House of Commons Library

BRIEFING PAPER

Number 8490, 21 February 2019

The forthcoming review of post-18 education and funding

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The funding of post-18 education and student finance has undergone a period of substantial policy change since 2012.

Raising higher education tuition fees and abolishing maintenance grants has **cut public spending at the expense of increased student debt**. These reforms have prompted much debate about the **cost and value of higher education** and intensified scrutiny of the funding system.

In February 2018, the Prime Minister announced a wide-ranging Review of Post-18 Education and Funding led by Philip Augar, the Review is **due to report in the Spring 2019**. The terms of reference of the Review state that it will focus on:

- Choice and competition across a joined-up post-18 education and training sector
- A system that is accessible to all
- Delivering the skills the country needs
- Value for money for graduates and taxpayers

The Review recommendations will be consistent with the Government's fiscal policies to **reduce the deficit** and will **not place a cap on the number of students** who can benefit from post-18 education. Student contributions towards the cost of their studies, including the **level, terms and duration of their contribution** will be considered.

The Review aims to create a more **overarching system** that will allow students to move more easily between FE and HE and will facilitate life-long learning and increase skills.

This briefing paper discusses the Review process and gives an outline of the post-18 funding system in England. It suggests possible options for reform that the Review may propose, such as the lowering of higher education tuition fees and analyses the impact of these proposals.

The following library briefing papers are of relevance

- Cost of university courses in England, 28 August 2018
- Returns to a degree, 19 September 2018
- Student loan interest rates: FAQs, 1 February 2019
- Student loan statistics, 5 February 2019
- The value of student maintenance support, 28 November 2018
- Higher education funding in England, 14 January 2019
- Adult further education funding in England since 2010, 4 December 2018
- Part-time undergraduate students in England, 1 February 2019

SUMMARY

POTENTIAL IMPACT OF REFORMS TO HE FUNDING

	Impact on…			
Change…	Public costs	University income	Students	Graduates -who benefits the most?
Reduce tuition fees	**Higher** if compensate universities in full	**Lower** if not made up with higher Govt. funding	**Incentive** effect for potential students	**Higher earners**
Cut interest rates	**Higher**	**None**	Possible **incentive** effect	**Higher earners**
Increase loan repayment threshold	**Higher**	**None**	Possible **incentive** effect	**Middle earners**
Cut loan repayment rate	**Higher**	**None**	Possible **incentive** effect	**Middle and higher earners**
Reintroduce maintenance grants	**Higher**	**None**	**Incentive** to those from **low income households**	Poorer students who end up as higher earning graduates
Fee waivers or grants	**Higher**	**None** if taxpayer funded	**Incentive** to those from **low income households**	Poorer students who end up as higher earning graduates
Differential fees	**Depends** on how introduced	**Depends** on how introduced	**Depends** on how introduced	**Depends** on how introduced
Cap or control student numbers	**Lower**	**Lower**	Some potential **students miss out**. More likely to be **disadvantaged?**	**None**

1. Background to the Review

In February 2018, the Prime Minister announced a wide-ranging Review of Post-18 Education and Funding led by Philip Augar; the Review is due to report in the Spring 2019.

The Review panel is seeking evidence from interested parties on the following topics:

- how to support young people in making effective choices between academic, technical and vocational routes after 18;
- how to promote a more dynamic market in education and training provision;
- how to ensure the post-18 education system is accessible to all;
- how best to support education outcomes that deliver the skills the UK needs; and
- how the post-18 education system can best deliver value for money for graduates and the taxpayer.

The Review aims to ensure that the post-18 education system is joined up and supported by a funding system that works for students and taxpayers

The Review is to look at how future students will contribute towards the cost of their studies, including "**the level, terms and duration of their contribution**." The Prime Minister has dismissed the idea of moving back to a fully taxpayer funded system.

1.1 Reason for the review

Post-18 education funding and student finance has undergone a period of substantial policy change since 2012:

- Tuition fee rise to £9,000 in 2012 and to £9,250 in 2017/18
- Higher Education and Research Act 2017 bought in annual inflationary rises under TEF
- Abolition of grants 2016/17+ increased maintenance loans
- Abolition of NHS bursaries
- Fees frozen at £9,250 2017
- Loan repayment threshold raised to £25,000 2018
- Interest rate rises to 6.3% in 2018/19

The funding reforms have led to **increased debate about the cost and value of higher education and intensified scrutiny of the funding system**.

