6%)	£7,149 (22.9%)
Years to pay debt	18	19	17
Amount of debt not paid	£0	£0	£0
Lifetime gross earnings	£1,593,855	£1,593,855	£1,593,855
Working-lifetime income tax and NI	£487,250	£487,250	£487,250
Percentage increase in tax payments	6.7%	7.4%	6.4%

Notes: See notes to Table 4.

What is clear from this example is that the level of debt incurred by students undertaking five-year courses is significantly greater than the level incurred by those undertaking shorter courses. Individuals from families earning £35,000

²⁰ Full details of these calculations can be obtained from the authors.

²¹ This figure is approximately the current bottom rate of a House Officer, uprated to April 2006–07 prices.

would face an approximate debt of just under £36,000 if they took out all of their loan entitlements. Typically, however, students undertaking such courses have much better wage prospects than median earners, and this means that in the example in Table 5, the doctor would experience a smaller increase in relative tax payments than the woman in the previous example (Table 4). She would also pay off her debt about five years earlier, despite the much larger loan.

Example 3: female low earner who takes a five-year career break

In all the examples considered so far, we have assumed that graduates remain in the labour market from graduation until the age of 55. Of course, we know that not all graduates are in uninterrupted employment, and this will have an impact on the estimated effect of the GCS. In this example, we look at a female graduate who starts on a salary of around £6,800 at age 21 but who takes five years out of the labour market at the age of 28 to start a family, before returning to the labour market. We assume that she returns at the same real wage as when she left. Her starting salary places her at about the 25th percentile of the female graduate earnings distribution (in 2006–07 prices), and the wage profile we have used assumes that she experiences similar wage growth to female graduates at that point in the earnings distribution except in the years when she is out of the labour market. The results are shown in Table 6.

Table 6
Long-term impact of GCS for low-earning female who has a career break

	<i>Student from family earning <£26,000</i>	<i>Student from family earning £35,000</i>	<i>Student from family earning >£44,000</i>
<i>Female undertaking three-year course</i>			
Debt	£19,335	£21,440	£18,665
Taxpayer subsidy on debt	£12,184 (63.0%)	£14,289 (66.6%)	£11,514 (61.7%)
Years to pay debt	25	25	25
Amount of debt not paid	£7,349	£9,453	£6,678
Lifetime gross earnings	£806,715	£806,715	£806,715
Working-lifetime income tax and NI	£207,012	£207,012	£207,012
Percentage increase in tax payments	5.8%	5.8%	5.8%

Notes: See notes to Table 4.

In this example, both because of her relatively modest lifetime earnings and because of her career break, the woman does not fully pay off her student debt. This means that around 60–65% of her debt will be subsidised by the taxpayer. Also, the proportion of extra tax payments that she makes is unrelated to the size of her loan as she does not manage to pay it off fully before the 25-year remission comes into play. The increase in her working-lifetime tax payments is the lowest of the three female examples we have looked at so far.

Those who do the best in the labour market receive the smallest government subsidy. This should be reassuring to graduates who are worried about what happens if they do not do well in the labour market and have modest earnings

and/or long periods out of the labour market. This point is reiterated in our next example.

Example 4: male high-flyer

Our final example is a male graduate with a starting salary of £20,000 at age 21. This places him in the 95th percentile of the male graduate earnings distribution, and his expected wage profile has been estimated assuming that he stays at this percentile throughout his working life. The results for this individual are shown in Table 7.

Table 7
Long-term impact of GCS for male high-flyer

	<i>Student from family earning <£26,000</i>	<i>Student from family earning £35,000</i>	<i>Student from family earning >£44,000</i>
<i>Male undertaking three-year course</i>			
Debt	£19,335	£21,440	£18,665
Taxpayer subsidy on debt	£2,781 (14.4%)	£3,242 (15.1%)	£2,635 (14.1%)
Years to pay debt	10	10	9
Amount of debt not paid	£0	£0	£0
Lifetime gross earnings	£3,317,835	£3,317,835	£3,317,835
Working-lifetime income tax and NI	£1,178,032	£1,178,032	£1,178,032
Percentage increase in tax payments	1.6%	1.8%	1.6%

Notes: See notes to Table 4.

