New loans for postgraduate students announced in the Autumn Statement 2014

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It was announced in the Autumn Statement 2014 that a new system of income-contingent loans will be introduced in 2016/17 for students under the age of 30 on taught masters courses. Prior to the announcement a number of reports had advocated the reform of postgraduate funding and the introduction of loans for postgraduate students.

This briefing looks at the issues surrounding the funding of postgraduate students, discusses recent reports and provides details of, and reaction to, the announcement of new postgraduate loans.

Contents

1 The postgraduate funding system

Funding for postgraduate students is limited compared to the funding available to undergraduate students. There are currently no mandatory general government grants or loans for postgraduate studies but the government does provide funding in certain specific cases, such as for some postgraduate teacher training, some healthcare courses and some social work courses.

The government also provides funding indirectly through the Research Councils, although the Research Councils no longer provide funding for one year masters degrees. Funds from the Research Councils and from higher education institutions are usually allocated on a competitive basis and relatively few students are successful in securing this finance.

The other sources of funding for postgraduates are from individual institutions, Professional and Career Development Loans from banks, and funding from educational trusts and charities.

Fees

Fees for most postgraduate courses are unregulated and can vary between courses and between institutions; one year taught masters courses can range in price from £3,000 to £38,000 per year. A survey in the *Times Higher Education* stated that the average home fee for a taught postgraduate course in 2014-15 was £5,680.[1]

Further information about sources of funding for postgraduate students is available in Library Standard Note SN/SP/6281, *Support for postgraduate students.*

2 Problems with the current system

2.1 Self-funding

The lack of available funding means that many postgraduate students are self-funded and tend to use a wide range of sources to fund their studies. A 2014 report by Universities UK (UUK) stated that 52 per cent of first-year UK taught postgraduate students receive no financial award, this proportion rising to 72 per cent for full-time masters students, and 62 per cent for part-time masters students. The report stated that 'most meet some or all of the costs from private sources'.[2]

2.2 Declining UK postgraduate student numbers

The number of postgraduate taught students at UK universities rose steadily from 2007/08 and reached a peak of 485,000 students in 2010/11. Since that year numbers have been in decline and by 2012/13 the number of students had fallen to 427,310 – a reduction of 58,000 students in two years. During this period the number of first-year students decreased by a total of 10 per cent from 302,000 to 271,000.[3] The decline in the number of postgraduate students is largest among UK taught postgraduate students; numbers of students on research degrees is increasing.[4]

The cause of the fall in student numbers is uncertain but various reasons have been suggested, such as the increase in undergraduate tuition fees and the consequent

1 "International and postgraduate student fees survey, 2014", *Times Higher Education* 21 August 2014
2 UUK Postgraduate taught education: the funding challenge p3
3 Data from HESA
4 HEFCE July 2013/14 *Postgraduate education in England and Northern Ireland Overview report 2013* p16

reluctance of graduates to incur more debt, and the lack of funding sources for postgraduate study.

Concerns have been raised that some potential students turn down places because of difficulties with funding.[5] For example, a 2014 report by Universities UK (UUK) stated that:

> Students fund their PGT [postgraduate taught] studies from a wide range of sources, and current evidence suggests most meet some or all of the costs from private sources. There is a risk that some potential students are not able to meet the costs and are missing out on the opportunity and benefit offered by a PGT degree. Sustained improvements in student funding are required to help stop this student population declining even further, particularly among UK students.[6]

2.3 Impact on social mobility

In its February 2012 report, *The Postgraduate Crisis,* the 1994 Group warned of the long term affects on the UK's economic success and on social progression if home students were deterred from progression to postgraduate study:

> The loss of Government teaching funding and resultant increases in postgraduate fees without adequate student finance options will reduce the take up of postgraduate study. UK students will be hardest hit and especially those from widening participation backgrounds. Discipline provision will be distorted; we can expect disciplines which respond to 'short-termist' needs to expand at the expense of disciplines which contribute to the social and cultural advancement and disciplines which are important for the long-term needs of the UK.
>
> If such a scenario is permitted to proceed we can look to a future where the UK cannot rely upon its population to provide the skilled workforce needed for a prosperous nation. We will be more dependent upon attracting international talent at a time where visa restrictions for international workers and students are already being tightened. The UK will not be able to maintain its leadership in research and innovation. The UK's knowledge base will be eroded to the long term detriment of UK growth, economically and socially.[7]

