

House of Commons
Education and Skills Committee

**POST-16 STUDENT
SUPPORT**

**GOVERNMENT RESPONSE TO THE SIXTH
REPORT FROM THE EDUCATION AND
SKILLS COMMITTEE, SESSION 2001–02**

Second Special Report of Session 2002–03

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SECOND SPECIAL REPORT

The Education and Skills Committee has agreed to the following Special Report:

POST-16 STUDENT SUPPORT

GOVERNMENT RESPONSE TO THE SIXTH REPORT FROM THE EDUCATION AND SKILLS COMMITTEE, SESSION 2001-02

The Education and Skills Committee reported to the House on *Post-16 Student Support* in its Sixth Report of Session 2001-02, published on 11 July 2002 as HC 445. The Government's response to that Report was received on 7 February 2003. The response is reproduced as the Appendix to this Special Report.

APPENDIX

POST-16 STUDENT SUPPORT

**GOVERNMENT RESPONSE TO THE SIXTH REPORT FROM THE
EDUCATION AND SKILLS SELECT COMMITTEE, SESSION 2001–02****Response to the Select Committee's conclusions and recommendations**

The Select Committee's recommendations are in **bold** text.

The Department's response is in plain text.

STUDENTS' PAID AND UNPAID WORK

Recommendation 1: The proposal from the Institute for Public Policy Research that voluntary work by students could be linked to fee credits should be considered seriously in the Government's review (paragraph 25).

1. We fully accept that voluntary work by students is to be encouraged, both for the benefits it brings to the community and to them personally, and that there are advantages to offering incentives for this work. The White Paper *The future of higher education* (Cm5735) announced a pilot of a new initiative to encourage students to undertake paid, part-time support roles in schools or colleges. This will build on existing work such as the "Teacher Associate" scheme run by the TTA, and will give students valuable experience, in addition to the support they will provide to teachers. The scheme will also cast students in the part of role models, offering pupils in schools an insight into what university life is like and potentially raising their aspirations.

2. We do not believe, though, that there is any need for voluntary work to be linked to fee credits, as under the new system there will be no requirement to pay any fees up front. It therefore seems more appropriate to reward students directly, where any form of financial reward is involved, to help them with costs associated with studying.

3. The Government supports youth volunteering with a number of initiatives, including the highly successful Millennium Volunteers programme. More than 82,000 young people have signed up to volunteer in their communities through this programme.

Recommendation 2: We recommend that in its review of student support the Government should pay particular attention to the needs of a significant group of students who may be unable to work (paragraph 26).

4. Students with children and those with disabilities already get generous grants to pay for childcare and other special needs. Almost a quarter of a billion pounds are now spent on support targeted at those who need it most, compared to £124m in 1997–98. A single parent with two children can now get over £16,000 of support, with full loan and grants, each year. From April 2003 students with children will also be able to claim Child Tax Credit from the Inland Revenue regardless of whether they are in paid work or not.

5. The Government announced on 28 November 2002 that it was streamlining support for students with children and those with disabilities. The number of different grants and bursaries will be reduced from 14 to 5 over the next two years. From 2003–04, there will be a new Parents' Learning Allowance of up to £1,300 for course related costs, which will replace three existing grants; and the Childcare Grant for those using registered childcare

will be increased to meet 85% of actual costs across the whole academic year. The Parents' Learning Allowance will not count as income for tax credit purposes. For disabled students we are speeding up the application process and providing more access centres for assessments. There will be clearer guidance so that disabled students can apply for assessment of their needs much earlier and get their support in place at the beginning of their course.

6. From 2004–05 we are simplifying hardship support by merging hardship loans and hardship fund into a single, non-repayable one stop Access to Learning Fund. We are preparing new guidance on the Access to Learning Fund to ensure that Higher Education Institutions (HEIs) assess students on a level playing field. Students who are unable to work because of family responsibilities, or a disability, or because of academic study requirements, will not be disadvantaged when they apply for help from the new Fund.

7. The White Paper "The future of higher education" includes proposals for improving support for part-time students. For those on courses which are equivalent to 50% or more of a full-time course we will provide means-tested tuition fee support, and a £250 grant instead of a loan, applied for through the LEA. Help with childcare will be available from the Access to Learning Fund. For part-time students on certain courses which are equivalent to at least 10% of a full-time course we will provide tuition fee waivers and, for the first time, support from the Access to Learning Fund.