"students from the poorest backgrounds will accrue debts of £57,000 from a three year degree"

IFS July 2017

Various commentators such as the Institute for Fiscal Studies have highlighted the high levels of student debt and have suggested that reducing tuition fees, or bringing back maintenance grants would allow the Government to **target specific students or courses** that have wider benefits to society[1].

Furthermore, the further education sector has experienced a prolonged period of funding cuts and students have been moved to a more loan-based finance system. These changes have had an impact on learners seeking to re-skill and have led to calls for a **re-assessment of the further education funding system**.

It is hoped that the Review will create a **more overarching system** that will allow students to move more easily between systems and will facilitate life-long learning and increase skills.

1.2 Review terms of reference

The terms of reference for the Review were published on **19 February 2018**. These are set out below:

The Review will focus on the following issues:

Choice and competition across a joined-up post-18 education and training sector:

- How we can help young people make effective choices between academic, technical and vocational routes after 18, including information on earnings outcomes and the quality of the teaching they receive.
- How we can support a more dynamic market in provision, taking into account reforms already underway, whilst maintaining the financial sustainability of a world-class higher education and research sector.
- How we can encourage learning that is more flexible (for example, part-time, distance learning and commuter study options) and complements ongoing Government work to support people to study at different times in their lives.
- How to ensure the market provides choice with higher-level degree apprenticeships and shorter and more flexible courses, in particular accelerated degree programmes, and supporting innovative new institutions that can drive competition.
- How we can ensure that there is world-class provision of technical education across the country including through the new Institutes of Technology.

A system that is accessible to all:

- How we can ensure that people from disadvantaged backgrounds have equal opportunities to progress to and succeed in all forms of post-18 education and training.
- How disadvantaged students and learners receive maintenance support, both from Government and from universities and colleges.

Delivering the skills our country needs:

1 Institute for Fiscal Studies, *Higher Education funding in England: past, present and options for the future*, July 2017 p36

- How we can best support education outcomes that deliver our Industrial Strategy ambitions, by contributing to a strong economy and delivering the skills our country needs.

Value for money for graduates and taxpayers:

- How students and graduates contribute to the cost of their studies including the level, terms and duration of their contribution, while maintaining the link that those who benefit from post18 education contribute to its costs.
- Ensuring that funding arrangements across post-18 education and training are transparent and do not act as barriers to choice or provision, considering how best to promote institutional efficiency and value for money for students and taxpayers.
- How the Government and institutions communicate with students and graduates around student finance, ensuring this communication is as clear as possible (consistent with the relevant legal requirements) about the nature and terms of student support.

The recommendations of the Review will be guided by the need to:

- **Maintain the principle that students should contribute to the cost of their studies** while ensuring that payments are progressive and income contingent;
- Continue with the reforms in train to **build a strong technical and further education sector** that encourages the skills that we need as a country;
- **Place no cap on the number of students** who can benefit from post-18 education; and
- Support the role of universities and colleges in delivering the Government's objectives for science, R&D and the Industrial Strategy.

The Review will not make recommendations related to the terms of pre-2012 loans or to taxation, and its recommendations **will be consistent with the Government's fiscal policies to reduce the deficit and have debt falling as a percentage of GDP**.

A Call for Evidence was made on **21 March 2018**, Review of Post-18 Education and Funding: Call for Evidence. The evidence received will be used to inform the panel’s thinking on the issues set out in the terms of reference. The consultation ran for 6 weeks and **closed on 2 May 2018**.

1.3 Submissions

Respondents were asked that submissions should not to exceed 4000 words they were asked to provide evidence and data to support their positions.

Below is a selection of submissions**:**

- Russell Group - Initial response to the call for evidence on post-18 education and funding

- Universities UK -The importance of the post-18 education system
- Insitute for Fiscal Studies -Response to call for evidence for the post-18 funding review from the Institute for Fiscal Studies
- University Alliance - UA response to the Post-18 & Funding Review call for evidence
- Million+- Review of post-18 education and funding: call for evidence
- Association of Employers and Learning Providers - AELP Response to the review of Post-18 Education and Funding
- University and Colleges Union - Response from the University and College Union (UCU)
- GuildHE - GuildHE's Principles of Funding Post-18 Education
- Association of Colleges - Written evidence submitted by Association of Colleges
- National Union of Students - National Union of Students response

Key themes from the submissions

Many of the submissions were concerned about **fee cuts and university income** – the Russell Group stated that:

> any reduction in current fee levels (without a compensatory increase in grant funding) would have serious implications for university financial sustainability.