The first point to note is that this type of graduate pays off his debt in a much shorter time than the graduates in the other examples we have considered. Because he pays off his student debt so quickly, he receives a much smaller subsidy from the taxpayer (of around 14–15%). Because of the progressive nature of the direct tax system, he pays a much larger proportion and amount of income tax and National Insurance than those in the other examples, which means that the increase in his overall tax payments is very modest.

(iv) How much extra money can universities expect to see, and how may the bursary system affect this?

There has been some controversy over how much additional money universities will see from the proposed changes. Table 8 sets out the government's projections of the amount of additional income for universities that could be raised from the new top-up fees in 2006–07, and our own calculations of the total revenue from fee income that this would imply (including the income from the basic fee already in place).²²

²² All of these projections are based on a fee-paying student population of 750,000 and therefore do not include any revenue that would come from expanding the number of students to meet the 50% initial entry rate target set by the government.

Table 8
Projections of approximate income from fees

	<i>Additional income from top-up fee^a</i>	<i>Total fee income implied (including basic fee)^b</i>
<i>If all courses charge a higher fee of:</i>		
£1,500	£280m	£1,180m
£2,000	£660m	£1,560m
£2,500	£1,035m	£1,935m
£3,000	£1,410m	£2,310m
<i>Current central fee scenario:</i>		
<i>75% of universities charge £3,000</i>		
<i>25% of universities charge £1,200</i>		
Government projections ^c	£990m–£1,010m	£1,890m–£1,910m

^a *Source:* Alan Johnson, Minister for Higher Education, in an answer to a parliamentary question from Paul Farrelly on 12 November 2003. See Hansard Written Answers (2003). These figures are in addition to fee income to universities from the basic fee (£1,125), not including full-time postgraduates (apart from PGCE students).

We believe that these projections based on the PQ answer are slight overestimates of the revenue to the government because they do not take into account the fact that the basic fee will be £1,200 in 2006–07 prices, not £1,125 as it is today.

^b These are our own calculations, assuming that the number of students assessed for fees will be around 750,000 and that basic fees are £1,200 per annum in 2006–07 prices.

^c *Source:* Department for Education and Skills – see Appendix B.

Note: All costings are in 2006–07 prices.

The government’s central scenario at present is that 75% of courses will attract the full top-up fee of £3,000 per year and 25% will remain at the basic fee level.²³ In this central scenario, the government projects that approximately £1 billion will be raised in revenue from top-up fees. Together with £900 million (in 2006–07 prices) that we project will come in from the basic fee, total higher education fee revenue will then be around £1.9 billion per year.

Will universities keep all of the new money?

The government has made it clear that the universities will be able to keep all of the additional fee revenue coming in from the top-up fees,²⁴ and the Prime Minister has guaranteed that the level of state support per student will not be reduced as the new contributions from students come in.²⁵ However, it should be pointed out that given the generous system of loans that will come hand-in-

²³ The basic fee is currently set at £1,125, but will be around £1,200 in 2006–07 due to inflation uprating.

²⁴ See chapter 7, paragraph 7.43, page 87 of Department for Education and Skills (2003): ‘Students paying larger contributions will expect to see the income generated going into improved teaching and facilities. Universities will only be able to do this if they have available to them the extra cash from the contributions they set. The Government will, therefore, provide income to universities equal to the contribution levels they have set. The Government will then receive the payment back from students over time’.

²⁵ See Prime Minister’s press conference, 15 January 2004: www.number-10.gov.uk/output/Page5181.asp.

hand with the new system of fees, up to half of the fee revenue projection is likely, in fact, to be paid by taxpayers and not by students or graduates themselves.²⁶

What difference will bursaries make?