POSTCODE PREMIUM

Recommendation 3: We believe that the present methods of identifying students from more deprived backgrounds are underdeveloped and we call upon the Department for Education and Skills to refine their methods and to learn from private sector methodology in order to improve the precision of targeting (paragraph 32).

Recommendation 4: We believe that the present "post-code premium" of 10% is still too low and urgent consideration should be given to a higher rate, reflecting the true costs of recruiting and supporting students from disadvantaged backgrounds (paragraph 33).

8. We have considered the Select Committee's findings carefully and, after consultation with HEFCE, we agree with the Committee that postcode analysis is too crude a measure of disadvantage, given the variation in circumstances across many postcodes. We favour reform of the premium to reflect the new performance indicators also proposed in the White Paper to help institutions and students see how well they are doing at improving access, all of which we expect to be in place by 2007. These are family income, parental levels of education, and average results of the school attended, which we believe will provide a more sensitive indicator of disadvantage.

9. We also agree that, in the light of a range of work, including that published by the Select Committee in July 2002, that the present rate of the postcode premium is too low to meet the real cost faced by institutions. HEFCE are at present considering the level of funding to support institutions that recruit students from disadvantaged backgrounds from 2003–04. I understand that they plan a significant increase, raising the premium to around 20% additional funding for each student from a disadvantaged background, compared to around 5% now.

DEVOLVED RESPONSES

Recommendation 6: We do not recommend the adoption of the Scottish system for England (paragraph 43).

Recommendation 7: We were not persuaded to recommend the adoption of the Welsh approach for England (paragraph 45).

Recommendation 8: We recommend that the Department should make careful appraisals of the Scottish and Welsh higher education funding initiatives (paragraph 46).

10. The Government examined both the Welsh and Scottish approaches as part of the student finance review. We have not followed either approach in full, although elements of both systems feature in our proposals.

11. The new HE grant (see paragraph 7.36 of the White Paper *The future of higher education*, Cm 5735) has some features in common with the Welsh Assembly grant. The Welsh Assembly grant is paid in full to students from income backgrounds of up to £10,000 and then tapered out to nothing at a family income of £15,000. This grant is paid to students in both FE and HE. However, our intention is for the new HE grant announced in the White Paper to be paid to around 30% of students, targeted at those from the lowest income backgrounds. Since student support is a reserved matter the new grant will be paid to students in England and Wales. We will also continue to provide help with fees for those from lower income backgrounds, and will pay for the first £1,100 of fees per year for students with family incomes of £20,000 or less, and some support for those with family incomes of £30,000 or less.

12. The proposal to allow students to defer their fees (see paragraph 7.39 of *"The future of higher education"*) has some similarities with the Scottish endowment model, where instead of paying a fee upfront, the students add an amount to their student loan on graduation instead. The difference with the model proposed in *"The future of higher education"* is that a student's loan for fees will be built up year by year as they follow the course rather than consisting of a single sum on graduation.

INCREASING PARTICIPATION AND FINANCIAL SUPPORT/EXTENSION OF EDUCATIONAL MAINTENANCE ALLOWANCES

Recommendation 9: We support the growth and development of a society that values lifelong learning and encourages participation in learning by all, including those in the Government's target group. While the development of an effective student support strategy will be an important contribution to this objective, there is much else to be done, including raising aspirations and achievement in schools and developing parity of esteem for vocational, professional and academic learning (paragraph 55).

13. We know that the key drivers for raising participation in higher education, and stimulating learning within our society generally, are raising aspirations and attainment in schools. To succeed in schools we need to create a challenging, motivating and flexible curriculum that will help young people develop an interest in learning that will last for a lifetime. This message was set out in the *"Investment for Reform"* paper following the Spending Review.

14. We also believe that there is a need for more work-focused learning, both in schools and colleges, and in higher education. The White Paper makes clear that we envisage most of the forthcoming expansion in higher education coming through Foundation Degrees, which will ensure that higher education produces people with the spread of qualifications and skills necessary to meet the needs of employers, and of our economy.

15. We have acknowledged that there has been growing concern about the slow progress children make between the ages of 11 and 14 and we recently set out our agenda for raising standards for this age group – the Key Stage 3 strategy. This strategy is intended to stretch

all pupils, and will ensure that the vast majority of pupils have reached acceptable standards in the basics of English, mathematics, science and ICT, benefited from a broad curriculum, and learned how to reason, think logically and creatively and to take increasing responsibility for their own learning.