Similarly, a report by the Higher Education Commission stated that graduates unable to access postgraduate qualifications could find their career paths restricted:

> Postgraduate education is "the new frontier of widening participation" – with prospective students currently barred from study if they cannot afford fees or access sufficient credit. There are a number of fields and professions where postgraduate qualifications are becoming a de facto requirement for employment. If action is not taken we could see the gains made from widening participation at undergraduate level diminished.[8]

3 Calls for a postgraduate loan system

The terms of reference for the Browne Review of Higher Education Funding included consideration of fees policy and financial support for postgraduate students. However, the final report contained only one page on postgraduate funding and did not make any recommendations on postgraduate education – it simply stated:

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5 For example, see "This postgraduate brain drain needs plugging", *The Times*, 1 March 2012

6 Universities UK, *Postgraduate Taught Education: The Funding Challenge,* May 2014, p3

7 1994 Group, *The Postgraduate Crisis,* February 2012, p22

8 Higher Education Commission, *Postgraduate Education An Independent Inquiry by the Higher Education Commission,* 23 October 2012 p6

> Postgraduate education is a successful part of higher education system and there is no evidence that change to funding or student finance are needed to support student demand or access.[9]

Since the Browne Review a number of reports have been published that have recommended the creation of a system of postgraduate loans similar to the scheme of income-contingent loans used for undergraduates. Some of the reports suggest slight variations on the loans scheme used for undergraduates. The UUK report *Postgraduate taught education: the funding challenge* contained a summary of the different proposals in a number of such reports:

Source	**Summary of proposal**
Tim Leunig, *Mastering Postgraduate Funding*, CentreForum (2011)	Proposes a publicly-funded income contingent loan scheme. UK-domiciled masters students with at least a 2:1 would be eligible to borrow up to £10,000. This would be repaid by graduates at a rate of 9% on earnings between £15,000 and £21,000, and written off after 30 years. It therefore would act as a form of extension to the undergraduate loan (which would be repaid in parallel at 9% of earnings over £21,000). The government would provide the loans, thus adding to public sector net debt, but the write-off costs would be relatively low. The long-term benefit to government would flow from an increase in the earning power of graduates and higher tax revenues. Student numbers would be uncapped in this proposal
British Academy, *Postgraduate funding: the neglected dimension – position statement* (2012)	Encourages government to consider introducing postgraduate loans
Higher Education Commission, *Postgraduate Education: an independent inquiry* (2012)	Calls for a group to be set up to investigate how postgraduate loans could be developed
Alan Milburn, *University Challenge: how higher education can advance social mobility* (2012)	Like the Higher Education Commission, calls for a working group to investigate postgraduate loans
House of Lords Science and Technology Select Committee, *Higher Education in Science, Technology, Engineering and*	Recommends that government provide loans for masters degrees in STEM subjects

[9] Securing a sustainable future for higher education, p55

Mathematics (STEM) Subjects (2012)	
IPPR, *A Critical Path: securing the future of higher education in England* (2013)	Supports the introduction of a PGT loan scheme similar to Leunig's proposal, but acknowledging that access to the loan scheme might need to be regulated so that the government could manage costs
1994 Group, *Increasing Postgraduate Opportunities: Proposals for Funding* (2013)	Advocates a modified version of Leunig proposal, with MBA and professional law qualifications excluded, and undergraduate repayments continuing at the lower £15,000 threshold once the postgraduate loan had been repaid
NUS, *Steps Towards a Fairer System of Postgraduate Funding in England* (2012)	Proposes three loan schemes that would operate in parallel, each aimed at a different segment of the diverse PGT market: • Access to the professions loans, provided by government, with a relatively high repayment rate, but a government write-off • Employer-linked loans, where the government provides the loan but the employer pays a standardised RAB charge • A 'traditional segment' loan, provided by government, with an interest rate that recoups the write-off costs; the loan would be for a maximum of £6,000
Libby Hackett for HEPI, *A comparison of higher education funding in England and Australia: what can we learn?* (2014	Highlights that the Australian government provides some student loan provision which is repaid in full (though with an interest rate subsidy), and that there could be lessons to learn for student support in England, including postgraduate student support

In addition to the reports listed in the table above, the following reports also recommended the creation of a postgraduate loans system:

- Institute for Public Policy Research, *Reaching Higher: Reforming Student Loans to Broaden Access to Postgraduate Study,* 30 October 2014
- Universities UK, *Postgraduate taught education: the funding challenge*, May 2014
- Sutton Trust, *The Postgraduate Premium: Revisiting Trends in Social Mobility and Educational Inequalities in Britain and America*, February 2013

4 The cost of a postgraduate loan system

In November 2014, the Business Secretary, Vince Cable, stated that the Government was keen to develop a system of postgraduate loans but that financial constraints were a problem:

> Vince Cable, the business secretary, told *Times Higher Education* at last week's Association of Colleges conference: "We are keen to develop postgraduate loans…It is an objective of the government because it's important not just for qualifications and skills but also for social mobility, so we do recognise the need.
>
> "The problem is, of course, the constraints on government finance, if it has to be subsidised. Banks have been very reluctant to provide loans on reasonable terms."[10]

The 2014 IPPR report, *Reaching Higher: Reforming Student Loans to Broaden Access to Postgraduate Study,* analysed the cost of a loan system based on the current undergraduate loan scheme with the following parameters:

> - All students studying a taught masters course would be eligible to borrow £10,000 to cover the cost of their tuition fees, irrespective of the duration of study, or whether they are studying full-time or part-time.
> - Graduates would repay the tuition fee loan at 9 per cent on any earnings between £15,000 and £21,000. All other features of the loan system, such as the write-off period (30 years) and interest rates (ranging between 0 and 3 per cent in real terms) would be the same as for an undergraduate loan.
>
> In this baseline scenario, we assume that the postgraduate loan is available to (47,081) full-time and (24,301) part-time students (subject to annual completion rates). We assume that no maintenance support is available to students.[11]

The report stated that 'the total contribution of the exchequer under this type of scheme is estimated at £148 million'.[12] The report concluded that the scheme would be affordable:

> The analysis carried out for IPPR by London Economics leads us to conclude that a postgraduate loans system, modelled on the existing undergraduate loans system, would be workable and affordable. Because such loans would be paid back before a graduate started to pay back their undergraduate loans, the level of unpaid loans (the so-called RAB charge) is very low, at just 7 per cent, much less than the 40-45 per cent estimated RAB for undergraduate loans. The cost to the exchequer under our baseline model is around £103 million a year in teaching grants and £44 million in unpaid loans. This is eminently affordable, especially when compared with the subsidy provided for undergraduate loans which is £4.2 billion.[13]

5 Autumn Statement announcement

5.1 Postgraduate loans system

The Chancellor announced in the Autumn Statement 2014 that a new system of income contingent loans for postgraduate students under the age of 30 on taught masters courses would be introduced in 2016-17:

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[10] "Postgraduate loans may be limited to students in STEM fields", *Times Higher Education*, 27 November 2014

[11] IPPR, *Reaching Higher Reforming Student Loans To Broaden Access To Postgraduate Study* p5

[12] *Ibid,* p5

[13] *Ibid*, p9

> **1.154** Autumn Statement 2014 therefore introduces a new offer of income contingent loans for those under 30 years old wishing to undertake a postgraduate taught masters in any subject. These loans, of up to £10,000, are planned to be available from 2016-17 and will be repaid concurrently with undergraduate loans. The loans are designed so that, on average, individuals will repay in full, in recognition of the high private return to individuals, but they will beat commercial rates. The government will consult on the detail and will confirm the delivery plan. This is expected to benefit around 40,000 students, and enable around 10,000 more individuals to take advantage of the opportunity to undertake postgraduate study each year.
>
> **1.155** To support students until these loans are in place, the Higher Education Funding Council for England (HEFCE) will allocate £50 million in 2015-16 to universities to offer bursaries on a match funded basis. These will be £10,000 each and will benefit 10,000 students. [14]

Information on the cost of this scheme and the assumptions behind the policy are set out in HM Government, *Autumn Statement 2014: policy costings*, December 2014, p56.