Although universities have been told that they will be able to keep all of the new fee revenue, those charging more than £2,700 per year will also be required to pay a minimum bursary, up to £300 per student per year for students from the poorest backgrounds.²⁷ These mandatory bursaries imply that universities will not be able to spend all of the new fee revenue on improving teaching standards.

We calculate that, in total, around £50 million could go towards fulfilling the minimum bursary requirements of universities.²⁸ Across all universities, this implies that the total new top-up fee revenue that could go towards teaching would be reduced by around £50 million, leaving a total of around £950 million to spend on increased teaching resources per head. Of course, if universities choose to pay more than the minimum bursary, or if they have a high proportion of courses charging more than £2,700 in fees, or if the intake from lower-income backgrounds increases, then the costs to universities will be higher. Universities charging full top-up fees, and that take the most students from the poorest backgrounds, will have to pay the most in bursaries.

What will happen to the amount of funding per head?

On the government's central scenario for fees, and taking into account minimum bursaries only, we estimate that the average increase in funding per head, spread across all students, would be around £1,250. This represents an average increase of 22% in the level of funding per head on top of the £5,600 average.²⁹ If the level of bursaries turns out to be much higher, the average increase in spending per head on teaching will be lower.³⁰

Will the new level of funding reverse the decline in funding per student?

If funding per student increases by an average of £1,250 per student, this will return the unit-funding levels to around those observed in 1992–93, but will leave the levels well below the unit funding of the late 1980s.

²⁶ See Dearden and Goodman (2003a and 2003b).

²⁷ Universities may choose to offer more than the minimum bursary, and some have already made it clear that they intend to offer substantial amounts.

²⁸ This projection is based on the assumption that a £300 bursary is paid to around 168,750 students (i.e. the poorest 30% of students on the 75% of courses that will charge the full top-up fee).

²⁹ This is £5,000 in 2001–02 prices, uprated by inflation to 2006–07 prices.

³⁰ The government has published an estimate that funding per student could rise on average by 30%. This is based on a scenario in which all universities charge the maximum fee of £3,000. See Department for Education and Skills (2004b).

(v) What are the costs to the taxpayer of the reforms?

Although much attention has been paid to the additional amount that graduates will repay under the new system, relatively less has been said about what the full set of reforms included in the original White Paper, and the subsequent changes, might imply for public expenditure, and therefore how much taxpayers will be expected to contribute. The new loans and grants – which are a major component of the reforms – all imply additional public spending. Table 9 shows the government’s projections of the costs of the new loans and grants that will be introduced.

Table 9
Government projections of extra taxpayer costs of new fee deferral and student support

<i>Cost of fee deferral</i>	
Highest estimate of cost of new loans to cover £1,800 variable fee	£445m
Highest estimate of cost of new loans to cover £1,200 basic fee	£190m
Cost of loan write-off after 25 years	£30m
Total cost of fee deferral	£665m
<i>Cost of student support</i>	
Increasing loan to median basic living costs	£65m
Cost of new maintenance grant introduced in 2004–05, and additional £500 grant from 2006–07 announced in HE Bill	£420m
Total cost of student support	£485m
Total cost of new grants and loans	£1,150m

Note: All costings are in 2006–07 prices.

Source: Department for Education and Skills cost projections; see Table B1 in Appendix B.

The table shows that the extra public spending associated with introducing deferred top-up fees is forecast by the government to be approximately £445 million. This means that for every additional £1 in top-up fee revenue that the universities will be able to spend on teaching, the taxpayer will fund approximately 50p. Because new loans are also being introduced for the basic fee, and, in addition, new provisions have been made for writing off any outstanding debts after 25 years, the total cost to government of fee deferral is likely to be around £665 million.