16. One of the central themes of Opportunity and Excellence, our policy response to the recent Green Paper on 14–19 education, is the promotion of more effective pathways beyond 14, including high-quality vocational routes that will build on vocational A-levels and the new GCSEs in vocational subjects that were introduced from September 2002. Schools will work with colleges to give better opportunities for work-related studies for students aged 14–19. By 2004, over a quarter of young people will enter modern apprenticeships by the age of 22. We recently announced a wider vocational target that by 2010, 90% of young people will have participated in a full-time programme fitting them for entry into higher education or skilled employment by the age of 22.

17. In respect of level 2 qualifications, we have set ambitious targets for the proportion of 19 year olds who achieve 5 good GCSEs or the equivalent to rise by 3% between 2002 and 2004, with a further 3% increase by 2006.

18. The Education Act 2002 continues the drive to raise standards throughout the school system, particularly at secondary level, and beyond. The Act contains a number of provisions which will free schools to allow them to innovate, create greater diversity and flexibility and deliver high minimum standards for all. The Act seeks to deliver this aim by promoting diversity in the system and supporting the agenda of creating individual pathways for 14–19 year olds. The Act makes several important changes to the law to support the development of a more diverse system, not least by seeking to involve a wider range of partners and providers.

19. By wedding diversity and choice in education with the objective of raising aspirations and standards, through mechanisms such as the successful AimHigher campaign, we believe more young people will be motivated to stay on in learning beyond 16 to achieve the skills and knowledge that will give them the opportunity to contribute to society and enjoy the benefits of a broad and balanced learning experience. We want to ensure that education and training meets the needs and aspirations of all young people, so that they are motivated to engage in lifelong learning.

Recommendation 10: We believe that in the context of the Government's participation target for higher education, and the evident under-representation of students from low income homes, it is essential that a seamless system of financial support should be introduced that will encourage poor or otherwise disadvantaged students to continue their studies through further education and into higher education (paragraph 56).

Recommendation 22: We recommend that the Government should thoroughly explore the costs and implications of a seamless support system, based on the EMA model, spanning further and higher education, to underpin this progression. Such support should continue at least as far as the conclusion of the first year of a full-time higher education course, and should include those between 19 and 24 studying full-time for an initial level 2 [equivalent to five or more GCSEs at A* to C] qualification (paragraph 97).

20. We are currently undertaking a Review of the Funding of Adult Learning. The overarching aim of the Review is to examine the arrangements for funding for adult learners post 19, including how the Government's various support mechanisms for learning could be more effectively deployed to:

- (a) Provide incentives to employers to engage in training;
- (b) encourage institutions to be responsive to employer needs, building their capacity to work with employers;
- (c) widen participation in learning by the low skilled; and
- (d) enable Regional Development Agencies (RDAs) to play their full and effective role in developing and implementing regional skills strategies.

21. The Committee will welcome our announcement that a national system of Education Maintenance Allowances (EMAs) will be introduced from September 2004.

22. The White Paper announced that support for those from lower income backgrounds will now be available in higher education, in the form of the Higher Education Grant. Our intention is to offer a full grant of £1,000 a year to around 30% of students, with some grant being available to those whose families earn up to £20,000 a year, on a sliding scale. This is in addition to funds for fee remission, which will continue at the current level, with Government paying for the first £1,100 of fees for those from poorer backgrounds (family income of £20,000 or less, with some help provided up to a family income of £30,000).

23. As we have said above, the Department is reviewing the funding of individual adult learners aged 19 or over outside higher education, and is considering the most cost effective ways of targeting financial assistance.

24. This pilot, taken alongside the new Higher Education Grant, will be an important part of making sure the system of support for learners is focused on their needs at each stage of education. We agree with the Select Committee that we should be working to create, as far as possible, a seamless system that supports and encourages people to progress through education in a way that best fits their learning and skill needs.

THE BALANCE BETWEEN INDIVIDUAL AND STATE CONTRIBUTIONS/REFINED INCOME-CONTINGENT LOANS WITH REDUCED SUBSIDY /TIERED INTEREST RATES

Recommendation 11: During the course of our inquiry we have become convinced that while income-contingent loans may, in principle, be an effective means of sharing the cost of student support between individual beneficiaries and wider society, the scale of the current interest subsidy, combined with the blanket entitlement of all students to 75% of the full loan, channels subsidy to those who do not need it as well as to those who do (paragraph 59).

Recommendation 20: It is clear to us that the current zero real interest rate for student loans subsidises those from affluent backgrounds while providing insufficient funds to those from poor or otherwise disadvantaged circumstances (paragraph 83).