No further details have been announced and a consultation will be carried out on the proposals in 2015. This was stated in a House of Lords parliamentary question on 16 December 2014:

> At Autumn Statement 2014 the Chancellor of the Exchequer announced the Government's intention to introduce an income contingent postgraduate loan of up to £10,000 for those students aged under 30 studying for a 1 year full-time, or 2 year part-time, Master's course. BIS will launch a public consultation in the New Year on the loan terms and eligibility criteria, before finalising the design of the scheme.[15]

5.2 Transition to the new system – the Postgraduate Support Scheme

The Postgraduate Support Scheme (PSS) supports students who are under-represented at postgraduate level and are studying subjects in line with the Government's growth strategies. In 2014-15 the scheme provided £25 million for 20 pilot projects that support these aims.[16]

In the Autumn Statement 2014 the Government announced that the 2015-16 Postgraduate Support Scheme would provide £50 million to institutions to provide bursaries on a match-funded basis. HEFCE stated that this would allow 10,000 masters students to each receive a £10,000 contribution towards the cost of their studies. The Government indicated that this will provide a bridge to the postgraduate loans that will be available from 2016-17.[17]

6 Issues with a postgraduate loan scheme

6.1 EU students access to postgraduate loans

There has been some debate about whether EU students should be allowed to access new postgraduate loans;

> The question of whether to allow other European Union students access to a postgraduate loans system, or how to prevent such access, may also prove to be an issue with immigration and the rise of the UK Independence Party high on the political agenda.

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14 *Autumn Statement 2014* Cm 8961 December 2014 p44

15 HL 3385 [Postgraduate Education] 16 December 2014 c

16 HEFCE, "Postgraduate Support Scheme", last accessed 2 February 2015.

17 HEFCE, "Postgraduate Support Scheme: Guidance for institutions receiving funding to support postgraduate students 2015-16", Circular letter 32/2014, December 2014.

> […]
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> CentreForum's 2011 paper on postgraduate loans, written by Tim Leunig, now an adviser in the Department for Education, called for loans to be classed as being for maintenance, rather than fees. In principle, that would make EU students ineligible.
>
> But any classing of the loans as maintenance would have to be "credible", some warn, otherwise there may be a risk of the Westminster government facing legal action from the EU.[18]

The autumn announcement stated that EU students would be able to access postgraduate loans. Some commentators such as the Institute of Fiscal Studies (IFS) have raised concerns about the repayment of loans by EU students (see section 10 below for further details).

6.2 Repayment of loans and high marginal tax rate

It is expected that the new loans will be repaid concurrently with undergraduate loans. The IFS issued an observation of the proposals on 9 December, *The government's proposed new postgraduate loan scheme: will the RAB charge really be zero?.* This commented on the high marginal tax rate under a system of concurrent payments, which it said could be as high as 50 percent:

> An additional concern with the introduction of the government's illustrative example is the high marginal tax rate that individuals would face under the new system. Since repayments on the postgraduate loan would be made "concurrently" with undergraduate repayments, individuals earning between the lower loan repayment threshold (of £21,000 in 2016 prices) and the higher income tax-rate threshold would face marginal tax and employee NICs rates of 50%, while those earning above the higher rate tax threshold would face marginal rates of 60%. This could potentially affect the labour supply decisions of young postgraduates and hence may have wider consequences for growth and productivity.[19]

6.3 Increase in postgraduate fee levels

The IFS report, *The government's proposed new postgraduate loan scheme: will the RAB charge really be zero?,* raised the issue of postgraduate fee levels and the possibility that institutions might increase fees when loans are introduced:

> While the proposed postgraduate loan scheme does not link loans to fees in the same way as it does at undergraduate level, institutions with high market power might still respond to the increased availability of credit by raising prices, which would reduce the effectiveness of the policy in making the upfront costs of postgraduate study cheaper.[20]

The issue of increasing fees was also raised by Nick Hillman the director of the Higher Education Policy Institute (HEPI):

> Mr Hillman said that by designating the £10,000 loan as being for fees, the government had created the possibility of fee inflation, as it "gives a bit more of an incentive to institutions to set their prices according to what the available loan is".[21]

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18 "Postgraduate loans may be limited to students in STEM fields", *Times Higher Education,* 27 November 2014.

19 "The government's proposed new postgraduate loan scheme: will the RAB charge really be zero?", Institute for Fiscal Studies, 9 December 2014.

20 *ibid*

21 "Questions remain over postgraduate loan figures", *Times Higher Education* 11 December 2014

7 Reaction to the new scheme

The plan to introduce postgraduate loans has been broadly welcomed by the sector, but concerns have been raised about the Government's decision to limit the loans to students under the age of 30. The British Medical Association has also called for any additional funding for postgraduate students to be accessible for graduate-entry medical students.[22]

Comments on the new scheme were given in an article in the *Times Higher Education*:[23]

UUK

> Nicola Dandridge, chief executive of Universities UK, said: "The introduction of a new postgraduate student loans system is good news.
>
> "We support the government's recognition of the substantial benefits arising from postgraduate taught education, and the need for support to ensure that some students are not priced out of further study. The number of students starting a postgraduate taught course at a UK university fell by 10 per cent in the two years between 2010-11 and 2012-13."