This point was endorsed by many others.

A number of submissions expressed concern about **differential fees**:

> Introducing a system of differential fees based on cost of delivery, graduate or social return, would likely be problematic and could have negative consequences for students as well as for universities and for the broader role they play in the economy and society.[2]

The Institute for Fiscal Studies also expressed concerns around **incentivising certain subjects** through variable pricing.

The **restoration of grants** was advocated in a number of submissions including, Million+, Universities UK (UUK), University Alliance and Guild HE.

The University and Colleges Union, the Russell Group and the Association of Colleges suggested that the Review should explore potential **employer contributions** to the cost of post-18 education.

The interest on student loans was raised by UUK who said that the Government should **not apply interest to a student loan during the course of study** – and that further options on the interest rate should be considered. They also suggested a new **student loan**

2 Russell Group also the view of Million+

reimbursement scheme for subjects where there is evidence of a prolonged skills shortage.

Many submissions discussed flexibility of learning and lifelong learning. University Alliance called for "**greater integration between FE and HE**" and the "**provision of flexible funding** to students through mechanisms such as **Individual Learning Accounts** and/or the expansion of Advanced Learner Loans".

The Association of Colleges highlighted the need for increased higher level technical skills and advocated the introduction of **maintenance loans for Level 4 and 5 courses.**

A number of responses raised the issue of **mature and part-time students** and called for improved support for these groups.

Million+ also asked for a further relaxation of the **equivalent and lower qualifications** (ELQ) restrictions in eligibility for loans to improve support for "second-chance" learners.

The Association of Colleges drew attention to the scale of the UK's education and skills challenges in the 2020s and asked for "**higher public spending on education**, supplemented by higher employer contributions and a fair individual contribution."

2. Post-18 education in England – background

FE and HE are separate sectors, subject to different legislation, with separate funding bodies, different policy objectives and pressures and different budgets.

The creation of an overarching life-long learning system with easy movement between the sectors could therefore be challenging.

2.1 Public HE funding in England

There are three main elements of public spending on higher education – direct funding through the funding council which covers both teaching and research, student maintenance grants and student loans.

In 2018-19 it consisted of

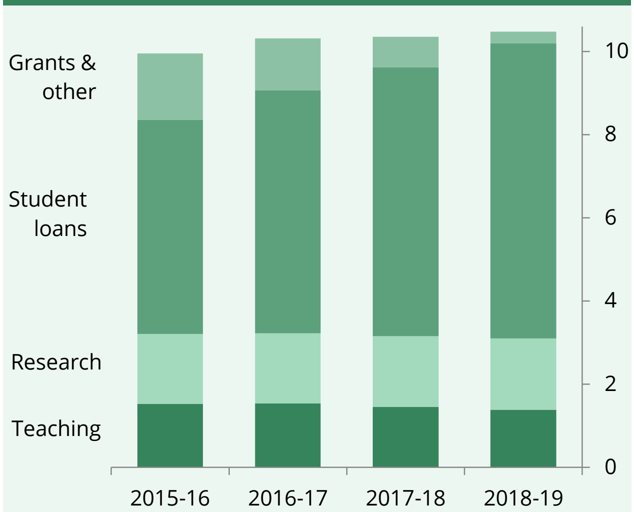
- **£1.4 billion** for teaching
- **£1.7 billion** for research
- **£0.5 billion** capital allocation for universities
- **£0.3 billion** in grants and other support for student
- **£15.8 billion** in loan outlays to undergraduates. This is expected to result in public sector costs of around £7.1 billion net of repayments.

Overall funding was just over £10 billion if the long term costs of loans is included. The total has increased slightly in cash terms in recent years, but has remained broadly steady in real terms.

Briefing paper Higher education funding in England gives more background and detail.

The chart opposite shows recent trends in public funding. Here the longer term costs of loans (rather than their face value) is included. The main change over these years was the ending of maintenance grants and their replacement with loans.

PLANNED OVERALL SPENDING ON HE (£bn)



Box 1: Office for National Statistics (ONS) report on the accounting of student loans

On 17 December 2018 the Office for National Statistics (ONS) published a report, *Accounting for student loans: How we are improving the recording of student loans in government accounts*, it had been widely reported that the Review report would be delayed until after the publication of this report.