Recommendation 21: It is our view that there is considerable scope for development of models of student support which are based on adjustable interest rates. Such models would enable fine tuning according to prevailing economic conditions or policy in relation to particular groups or subject areas (paragraph 84).

Recommendation 25: We have been disappointed in the Government's dismissal of the Barr and Crawford proposals. In our view they provide a challenging critique of the current system and present an innovative approach to student support policy. We were therefore astonished to discover that neither Professor Barr or Mr Crawford have been invited to meet with the review team and discuss their proposals in detail. We urge the Department to correct this omission at the earliest opportunity (paragraph 108).

Recommendation 27: It is our view that the proposal to reduce the interest rate subsidy for those who do not need it and the intention to expand take-up of further and higher education are not irreconcilable positions and that the Government should be encouraged to develop innovative and potentially radical solutions to this challenge, without introducing excessive degrees of complexity (paragraph 118).

25. The Government does not accept this analysis. The interest rate subsidy is targeted at those on lower incomes.

26. It is important to distinguish between the family income background of the student before and while undergoing higher education on the one hand; and the income earned by the student after graduation on the other. Much of the commentary on this issue confuses these two points.

27. A student grant is a subsidy which assists the former case: the family income background from which the student comes. We have reintroduced student grants because we know from research that potential students from non-traditional and lower income backgrounds tend to be more deterred by the prospect of incurring debt to finance their higher education. Hence a grant helps these students to come into higher education in the first place.

28. A key feature of our proposals is that they treat students as independent adults at 18 – which is an important reason for removing upfront costs. The interest rate subsidy on student loans is a subsidy targeted on the graduate while the loan is in repayment, meaning that it supports the graduate themselves, irrespective of their family background. Here it is important to understand the interaction between rates of interest and the income-contingent loan repayment regime.

29. With income-contingent loans, the amount a graduate repays each year depends on how much they earn. The repayments are set at 9% of income above a threshold, which we are raising to £15,000 to make repayments easier for those on lower incomes (see paragraph 7.41 of “The future of higher education”). If the loans are subsidised so that no real rates of interest are charged (ie the loan is just uprated to match inflation), this means that the loan just takes longer to repay – there is no penalty associated with paying over a longer period because your income is lower.

30. However, if a real rate of interest is charged, the effect is highly regressive. The effect is that graduates on lower incomes, since they pay for a longer period, will pay more in interest. And those that earn the least will pay the most. So it is clear that the effect of an interest rate subsidy, when combined with an income-contingent repayment regime, targets the subsidy rather well, in direct proportion to income. Those who benefit most from the subsidy are those who earn the least.

31. Charging a real rate of interest would cause particular difficulties with those who choose lower paid professions after graduation, for example in the voluntary sector, and those taking career breaks – such as women on maternity leave. We illustrated the effects of these in the memorandum for the select committee on 27 May 2002. It would of course be possible to devise a complex system whereby the interest rate charged is reduced for those on lower earnings and on career breaks. However, such a system would be significantly more complex and expensive to administer and still would only have the effect of channelling the subsidy back to those people – ie on lower earnings – who are the principal beneficiaries of the subsidy at the moment.

32. Officials from the Department met Professor Barr and Dr Crawford in Autumn 2002 and discussed these issues in full detail.

DIFFERENTIAL FEES

Recommendation 12: We recommend that the Government should retain a system of contributions to the costs of tuition and that the Government should keep under continuous review not only whether the maximum means-tested contribution should be increased but also whether the thresholds for means-testing of contributions should be altered (paragraph 62).

Recommendation 26: Much heat and little light has so far been shed on the top-up fees debate. There is a serious debate to be had on fees policy and the Government should not shrink from evaluating the costs and benefits of a differentiated fees strategy (paragraph 115).

33. We welcome the Committee's support for the principle that students should bear a financial contribution to the cost of their higher education course. The Government considered whether there should be an above-inflation increase in the standard fee. However, for the reasons set out in paragraphs 7.24 to 7.28 of the White Paper, we are not proposing to do this. It is absolutely clear that there the returns students can expect from higher education differ substantially depending on the course they take and the institution at which they study. The Government believes that a revised contribution system should recognise the differing value to the student of differing courses at differing institutions, and that it would be wrong to expect all students to bear an equal share in the costs when the benefits will be distributed unevenly. That is why we are proposing allowing higher education providers to vary their fees.