University Alliance

> Steve West, the University Alliance chair and University of the West of England vice-chancellor, said: "We strongly welcome the chancellor's announcement today to develop a government-backed postgraduate loan system. Postgraduate study is vital to ensure Britain develops and grows global talent, which will be key to our future success."
>
> He added that the announcement "has the potential to create a fairer system for people who want to study a higher degree and transform their life chances".

Millon+

> Michael Gunn, chair of Million+ and vice-chancellor of Staffordshire University, said: "Postgraduate study has declined significantly in recent years and the chancellor's announcement that a new postgraduate loan scheme will be introduced will be warmly welcomed by universities.
>
> "However, the announcement only refers to young students - this scheme must be extended to all who want to study for postgraduate qualifications."

National Union of Students

> Megan Dunn, vice-president for higher education at the National Union of Students, said: "NUS and students' unions have been persistent in calling for financial barriers to be removed from access to postgraduate study, and today's announcement is a major step in the right direction. NUS and students' unions have been central in developing the conversation and lobbying decision makers across the country.
>
> "Creating a government-backed postgraduate loans scheme will make a fundamental difference to the lives and opportunities of students. Many postgraduates are currently funding their study through potentially disastrous measures such as credit cards, overdrafts and personal loans."

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22 "Call to offer loans to graduate-entry medical students", BMA, 4 December 2014.

23 "Postgraduate loans welcomed, but what about mature students?", *Times Higher Education*, 3 December 2014

Higher Education Policy Institute (HEPI)

> Nick Hillman, director of the Higher Education Policy Institute, said that Osborne deserved "two-and-a-half cheers, which is as good as it gets in austere times".
>
> He added: "Postgraduate support was unfinished business from the 2012 university funding reforms and the new scheme is welcome.
>
> 'It will open up postgrad study to more people. The age limit will be frustrating to those who miss out and people will doubtless lobby against it. But it is a preferable starting point to many alternatives, like restricting the loans to certain subjects."
>
> Greg Clark, the universities, science and cities minister, said: "By introducing postgraduate loans, students will have greater flexibility to gain the qualifications they need to get on in life and give the UK the skilled workforce we need to secure long-term economic growth.
>
> "Our announcement today shows we are determined to make education more available to all people. I welcome contributions to our forthcoming consultation to ensure that we get the detail right and so maximise these benefits."

The proposal is also discussed in an article in the *Guardian*, "Government loans for postgrads are welcome, but unis must play their part".[24]

8 Observations on the scheme by the Institute of Fiscal Studies

The IFS issued an observation of the proposals on 9 December, *The government's proposed new postgraduate loan scheme: will the RAB charge really be zero?* This assessed the scheme and in particular looked into the issue of the RAB charge – the amount of loan that would be repaid. The Government contends that all of the new postgraduate loans will be repaid in full – this is very different to the situation with undergraduate loans. The IFS observation analysed this aspect of the proposals based on a set of stated assumptions and said:

> We estimate that the government could expect to recoup 100% of the value of these loans in the long-run (i.e. that the so-called RAB charge – the long-run cost to the government of issuing student loans – is effectively zero).
>
> This differs from estimates of the long-run cost of the undergraduate loan system – which we estimate will cost the government 43p for every £1 loaned out – for three reasons. First, and most importantly, postgraduates will borrow considerably less: the maximum postgraduate loan will be £10,000, while the average undergraduate loan is around £44,000. Second, according to recent estimates, postgraduates earn around £200,000 more over their lifetimes, meaning they repay more quickly. Third, the illustrative loan scheme suggests that they would be charged higher interest rates on their loans than most undergraduates.

However the IFS raised some concerns about repayment of loans by EU students and the impact that this could have on the RAB charge:

> One assumption to which our findings are sensitive is that of repayment compliance. In 2012/13, 13.5% of new postgraduate students in the UK were EU domiciled. If the same proportion of EU students took out loans, but the government were unable to

24 "Government loans for postgrads are welcome, but unis must play their part", *The Guardian*, 3 December 2014

collect any repayments from these students, we estimate that the RAB charge would increase to 12.6%. This is another important consideration for the policy consultation.