In addition to this, the new grants will also require additional funding. The latest government estimate of the costs of the grant system, including the maintenance grant of £1,000³¹ to be introduced in 2004–05 and the subsequent increases to be introduced in 2006–07, is £485 million.³²

³¹ This is £1,050 in 2006–07 prices.

³² The reforms in the 19 January discussion paper were designed to be cost-neutral, and so the total public spending implications of the reforms will be the same as those set out in Table 9, although the exact composition of the additional costs will change somewhat.

In total, therefore, the extra taxpayer costs associated with the full set of reforms will be approximately £1.15 billion, according to the latest government estimates.³³

3. Conclusions

Our Briefing Note has highlighted how the original reforms to higher education funding published in the DfES White Paper last year have evolved in the wake of public consultation and the huge political storm the original reforms provoked. Our note has shown the complexity of some of the elements of the reforms, along with some of the quirks that have worked their way into the proposed system as piecemeal changes have been made.

We have shown that the maximum level of government-sponsored debt for both fees and living expenses that students could graduate with following a three-year course is likely to be around £19,335 for those with parental income up to £26,000,³⁴ rising to £21,885 for those whose family income is £33,630. Students from the highest-income families will be entitled to take out around £18,665 in loans. This is a considerable increase on the debt levels that students currently face, although it should be remembered that the terms of the loan repayments are also being made considerably more generous.

Although the new reforms introduced into the Higher Education Bill on 8 January 2004 were designed to make sure that no young person from a low-income background should have to borrow in order to pay for their fees, we have shown that if they do use all of their upfront grant to pay off the £3,000 fee, and therefore do not take out a fee loan, they will be left with a considerable shortfall in the amount that they need to pay for their daily living expenses, and so may be forced to borrow in any case. On the other hand, the generosity of the loan system means that even those who are not forced to borrow to the maximum level would be well advised to do so, and to put any spare cash that they would have used to pay their fees into an interest-bearing account.

Our examples of what the reforms are likely to mean when a student leaves university have shown that debt repayments represent fairly small increases to the income tax and National Insurance that they will pay over their working lifetime. A maximum loan will mean an average of around 6% extra in direct

³³ It should be noted that this does not include any of the costs of expanding the number of students to meet the government's target of a 50% initial entry rate by 2010. Given the size of the teaching subsidies, loans and grants that will be entailed for each new student, these extra taxpayer costs are likely to be significant.

³⁴ £26,000 is just above the median income for families with at least one child aged 16. Source: Education Maintenance Allowance (EMA) data, adjusted for inflation and English population weights.

tax over the working life for a ‘typical’ male graduate earner and around 7–8% for a ‘typical’ female.

Indeed, if a young female contemplating whether or not to go to university realised that she might be incurring £152,000 in extra income tax and National Insurance payments over her working lifetime as a direct result of gaining her degree, we would not expect this to put her off attending higher education.³⁵ By comparison with the increased income tax liability arising from the increased earning power her degree confers, her extra debt from student loans will be fairly small.

An important concern raised by some students, and critics of the system more generally, is the level of debt faced by students who undertake courses that are longer than three years. In these cases, debt levels could be considerably higher, although typically the improved wage prospects of those on longer courses should mean that the length of time taken to repay the higher loan could even be shorter than for other graduates who have lower debts but who earn less.

Other concerns have been voiced about whether the debt repayments will be extremely burdensome for those on low lifetime earnings, or for those who take considerable career breaks. In our example of a low-earning female with a career break, we have shown that the taxpayer would subsidise around 60–65% of the value of the loan, and that the graduate’s debt repayments are a similar proportion of her lifetime earnings to those of the middle earners we have considered.