34. The Government promoted a wide debate on these matters through the issues papers posted on the Department's website in November 2002. The White Paper proposes variable fees but with three key additional elements designed to protect access:

- Capping the maximum level of fees. The cap will be set at £3000 in 2006–07 and will only be uprated for inflation during the course of the next Parliament;
- Before institutions can vary their fees from the standard rate they will have to put in place an Access Agreement which has been negotiated and agreed with the Access Regulator. The Access Agreement will set out the action the institution will take to ensure that the most talented students are able to enjoy the best opportunities based on their ability, not their background or their income;
- The right of all students to defer their fees if they wish, by adding them to their student loan.

35. As described above, we will also continue to provide support with fees for those from lower income backgrounds, up to £1,100 a year for those whose family income is £20,000 or under, and some support for those with family incomes up to £30,000.

PUBLIC CONCERN OR PUBLIC MISUNDERSTANDING?/EFFECTIVE PROMOTION AND COMMUNICATION

Recommendation 5: It is our view that many of the problems encountered in the present system of student finance originate from a failure by the Government clearly in public to debate the essential elements of the Dearing proposals and the reason for its recommendations and a fear of alienating key elements of the electorate (paragraph 37).

Recommendation 13: We can expect little progress in terms of social inclusion unless the Government is able to communicate more effectively to students and families what the policy will mean to them in practical terms (paragraph 65).

Recommendation 14: Critically, the information for current and prospective students must convey the notion that while a good quality education may require financial sacrifices, it is an investment that is usually worth making (paragraph 66).

Recommendation 30: We encourage the Government to explore innovative communication and advertising methods to ensure that the affordability message is effectively conveyed to target communities (paragraph 122).

36. We are ensuring that prospective students and their parents are made fully aware of the changes arising from the White Paper and how these changes will benefit them, and have identified funding to help us make sure students are aware of and able to understand the new system, amounting to some £4 million in each of the three years to 2005–06.

37. We are engaged in a comprehensive process to provide information, and encourage discussion and dialogue on the proposals in the White Paper, The future of higher education. Copies have been sent to every higher education institution and FE college in England. We are embarking on a series of regional events for key stakeholders, including Vice Chancellors, employers, FE college principals, heads of schools with sixth forms, LEAs, RDAs, Connexions advisers and others. Ministers have also embarked on a series of visits to student unions around the country.

38. We have produced an information booklet for students and parents, and will be distributing this widely over the coming weeks. The booklet sets out what the changes are, when they will come into effect and who they will affect. It also contains case studies so that readers can more easily identify what the student finance changes will mean in practice.

39. At the end of this period, information about the changes will be integrated into the Department's ongoing programme of publicity about student finance, which will have a dedicated allocation within the budget to fund a long-term information programme about the changes so our audiences will continuously receive this information throughout the year. The White Paper, and the booklet outlining the changes that affect students and parents, are available on our website, and views are invited.

40. We recognise the importance of current and prospective students receiving clear and comprehensive information about the financial help available to them and the repayment arrangements after leaving university or college. That is why we produce a wide range of information materials, from leaflets and posters to a free phone helpline and website. Over the past few years we have also run national press and radio advertising campaigns aimed at raising awareness of the help available towards fees and living costs. We regularly review the impact and effectiveness of our information activity with students with the aim of improving it for future years.

41. However, we also recognise there is more that needs to be done to reach those groups that are currently under-represented in higher education. That is why we launched the AimHigher campaign in November 2001, which includes advice on student finances as well as the longer term rewards of higher education. The AimHigher road show, which was launched in January 2002, has been promoting higher education in an innovative way to 55,000 Year 9 pupils and 10,000 post-16 students each year in schools and FE colleges in some of the country's most deprived areas. Through the use of trained facilitators it delivers the message about the affordability of higher education and the fact that it is an investment worth making. There is sound evidence that the road show is beginning to

change pupils' attitudes: before seeing the road show 52% of pupils said that they were interested in or definitely going to Higher Education: after the road show, this figure rose to 75%. Since the start of the campaign, the AimHigher website has received over 164,000 visits and the helpline has received 34,000 requests for AimHigher information booklets.

42. According to the latest Nat West student survey, 90% of the students questioned regarded higher education as a good investment. People with a higher education qualification earn, on average, around 50% more than those without. We are ensuring that this message goes out to prospective students in AimHigher literature and on the website.

43. We agree that it is also important to reach families. That is why we are piloting a series of events to reach parents at Year 9 parents' evenings. We also launched advertising aimed at parents in October 2002.

44. Connexions Personal Advisors can also provide information on student support and on the financial benefits of higher education.

THE COSTS OF STUDENT LIVING

Recommendation 15: We recommend that the maximum loan available should be set at a level that reflects the realistic costs of pursuing a full-time course of study (paragraph 68).

