MillionPlus

The Association for Modern Universities

POLICY BRIEFING

Student grants, social mobility and the case against differential fees

December 2017

For over a decade, the funding of higher education in the UK has been the subject of debate but also disagreement. The Welsh Assembly and the Scottish Government are pursuing policies which are different from each other - and different again from the funding and student support system in England. Following reductions in government teaching grant from 2012, the fees for students studying at universities in England were significantly increased, although under the student repayment system all loans are written-off after 30 years.

Every year more than **one million** people study at a modern university

In October 2017, the UK government announced that it intended to review the funding system in England. However, some senior Ministers and MPs have already suggested that they might favour the introduction of differential fees.

All students deserve to study at well-funded universities, wherever, whatever and however (full or part-time) they choose to study. This briefing explains why the government would be wrong to introduce **differential fees** and why it would be right to **restore student maintenance grants**.

Differential fees

There is no justification for imposing differential fees linked with certain courses, providers, or with graduate earnings. Research by the Institute of Fiscal Studies[1] has confirmed that family background is the major determinant of higher graduate earnings and career prospects even ten years after graduation, and to ignore this point in policy making would have detrimental side-effects.

A policy of differentiation would:

- reduce investment in the universities that lead the field in creating opportunities for new generations of students to study for degrees and other higher education qualifications
- harm the government's ambitions to promote social mobility
- run directly counter to the investment made in schools via the pupil premium
- undermine key sectors of the economy, the UK's national quality assurance regime, and the employment prospects of graduates
- ignore the wider benefits to the Treasury, the taxpayer and employers of investing in higher education
- be an intervention in the market for which there was no robust evidence base or consumer justification

The students of modern universities are talented, ambitious and keen to succeed. In England **68%** of all young students from low participation neighbourhoods study at modern universities

94% of students at modern universities are from state schools or colleges compared to 77% at Russell Group institutions

Modern universities educate 47% of all those age 30 years and over who study for a degree or other higher education qualifications

FEE INCOME AND THE FUNDING OF UNIVERSITIES

The post-2012 funding regime retained additional funding for STEM and some other shortage subjects with additional grant provided to universities teaching these courses by the Higher Education Funding Council for England (HEFCE). However, from 2012 the government has not provided any direct grant funding for the majority of programmes and subjects. This means that from the 2015/16 academic year, there has been no

[1]https://www.ifs.org.uk/uploads/publications/wps/wp201606.pdf

direct grant funding for arts, humanities, social sciences, computer science, design, architecture and economics – to name just a few of the subjects affected.

Like teaching grant before it, tuition fee income is used to fund and support a wide-range of university functions and activities. These include access agreements (a statutory requirement for all universities charging fees in excess of the lower fee cap); academic, professional, technical and support staff costs directly associated with teaching activity; wider costs of administrative and corporate functions; recruitment and admissions activities; quality assurance; compliance with regulatory and data regimes required by professional and higher education sector bodies; course development and validation; student welfare and support services including hardship funds and partnership work with employers, schools, colleges and other stakeholders.

It is **highly misleading to suggest that tuition fees should, or could, only take account of the costs of teaching a particular course** and/or be linked with narrow constructs such as contact hours. Such a simplistic approach ignores the wide range of education and associated activities in which universities engage and the impact on university business models of the significant changes in teaching funding and student support regimes introduced since 2012.

REGIONAL DIFFERENCES IN WAGES

The IFS study acknowledged the impact of context and geography on graduate salaries and concluded that 'Given regional differences in average wages, some very locally focused institutions may struggle to produce graduates whose wages outpace English-wide earnings, which includes those living in London where full time earnings for males are around 50% higher than in some other regions, such as Northern Ireland'. **Differential fees linked with graduate salaries would not only be unfair but would also remove investment from many universities in regions where economic growth has been lower than that in London and the South-East**.

SOCIAL MOBILITY - THE PUPIL PREMIUM IN REVERSE

Imposing differential and lower institutional fees on the basis of graduate earnings would **reduce funding and the unit of resource in those universities with the most socially inclusive student cohorts**. This would have the effect of reducing investment in universities that contribute the most to social mobility and effectively reverse the government's policy of providing pupil premium funding in schools.

> 7.7% of students at modern universities identify as Black, which is **twice as high** as the overall average across the sector

UNDERMINING THE VALUE OF KEY SECTORS, INSTITUTIONAL REPUTATION AND GRADUATE PROSPECTS

The imposition of differential fees by subject or course would be similarly counter-intuitive and would take no account of the fact that earnings are lower in some sectors of the economy and that patterns of graduate employment differ. For example, graduates engaged in the UK's work-leading creative industries often start by developing portfolio careers and / or engage with micro or small businesses where earnings are initially lower.

The earnings of graduates working in the not-for-profit and in public services are unlikely to match those that can be gained in some parts of the finance sector while earnings associated with courses that attract a majority of female students may be lower because of the gender pay gap.

Notwithstanding the conclusions that graduate earnings are much more a reflection of the individual rather than the university or the course studied, the IFS study identified the statistical difficulties of linking with accuracy, graduate earnings with university course. The latter are often categorised in broad terms in official statistics. Many students study degrees which are multi-disciplinary in scope and progress to a wide range of different employments and occupations.