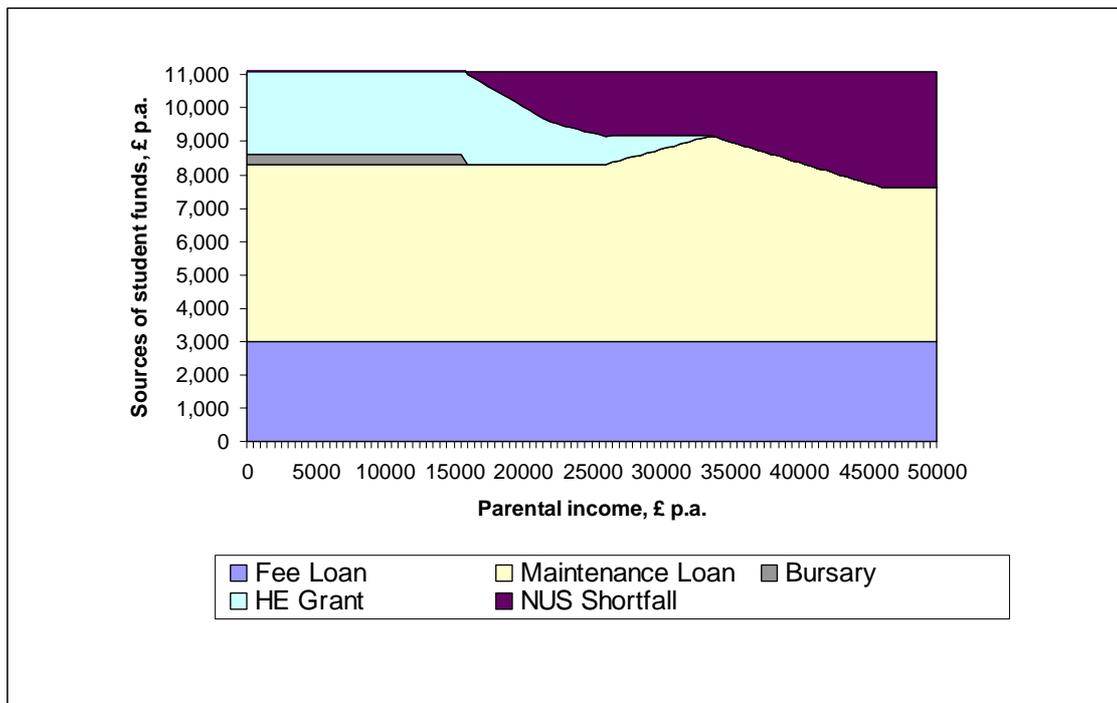
Of course, one of the major intentions of the reforms has been to ensure that more money goes into the university coffers, and to reverse the decline in funding per head that has been a persistent feature of the HE system over many years. The government projects that additional top-up fee income is likely to amount to around £1 billion per year. This is less than the amounts that the universities claim they need to fill their funding shortfalls. Taking the minimum level of bursaries into account, the new revenue could, however, mean that the level of funding per student could be increased by around 22% on average, though this percentage is likely to be higher for courses that charge the highest top-up fees.

Perhaps the most surprising feature of all these reforms – which are largely being sold on the principle that graduates should bear more of the cost of their university education – is the amount that the new fee and support proposals will cost the taxpayer.

³⁵ In our illustrations, the comparable figure for a male is around £154,000.