45. The value of student loans and grants has been maintained in real terms since 1990. The Student Income and Expenditure Survey (SIES) 1998–99 recorded the real costs of students and its finding was that student support in that year covered all essential costs. The Government can only provide limited loan support for other costs such as those for entertainment and non course related travel, given the many calls on public funds. It is a matter of judgment for individual students how the additional costs of maintaining the lifestyles they choose are to be met.

46. Nonetheless, we have set out in the White Paper proposals for making student support more generous for those who need it most, by offering grants of up to £1,000 a year to those from poorer backgrounds, meaning that students coming from lower income families who receive a full grant and loan (currently £3,905 for students studying away from home, and more in London) will have almost £5,000 a year to live on.

47. We intend to continue to conduct student income and expenditure surveys on a regular basis, to inform policy development and assess the impact of the new system. The Department has commissioned a new "short" Student Income and Expenditure Survey (SIES) for 2002–03, which will inform the next spending review, and is commissioning a full Survey for 2003–04. Of course, we know that choices about lifestyle affect how much people spend, and we think it is reasonable for students to work to pay for extras, but we need to ensure that we are providing enough for them to pay for essentials, and believe this survey is the most effective way of making sure that we are doing that.

THE DEARING REPORT/THE STUDENT SUPPORT REVIEW/EXPLORATION OF ALTERNATIVE MODELS

Recommendation 16: We expect that the current review of student support will thoroughly explore every possible model for support and offer an in-depth analysis of their advantages and disadvantages (paragraph 73).

Recommendation 29: We expect the findings of the Government review, and the full and detailed arguments they balanced on each of the options they considered, to be published (paragraph 121).

48. The number of variations of student finance systems is huge, and the Government has looked at a large number of possible models, with the objective of finding a fair and affordable solution, balancing the needs of the sector against what it is reasonable for the taxpayer and the beneficiaries of higher education to pay. As part of this, we have looked at a variety of differing models operated overseas, including the difficulties faced by those countries in operating these systems. But there are only a small number of essentially different approaches which are alternatives to variable fees:

- Making an across the board increase in the standard fee;
- Introducing real rates of interest on student loans;
- Introducing a graduate tax.

49. The arguments about an across the board increase in the fee are dealt with in paragraph 33 above and those about a real rate of interest are in paragraphs 25 to 31 above. The Government's principal considerations in not proceeding with a graduate tax are as follows:

- The up-front costs are more, the repayment periods are longer and nor is there any possibility of early repayment to reduce the public sector costs. Under the existing subsidised loan system, a significant number of graduates make additional payments to clear the loan debt early;
- There is no direct link between the student and what they pay and the institution they attend – so the discipline and pressure on the institution to respond to customers, driving up quality, is reduced;
- Under the deferred fees proposal, the graduate pays back in relation to the amount invested in him or her. With a graduate tax the amount paid by the graduate may be more or less, depending on the graduate's salary, and could be substantially more;
- It would be more difficult to ensure money collected through a graduate tax would go to higher education, due to difficulties with hypothecation;
- There would be difficulties associated with collecting money from EU students under a graduate tax system, as they would not be subject to the UK tax system;
- Permitting universities to charge a higher fee under certain conditions gives the independent Access Regulator an effective sanction to promote improved access policies. A graduate tax would not have that advantage.

50. The system proposed by the Government has some of the characteristics of a graduate tax – the student pays themselves, the payment is deferred until after graduation, the payment is made through the tax system and is paid on an income-contingent basis, and is payable only on the graduate's income above a fixed threshold.

Recommendation 17: We believe that the current system of student support has failed in three important respects. It has not made a significant impact on the social profile of entrants to higher education; it is not clear and easily understood by target populations, and it has not delivered a progressive and socially equitable means of supporting students in higher education (paragraph 74).

51. While student support can make some impact on access to higher education, we believe that the most important factor in improving access for those from lower social

classes is not student support, but work to raise attainment and aspirations in schools and colleges. Some of our most important work in improving progression into higher education will be achieved through our reforms in secondary and 14–19 education, alongside the outreach work conducted by HEIs themselves, and through schemes such as the unified national AimHigher programme announced in the higher education White Paper.

52. Overall, while the number of students from lower socio-economic groups has continued to rise in recent years, the Committee is right in saying that there has not been a significant impact on the social profile of entrants to higher education. Data from UCAS shows that those from social classes III^m–V make up about 28% of entrants to HE; that figure has not changed significantly since 1994, well before the current system was introduced. While this shows that the current system has not had an adverse impact on the social profile of students, and while there was no evidence in the Student Income and Expenditure Survey (SIES) in 1998–99 that the prospect of debt was a major deterrent to those from lower socio-economic groups, we are far from complacent.

