Parliamentary briefing

Universities UK

The undergraduate funding system in England

September 2017

Introduction

- Universities are a vital part of the UK economy. They support innovation, work alongside industry, generate local and regional growth and jobs, and drive productivity. A world-class higher education system can only be maintained through sustained investment.

- It is clear that going to university improves people's life chances, and our universities work hard to ensure that these opportunities are available to everyone, whatever their background.

- Graduates also recognise the value of their degree in securing and succeeding in employment.[1] **85% of 2012-13 graduates believe their degree was required, important or helped them obtain their current job** and 76% believe that their higher education experience prepared them for or progressed their career. Graduates also display high levels of career satisfaction: 88% of 2012-13 graduates are very or fairly satisfied with their career to date.

- Benefits of the current system in England include:
    - It is socially progressive – especially compared to a system of no fees. The Institute for Fiscal Studies recently noted: "as high-earning graduates repay the largest share of their student loans, they benefit the most from the removal of tuition fees"
    - It allows sustainable funding of universities
    - It places the interest of students at the heart of the system

[1] Longitudinal Destinations of Leavers from Higher Education Survey 2012-13, Higher Education Statistics Agency 2017.

- The absence of a cap on the number of students allows as many qualified students who wish to enter higher education to do so
- This in turn provides businesses and local economies with the necessary high level skills to compete nationally and internationally
- Graduates who go on to earn relatively less than those on higher salaries may have their loans (and interest) forgiven.

- The evidence shows the 2012 increase in fees to £9,000 did not deter young full-time students from applying to university. In 2016, those from disadvantaged backgrounds were more likely than ever before to enter university. However, along with other factors, fee increases would appear to have had an impact on mature and part-time students applying, and there have been drops in recent numbers of older applicants. The impact of changes in fee policies on mature students therefore does need careful consideration.

- The issue of how higher education is funded must extend beyond tuition fees, with a wider assessment of students getting the fairest deal possible for their higher education. This may involve looking afresh at the total cost of going to university for students, including living costs, interest rates on loans and how well understood the current system is.

- The current undergraduate funding system in England provides sustainable funding, promotes access and is highly progressive. However, it is right to continue to examine the system and consider how it can be optimised. Universities UK recommends three areas where we would like to work with the government and students to find ways to retain what is good about the current system while seeking enhancements:

1. Consider the option of providing targeted maintenance grants for those most in need of this support
2. Consider reducing the interest rate payable specifically for low- and middle-income earners through changes in earning thresholds to which interest rates apply

3. The way the current system is perceived by students, their families and graduates is problematic and there needs to be better communication and more widespread understanding of the student loan and repayment process

Background: the current funding system for undergraduates in England

- The current system of funding higher education tuition operates on sharing the cost between taxpayers and graduates – 35% of the cost of teaching in higher education is funded by government and 65% by graduates.[2] The government also provides around £6 billion in annual funding to support research in higher education.

- Universities receive income from diverse sources: students, businesses, government, charities, and from both domestic and international sources. Through careful and responsive financial management, universities use this income to:
  - deliver an outstanding learning experience to students, with high quality teaching
  - generate world-class research
  - fund programmes to improve access to university for disadvantaged students
  - maximise their contribution to the economy and society

Student finance in England

- In England, the maximum tuition fees which a higher education institution can charge is £9,250 p.a. for the 2017/18 academic year. To charge this limit, institutions must have both an access agreement and be taking part in the Teaching Excellence Framework (TEF). Institutions not participating in the TEF continue to have their fees capped at £9,000 p.a.

- Institutions without an access agreement have their tuition fees capped at £6,000 p.a. (or £6,165 if taking part in the TEF). This access agreement must outline what steps the institution is taking to improve access to higher education for disadvantaged students, such as through school outreach programmes and bursaries.

[2] Institute for Fiscal Studies (2017) Higher education funding in England: past, present and options for the future

- Full-time students are also eligible for maintenance loans to cover the cost of living while studying for a degree, with additional finance available for those from disadvantaged backgrounds. Before the 2016/17 academic year, maintenance grants were also available to poorer students.

- Outside England, each devolved administration has its own system of higher education funding, with different levels of tuition fees and maintenance support.

Student loan repayment system

- Students graduating now only begin repaying their student loan once they are earning above £21,000. They then make payments to the Student Loans Company at a rate of 9% on any income above this threshold.

- Once students have graduated, interest is accrued on their loan at differing rates according to their income. For students earning £21,000 or less, interest is set at the rate of inflation as measured by Retail Price Index (RPI). Interest levels then rise on a sliding scale up to a maximum rate of RPI + 3% for those earning £41,000 or more. For 2017/18, this means a maximum interest rate of 6.1%.

- Any outstanding student loan which is not repaid by 30 years after graduation is written off by the government. Loans will also be cancelled if the person is declared permanently unfit to work due to a disability.

- Students who started their course before the 2012/13 academic year have an alternative system of loan repayments, with a different repayment threshold, levels of interest, and writing-off period.