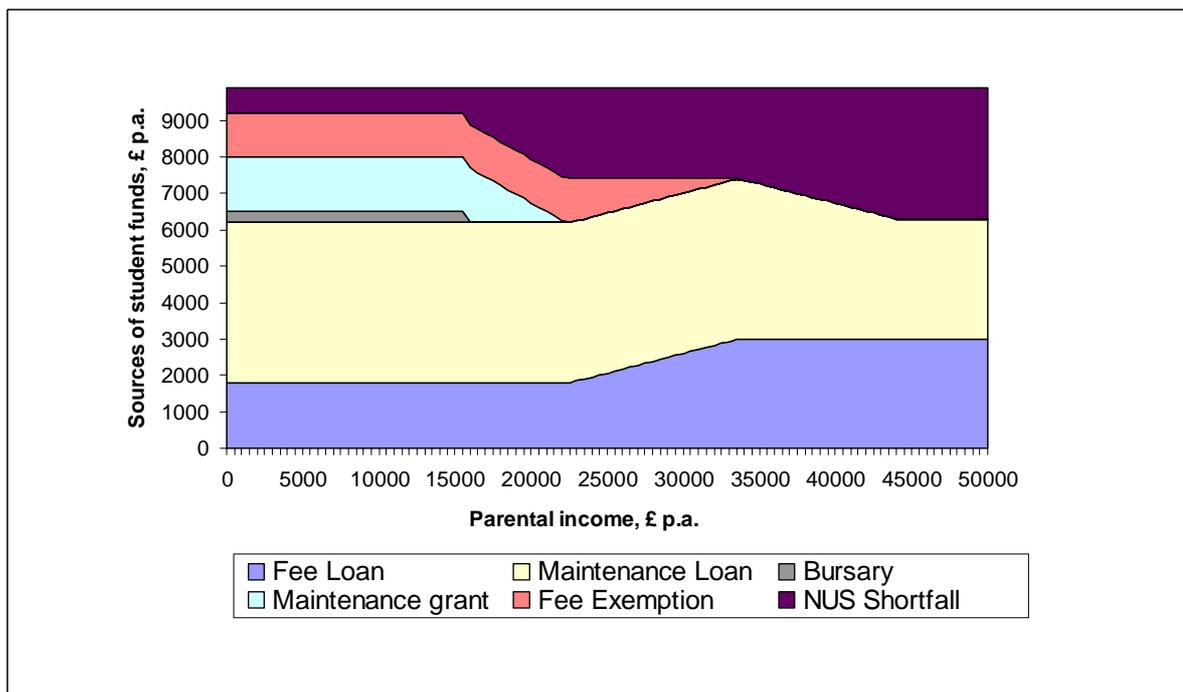
Appendix A

Figure A1
London student finances under the new system with fees of £3,000 p.a.



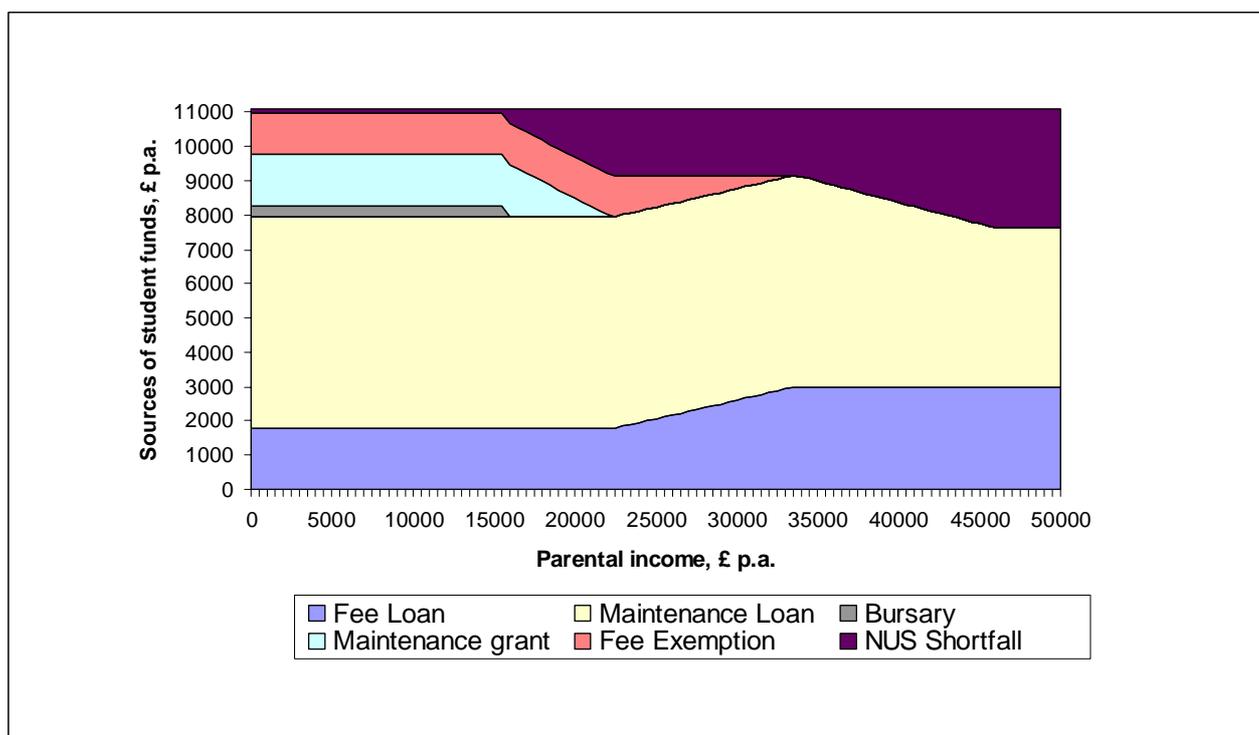
Notes: Bursaries are zero at incomes of £15,970 and over, with no tapering. We assume the student is in the first or second year of a three-year course.