The report announced a **technical change in accounting practice** so that the Government's student loan payments would be split into a portion that would be repaid which would be treated as Government lending and a portion that is not expected to be repaid which would be treated as Government spending.

David Bailey, Head of Public Sector Division at the ONS, explained the implications of the ONS's findings:

> "While there are no direct policy consequences, as the borrowing targets set by government are based on ONS's statistics, the implications of a change in statistical accounting may be used by government departments to inform their policies.[3]

It has been suggested that the change in the accounting of student loans could **potentially make some reforms to higher education funding more likely, including the re-introduction of grants, lowering fees and cutting the interest rate**.

Library blogs: Student loans and the Government's deficit, 13 December 2018 and Student loans: ONS changes accounting rules, 18 December 2018, discuss the issues.

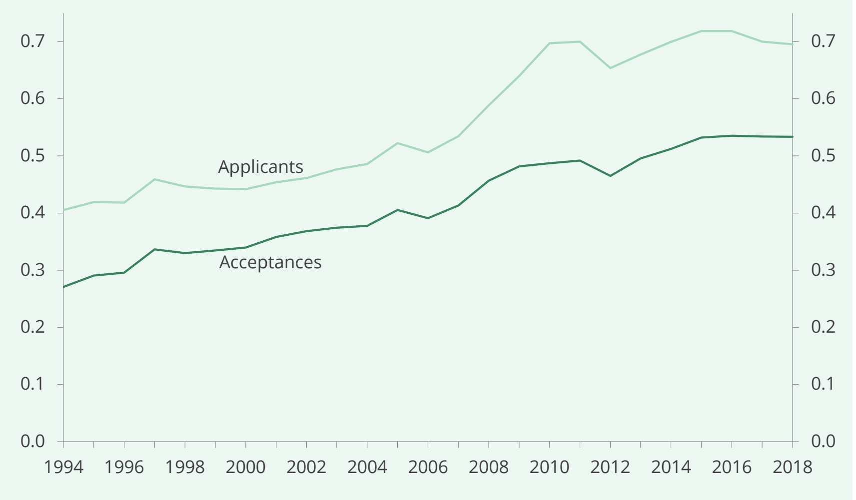
2.2 Student numbers

In 2017/18 there were **2.3 million students** at UK higher education institutions. **Numbers have risen slightly** in the past two years but are still below the 2010/11 peak of 2.5 million. The number of entrants to first degree courses dipped in 2012/13 –the first year of higher fees, but has increased in each subsequent year. Postgraduate numbers have also increased, but **the number of students on 'other' undergraduate courses has fallen by 67%**, or more than 220,000 over the past decade.[4] Many of the students on these courses study part-time and headline data on full-time students misses this important change.

Data from UCAS, the admissions agency, covers full-time undergraduate courses only. The chart opposite shows that numbers of applicants and entrants (home and overseas) has been relatively flat in recent years after two decades of increases. The proportion of 18 year olds from England who entered via UCAS in reached a new record of 34% in 2018.

The briefing paper Higher education student numbers gives more background and detail.

APPLICANTS AND ACCEPTANCES VIA UCAS
millions



2.3 Value for money

Value for money for students and taxpayers is an important element of the Review's remit and it was mentioned by the Prime Minister when she launched the Review. It is a wide-ranging subject which includes the costs and to students and graduates and the financial and non-financial

3 "Improving the recording of student loans in government accounts - Sector Response", *fenews*, 17 December 2018
4 HE Student data, HESA

benefits they receive. It also covers public funding for higher education in general –the costs or contribution that taxpayers face and the benefits in terms of taxes that graduates pay and their contribution to the economy. This paper does not address these issues explicitly, but more information can be found in the following Library briefing papers:

Returns to a degree

Cost of university courses in England

Higher education funding in England

2.4 Adult FE in England

Adult FE refers to education for individuals aged 19 and over that takes place outside of school and the higher education sector. In 2017-18, there were around **2.2 million publicly-funded learners aged 19+** in some form of adult FE, including 638,200 on an apprenticeship and 504,500 on community learning courses.[5] Around 1,200 providers received some form of public funding to deliver adult FE in 2017-18.