The suggestion that lower graduate earnings are the result of poor quality courses or institutions is entirely without foundation. All UK universities are quality assured and intervention in the market to impose lower differential fees would undoubtedly impact on perceptions of quality both within the UK and overseas. There is no justification for this assertion but every likelihood that **the imposition of differential fees would damage not only the standing of universities at home and overseas but also be entirely unhelpful to the students and graduates of these institutions in terms of their future employment and career prospects**.

VALUE FOR MONEY AND THE PUBLIC BENEFITS OF INVESTING IN HIGHER EDUCATION

The reliance on higher student fees to fund universities has triggered a comparatively narrow 'value for money' debate focused on the cost of particular programmes and the fees charged. Assessing the costs of funding higher education to taxpayers in this very narrow way ignores **the wider value of investing in higher education** which has been documented by the OECD. This includes the greater economic resilience of graduates in changing labour markets, the added value and contribution of graduates to employers and local communities and the fact that graduates themselves contribute to intergenerational aspirations and outcomes.

Modern universities work with employers and make a **significant contribution to the economy, new and emerging markets and the public-sector workforce** ensuring that the latter is more diverse and reflective of the population at large

Differential fees would undermine social mobility, unjustifiably reduce the unit of resource in some universities, undermine the capacity of UK universities to trade internationally and should be ruled out as a future policy objective by the UK government.

Student maintenance grants

The Prime Minister and the Education Secretary are on record as wanting to do more to support young people and those who are less well-off. This is why we believe that the government should:

- restore income-contingent maintenance grants for full-time students
- introduce income-contingent maintenance grants for part-time students when they become eligible for maintenance loans in 2018-19

The 2012 student support and repayment regimes have been amended a number of times since their introduction. Of these amendments, the most significant was the abolition of income-contingent maintenance grants for all full-time students entering university for the first-time in 2016 with higher maintenance loans offered in lieu.

The replacement of grants by loans has added to the debts of students from the poorest households especially bearing in mind that all fee and maintenance loans taken out by students since 2012 increase by RPI plus 3% while students are studying. As a result, these students enter the workforce with higher debts, pay more in interest and are less likely to pay-off their student loans in full increasing, the write-off by taxpayers. Moreover, in spite of extending students' reliance on interest-bearing maintenance and fee loans, the government has yet to fulfil its promise to introduce a Sharia-compliant Takaful alternative finance product for students.

71% of all undergraduate and postgraduate students studying creative arts and design, **65%** of the UK's teachers, **72%** of nurses and **77% of our future social workers study at modern universities**

In October 2017, the government announced that it would invest in a further adjustment to the student finance system by raising the repayment threshold in England from £21,000 to £25,000 pa in 2018-19. Notwithstanding the savings achieved by freezing the higher fee cap at £9250, Ministers have confirmed that the increase in the repayment threshold will increase the RAB (Resource Accounting and Budgeting Charge) to 40% - 45%, meaning that 40-45p in every pound borrowed by students under the 2012 regime will be written-off by the government, and therefore taxpayers.

The Treasury should prioritise a further amendment to the student finance system by restoring maintenance grants for full-time students in England and introducing grants for part-time students. Maintenance grants are available for full-time and part-time students elsewhere in the UK e.g. in Wales, which also has a fee system.

There are good economic and social reasons for the government to support maintenance grants. These grants would support participation in, and the success of, students who are talented and ambitious but who face more financial challenges as a result of being from lower income households. Aversion to debt is one of the main reasons why some students do not progress to higher education in spite of being qualified to do so. Financial hardship rather than academic attainment is the key reason for students from widening participation backgrounds leaving courses early.

The cost of reintroducing income-contingent maintenance grants on the same basis as those available up to 2015 has been estimated by London Economics to be £350m per cohort, owing to the very high level of write-off in the current system. Therefore, for a comparatively small investment, the government can enable greater access to higher education, unlocking talent and potential across the UK.

Restoring income-contingent maintenance grants for full-time students and offering maintenance grants to part-time students on the same basis would support the government's ambitions to promote social mobility and equality. It would reduce borrowing for maintenance loans, reduce student debt and would be a worthwhile, progressive and cost-effective investment for the Treasury and taxpayers.

MillionPlus universities engage with **685 partner institutions in 435 cities in 81 countries**, conducting research across **all seven continents**

Over half of the research of modern universities is **world-leading or internationally excellent**

Modern universities – who we are

As long-established centres of higher education and research, modern universities support a high-quality university system and believe that all those with the ambition, talent and the desire to succeed should have the right to study at universities that are well-funded, whichever course they choose to study, at whatever university they study, however they choose to study (full, part-time or work-based) and whatever their background or age.

Each year over one million students study for undergraduate, postgraduate and research degrees and other higher education qualifications at the UK's modern universities. These universities are major forces for social mobility and anchor institutions in their local economies, delivering higher education qualifications, innovation and research with impact. As global players in the higher education market, they are net contributors to UK exports, educating 34% of all international students who study in the UK and 70% of all students studying overseas for an award either taught or validated by a UK university.

If you would like information about MillionPlus or would like to discuss this briefing further, then please contact us at:

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