53. We feel that the current system does much to avoid impacting negatively on access to HE. Tuition fees are means-tested and students and their families only pay what they can afford. Parents with income below £20,480 are not expected to contribute anything towards tuition fees. Parents are only expected to contribute the maximum amount of fees (£1,100) where their income exceeds £30,502. Students from low income backgrounds are also eligible for a higher rate of loan and we have provided 26,000 Opportunity Bursaries worth £2,000 for students from certain disadvantaged areas. For student parents we provide a generous system of means-tested child related grants that are targeted at low income students. We have extended Disabled Students' Allowances to part-time and postgraduate students and they are no longer income related.

54. Expenditure on targeted support is now worth a quarter of a billion pounds compared to half that in 1997–98. We accept the evidence that this generous system is not simple and transparent for the target groups to understand. A review of targeted student support was carried out by the Department last year. The review group was led by Dr Philip Harris, of Manchester University, and included administrators and student advisers from a number of Universities, as well as LEAs, and the NUS. The outcome of the review provides a coherent, simplified and easier to understand package of support for full-time students with children. In addition to the basic support through the maintenance loan and tuition fee grant, more support is now available upfront, giving students on low income more certainty over what they will get before they start their courses. As a result of this review 14 different grants and bursaries available last year are being replaced with just five grants over the next two years, but with no students receiving less help than they do now and some receiving more.

55. But, as we have said, we recognise that we could go further, and in the higher education White Paper we set out proposals that will improve the system of support. The abolition of any requirement to pay tuition fees upfront from 2006, alongside the introduction of a new Higher Education Grant, will have an important effect on students' perception of the affordability of HE, and we will continue to offer help with fees at the current rate for those from the poorest backgrounds (up to £1,100 a year for those with family incomes of £20,000 a year or less). Raising the threshold for repayment from £10,000 to £15,000 a year will also help students' perception of affordability, as will the knowledge that no real interest rate will be charged on loans.

INTEREST RATE SUBSIDY

Recommendation 18: We recommend that the Government's borrowing costs should be recognised explicitly in the student support review and in future accounting practices (paragraph 77).

56. As part of the implementation of resource accounting and budgeting, the Department's accounts now include the cost of government borrowing as part of the cost of student loans. The amount included in the accounts as the cost of student loans is the sum of (a) the estimated amount which will not be recovered and (b) the aggregate value of the difference between the government's cost of borrowing (for which the current approximation is 3.5% in real terms) and the interest payable by the borrower (nil in real terms) for the period for which the loan is outstanding.

Recommendation 19: We are yet to be convinced that the Government's concerns regarding domestic and European consumer credit legislation are likely to be a significant issue in the development of future policy and we urge the Department to look into this matter further (paragraph 82).

57. The Department has discussed this in depth with DTI, OFT and the Inland Revenue. Currently student maintenance loans benefit from a low interest exemption from the Consumer Credit Act. That exemption is authorised by the Consumer Credit Directive. Under the system operated by the Inland Revenue, if the interest rate were increased so as to lose the exemption it would not be possible to comply with the requirement of the Consumer Credit Act to provide statements of account to a borrower on request. It would be difficult to continue with income contingent loans, repaid through the tax system, without the benefit of the exemption.

LOAN REPAYMENT THRESHOLD

Recommendation 23: We recommend that the repayment threshold for student loans should be raised significantly closer to the level of average earnings and should keep pace with changes in the level of average earnings (paragraph 101).

58. We welcome the Committee's recommendation that the salary threshold at which loan repayments start should be raised. As set out in paragraph 7.41 of the White Paper, we are raising the threshold from £10,000 to £15,000 with effect from April 2005. This will help make payments less burdensome particularly for those on lower or starting salaries. So, for instance, someone earning £20,000, who would pay £75 a month under the current system, will only pay £37.50 a month from 2005. The effect of raising the threshold is that individuals would pay for a longer period, but because we will not be charging a real rate of interest on the loans there is no penalty for the student associated with spreading the payments over a longer period.

FUNDING FOR UNIVERSITIES

Recommendation 24: The funding of institutions is a matter of grave concern and we are clear that any additional resource for student support should not be at the cost of investment in institutional infrastructure (paragraph 102).