The majority of funding for non-apprenticeship adult FE in England is provided by the Education and Skills Funding Agency (ESFA) through its Adult Education Budget. After it has received details of the budget from the DfE, the ESFA confirms each FE provider's funding allocation or maximum contract value for the forthcoming year. Providers then earn funding up to their maximum allocation by delivering education and training that is approved for public funding to learners that are eligible for funding.

Whether learners receive funding depends on their personal circumstances, including their age, their employment status, their past educational attainment and the course they are studying. Those who are eligible for funding either have all of their course fees paid (fully-funded) or the ESFA pays some of the fees and the learner or the college will be responsible for paying the remainder (co-funding). Details of the funding provided to learners studying at different levels in 2018-19 is provided in the ESFA's funding rules guidance (see the table on page 23). Broadly, **grant funding is focused on younger adults** (23 and under), learners who are **unemployed**, and **lower skill levels**.

Under the Spending Review 2015 settlement the **Adult Education Budget is set to be held constant in cash terms at £1.5 billion up to 2019-20**. Funding for advanced learner loans (see below) is set to increase by 140% between the 2015-16 baseline and 2019-20.[6]

Advanced learner loans

From 2013-14, grant funding for leaners aged 24 and over studying at levels 3 and 4 was removed and replaced with Advanced Learner Loans. Since the 2016-17 academic year, Advanced Learner Loans have additionally been available for 19-23 year olds studying at levels 3 and

5 DfE, *Further education and skills: November 2018*, 6 December 2018.
6 HM Treasury, *Spending Review and Autumn Statement 2015*, Cm 9162, November 2015, p46; Skills Funding Agency, Skills funding letter: April 2017 to March 2018, March 2017.

4, and to learners aged 19 and over studying at levels 5 and 6. The **amount actually paid out in Advanced Learner Loans was less than the maximum budget allocation** in each of the four years where figures for the full year are available (2013-14 to 2017-18).[7]

Further information on adult FE funding is available in Library Briefing 7708, Adult further education funding in England since 2010.

Box 2: Qualification levels

Most qualifications have a difficulty level – the higher the level the more difficult the qualification is. Qualifications at the same level may, however, cover different amounts of the same subject and so may be different lengths.

In England, Wales and Northern Ireland there are 9 qualification levels, ranging from entry level (which have three sub-levels) to level 8. A list of the qualifications at each level is available on Gov.uk at What qualification levels mean. Some examples are:

- Entry Level – Skills for Life.
- Level 1 – GCSE grades 3-1 or D-G.
- Level 2 – GCSE grades 9-4 or A*-C.
- Level 3 – A Levels; AS Levels; tech levels.
- **Level 4** – Higher National Certification (HNC); Certificate of Higher Education (CertHE).
- **Level 5** – Higher National Diploma (HND); Level 5 Diploma; Foundation Degree.
- **Level 6** – Undergraduate Degree.
- Level 7 – Master's Degree; Postgraduate Diploma; Postgraduate Certificate in Education (PGCE).
- Level 8 – Doctorate.

7 Student Loans Company, *Advanced Lerner Loans paid in England*, various years.

3. Potential reform options

This section looks at a range of potential options for reform of post-18 education finance. The options set out here are **not meant to be exhaustive or to indicate what reforms the Review will most likely recommend**. They are looked at individually, but the Review is likely to recommend a number of different reforms. Their combined effect could be quite different from the sum of individual components.

After a description of each option, commentary and general description of the impact there are estimates of the potential impact on public finances, graduates and universities. These are calculated for reforms that affect loan repayment terms and for a cut in the overall level of fees. Only one illustrative change is shown in each area (ie. a one percentage point cut in the interest rate). The impact of other reforms is described in general terms only.

Where estimates of the impact are given they are based on the Government's loan repayment model sensitivities set out in Student loan forecasts, England: 2017 to 2018 and an adapted/updated version of the most recent online version of the *Student loan repayment model*. The estimates themselves are subject to a large degree of uncertainty and should be only be viewed as a guide to the orders of magnitude involved.

Where possible the following figures are estimated for each reform:

A. Change in the subsidy element of loans (the percentage the Government does not expect to be repaid). The current baseline estimate is 45%.

B. Change in the annual cash value of student loans. The baseline is £17 billion to be loaned to undergraduates in 2019-20.