Figure A2
Non-London student finances under the Higher Education Bill with fees of £3,000 p.a.



Notes: Bursaries are zero at incomes of £15,970 and over, with no tapering. We assume the student is in the first or second year of a three-year course.

Figure A3
London student finances under the Higher Education Bill with fees of £3,000 p.a.



Notes: Bursaries are zero at incomes of £15,970 and over, with no tapering. We assume the student is in the first or second year of a three-year course.

Appendix B

Table B1
Government costing assumptions

	<i>Per year</i>
<i>Fee income for universities</i>	
Current fee income (based on basic fee of £1,200)	£800 million (£400 million from taxpayers)
Additional income from variable fees (based on 75% of universities charging full £3,000 fee and 25% remaining at basic fee level); a £3,000 fee equates to a 30% increase in the average funding per student	£1 billion
<i>Total</i>	<i>£1.8 billion</i>
<i>Cost of fee deferral</i>	
Highest estimate of cost of deferring existing fees	£190 million
Highest estimate of cost of deferring variable fee	£445 million
Cost of loan write-off after 25 years	£30 million
<i>Total</i>	<i>£665 million</i>
<i>Cost of student support</i>	
Increasing loan to median basic living costs	£65 million
Cost of HE grant to £1,500	£420 million
<i>Total</i>	<i>£485 million</i>

Note: All costings are in 2006–07 prices.

Source: Department for Education and Skills.

References

Dearden, L. and Goodman, A. (2003a), 'A battle being fought for the principle rather than the sums', *Evening Standard*, 4 December.

Dearden, L. and Goodman, A. (2003b), *IFS Analysis of Higher Education Funding Options: Fact Sheet*, Explanatory Note Press Release, Institute for Fiscal Studies, London (www.ifs.org.uk/press/tuition_fees.pdf).

Department for Education and Skills (2003), *The Future of Higher Education*, Cm. 5735, London.

Department for Education and Skills (2004a), *The Higher Education Bill*, Bill 35, London.

Department for Education and Skills (2004b), *The Future of Higher Education and the Higher Education Bill 2004: Regulatory Impact Assessment*, London.

Department for Education and Skills (2004c), *Moving toward a Single Combined Grant for Higher Education*, London.

Goodman, A. and Kaplan, G. (2003), 'Study Now, Pay Later' or 'HE for Free'? *An Assessment of Alternative Proposals for Higher Education Finance*, Commentary 94, Institute for Fiscal Studies, London (www.ifs.org.uk/education/comm94.pdf).

Hansard Written Answers for 12 November 2003 (pt21), Column 354W.

National Union of Students (2003), *NUS Press Pack 2003–2004: Higher Education Student Finance*, London.