59. The Government remains committed to funding higher education institutions at a level which allows them to undertake high quality teaching, research, scholarship and knowledge transfer. The White Paper set out a significant new investment in higher education, with funding set to rise by over 6% in real terms for each of the next three years, bringing funding to almost £10 billion a year by 2005–06. Additional funding for institutions' research and teaching infrastructure of over £500 million is being provided over the three years to 2005–06. In fact, funds available for research capital will increase by 77% in cash terms by 2005–06, as compared to 2002–03, and teaching capital by 185%. As set out in the White Paper, recurrent grants for teaching and research are also increasing significantly, by 26% and 38% (respectively) over 2002–03 in cash terms by 2005–06.

HARDSHIP FUNDS

Recommendation 28: The Department should give consideration to renaming the hardship fund. The language of *hardship* conveys an unfortunate stigma and we are concerned that it may discourage some students from making an application. Reforms to streamline and simplify the administration of such funds are urgently needed to give greater certainty to vulnerable students or those in difficult circumstances that timely and effective assistance will be provided to help them successfully to achieve their potential in higher education (paragraph 120).

60. We agree that the name of the “hardship fund” may be off-putting to students. We announced on 28 November 2002 that from September 2004 “hardship loans” and “hardship funds” will be merged into a new single, non-repayable “Access to Learning” fund.

61. The announcement on 28 November and the higher education White Paper also covered further simplifications of the discretionary system, which will benefit both students and administrators. Instead of 14 different funds, there will be just five grants from 2004–05, including the Access to Learning Fund. Student parents will now be able to apply for more of their support upfront as the current Access Bursary will form part of the new Parents’ Learning Allowance from September 2003. From September 2004, Opportunity Bursaries will be absorbed within the new Higher Education Grant. And the current fee waiver scheme for part-time students will be replaced in 2004–05 by statutory fee support applied for through local education authorities. Discretionary support for part-time students will be extended to those studying a minimum of 12 credits and will form part of the Access to Learning Fund.

62. We are currently working with a group of HEI administrators to ensure there is consistency across HEIs in assessing students for support from the Access to Learning Fund and greater transparency for students in how their needs are considered. Allocations of funding are already notified to institutions in March each year to enable them to give commitments to students before the start of the academic year. Funding has also been provided specifically to improve the administration of student services within HEIs. Following the Department’s Good Practice Guide on Access and Hardship Funds in June 2000, many HEIs have reviewed their processes and now operate rolling programmes which enable students to apply and receive help as soon as they need it. As part of the work to improve the operation of the Access to Learning Fund, we will be setting minimum standards for payments to students to ensure that all HEIs are responding in a timely fashion when students are in need of extra help.

RESEARCH

Recommendation 31: We recommend that the Government should continue to conduct research on the impact of the current student support regime as it affects student choices in terms of subject, institution, career path and patterns of study together with the impact of debt on graduates (paragraph 123).

63. We agree that it is important to continue to evaluate student support arrangements.

64. We are establishing a standing committee within the Department into research into higher education. This will seek to provide an overview of all the research that exists, is ongoing and is planned. Part of the role of the committee will be to identify and agree key gaps in the evidence base and the most appropriate and feasible ways of trying to fill these gaps. In addition to this committee the department also consults internally and with an expert panel of academics to inform the development of its research priorities.

65. As we said above, the Department has commissioned a new student income and expenditure survey (SIES) for 2002–03. It is our intention to conduct further student income and expenditure surveys on a regular basis (subject to funding), starting with one in 2003–04, to continue to monitor and evaluate the impact that student support arrangements are having and to inform policy development. We are also exploring with the Centre for the Economics of Education (one of the research centres the department funds) the scope for further research into the impact of student support arrangements on the levels and nature of participation in higher education.

CONCLUSION

Recommendation 32: In oral evidence Margaret Hodge offered the following comment on the student support review: “If we do not get it right, we will pay a heavy price, not tomorrow but five or ten years down the line”. We concur with this view, commend the Government on its decision to undertake a substantial review, and trust that the outcomes of the review will take fully into account the considerations in this Report (paragraph 127).

66. We welcome the Committee’s endorsement of the Government’s decision to hold an in-depth review of student finance. The Government has certainly taken full account of the Committee’s recommendations in reaching decisions on the outcome of the review. The Government apologises to the Committee for the unusually long interval between the Committee’s report and this response. But as said in Mrs Hodge’s letter to the Committee in July 2002, it was better to hold this response until the review was complete and we could give substantive answers to the recommendations in the light of the proposals in the White Paper.