Strengths of the current loan system

Summary of its benefits

The income-contingent loan repayment provides vital benefits:

- It is a socially progressive system, especially compared to a system of no tuition fees
- It allows sustainable funding of universities at a time where there have been fiscal restraints and without cutting other areas of spending such as the NHS or schools
- It places the interest of students at the heart of the system: there has been a lot of scrutiny of the value for money that students receive from their relationship with their university and universities have responded to this
- The absence of a cap on the number of students provides an opportunity for all those who are qualified and wish to enter higher education to do so
- This in turn provides businesses and local economies with the necessary high-level skills to compete nationally and internationally
- Graduates who go on to earn relatively less than those on higher salaries may not pay all their loan or interest back. The government forgives the remaining amount of a graduate's loan at the end of a maximum period after repayments fall due.

Tuition fees and students from disadvantaged backgrounds

- The evidence shows that the 2012 increase in fees to £9,000 did not deter young full-time students from applying to university. In 2016, those from disadvantaged backgrounds were more likely than ever before to enter university. The proportion of the most disadvantaged 18 and 19 year olds entering higher education from England has risen from 21.2% in 2011 to 26.0% in 2016 (an increase of 23% in 4 years).

- However, along with other factors, fee increases would appear to have contributed to a decline in mature and part-time students applying, and there have been drops in recent numbers for older applicants. The impact of changes in fee policies on mature students therefore needs careful consideration.

- The strength in the number of young full-time applicants from disadvantaged backgrounds may be closely tied to the removal of the cap on student numbers in England. Since 2012/13, successive adjustments have been made with the cap finally removed from 2015/16. The removal of the cap has given students greater opportunities to study and widened their range of career opportunities – more graduates are in turn good for the UK's economy and in building a stronger society. More graduates are needed now, more than ever, as the UK prepares to enhance its competitiveness to face a post-Brexit environment.

Student perceptions: value for money

- Students understand that any system of higher education funding should be fair, with the cost of tuition borne by both taxpayers and students. A recent Higher Education Policy Institute and Higher Education Academy survey revealed that only 22% of students in England think that the government should pay for all the teaching costs of university, with no tuition fees for students. The rest of those surveyed recognised the need for a mixed system of funding.

- However, universities must continue to ensure that they are providing value for money for students. In recent research carried out with students by Universities UK, three in five (60%) undergraduate students said that their current degree course is good value for money. The survey also found:
    - Students placed a high level of trust in their university. Four-fifths of students (79%) value the relationship they have with their university and 87% say their university treats its students fairly, indicating high levels of trust.
    - Three in five (62%) undergraduates say that their university cares about their best interests, second only to the proportion saying that an NHS doctor cares about their best interests (73%)
    - A high proportion of students (80%) said that personalised advice and support are among the top three things they want from their relationship with their university

- 91% of those who said that their course is good value for money also said they value their relationship with their university
- Student perceptions of value for money are based on what they expect to get out of their studies, particularly employment, as well as their personal experience of studying

- Evidence from the Student Funding Panel (2015) revealed that current students were more worried about the level of maintenance costs than about long-term debt from student loans, and would like options for increasing funding to meet living costs to be explored.

- Higher education delivers public benefits to society (faster economic growth, greater social cohesion, greater innovation and productivity, a skilled workforce for essential public services – including teachers, doctors and nurses). It also delivers private benefits to graduates (higher earnings, increased employability, enhanced life opportunities). Therefore a funding system should reflect this balance, and share the costs of higher education between taxpayers and graduates.

Enhancing the current system

The current undergraduate funding system in England provides sustainable funding, promotes access and is highly progressive. However, it is right to continue to examine the system and consider how it can be optimised. Universities UK recommends three areas where we would like to work with the government and with students to find ways to retain what is good about the system in England while seeking enhancements:

1. Consider the option of providing targeted maintenance grants for those most in need of this support

Maintenance support gives some students the ability to overcome the real financial challenges associated with higher education study, and gives them the flexibility to manage their finances.

Evidence from the Student Funding Panel (2015) and the independent review of higher education funding in Wales earlier this year revealed that current students were more worried about the level of maintenance costs than about long-term debt from student loans, and would like options for increasing funding to meet living costs to be explored.

2. Consider reducing the interest rate payable specifically for low and middle-income earners through changes in earning thresholds to which interest rates apply

Universities UK wants to work with the government to ensure that interest rates are fair for students and for the taxpayer, and more recognition should be given to the substantial government subsidy which is a feature of the current system in England.

Reducing the interest rate payable for those on low and middle-incomes will mean a cut in interest rates for graduates that most need it and would make the repayment system even more progressive.

3. The way the current system is perceived by students, their families and graduates is problematic and there needs to be better communication and more widespread understanding of the student loan and repayment process

The sector acknowledges that the way the current system is perceived by students, their families and by graduates can be improved and we can do more to ensure that benefits of the system we have in England are better understood.

It is little-known that the government contributes around 35 per cent of the cost of educating students over the long term and over three-quarters of graduates will have some, or all, of their debt written off. This differs fundamentally to mortgage or credit card debt. This needs to be better understood including by employers and banks to recognise that this is an investment in an individual’s future, and different from other forms of debt.

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