C. Change in the long term cost of loans (A multiplied by B). The baseline is around £7.5 billion.

D. Change in *lifetime* graduate repayments by earnings decile (10% bands)

The last element is illustrated with a chart showing the change in repayments for each decile (compared to the current arrangements) in present day discounted values.[8]

3.1 Lower HE tuition fees

In 2012 when the tuition fee cap rose to £9,000 David Willetts the Minister for Universities and Science said that only in '**exceptional circumstances**' would HEIs charge fees at the upper limit. In the event however nearly all HEIs chose to set fees at, or near the maximum level.

As part of the funding reforms, in the Sending Review 2012, the Government announced that the **block grant payable to HEIs for tuition would initially be cut by 40%** to offset the changes – since then **tuition for most low-cost subjects at HEIs has been funded by students' fee loans**. Real terms funding for teaching (to the funding council) have fallen by more than 70% since 2011/12

8 Repayments are adjusted for inflation and by an annual discount rate of 0.7% which is meant to reflect the Government's cost of capital

Library briefing, *Higher education tuition fees in England*, 25 June 2018, discusses issues around the level of fees and their impact on higher education funding, public finances and student debt.

In a speech launching the Review the Prime Minister commented on the high level of university fees:

> "level of fees charged do not relate to the cost or quality of the course. We now have **one of the most expensive systems of university tuition in the world**". [9]

Library briefing, *Cost of university courses in England*, 28 August 2018 looks at how universities set their fee levels and discusses the cost of provision and the use of fee income.

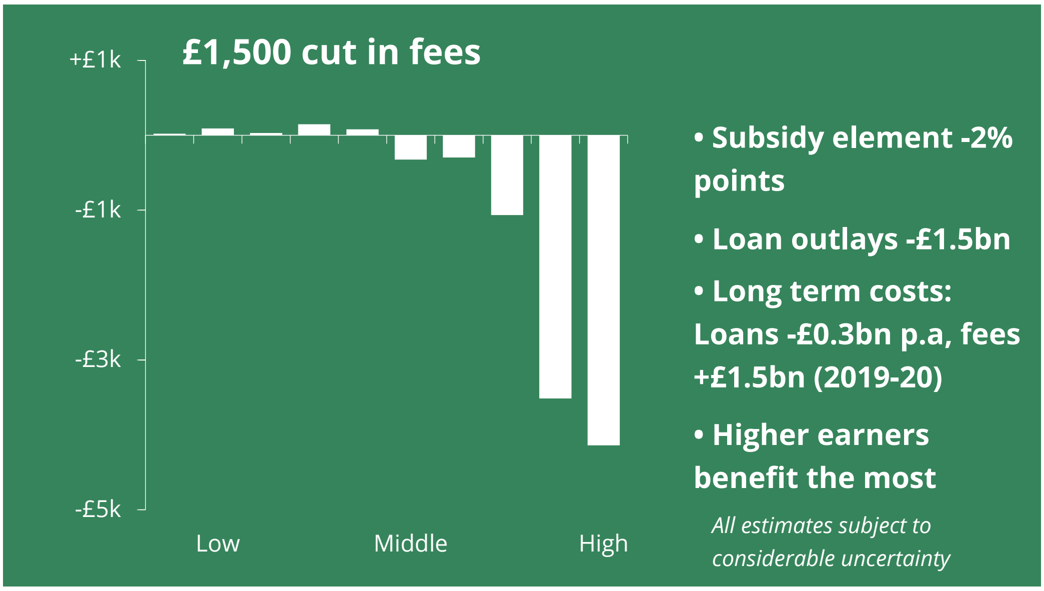
A number of commentators have suggested that tuition fees should be lowered and the Labour Party 2015 election manifesto contained a pledge to abolish fees:

> Labour will reintroduce maintenance grants for university students, and we will abolish university tuition fees.[10]

Impact

General impact of a cut in fees

- *Universities* –**less income** unless compensated with higher public funding.
- *Taxpayer* –If increase direct spending then: **higher costs** immediately and in the longer term as only partially offset by **lower fee loan outlays**.
- *Students* –Incentive effect on potential students. Lower headline fees are likely to make more young people consider higher education.
- *Graduates* –**Benefit to better off** who see lifetime repayments cut. **No financial benefit to lowest earning graduates**.



[9] GOV.UK, PM: The right education for everyone, 19 February 2018
[10] Labour Party Manifesto 2017, For the many not the few p43

If no other parts of the system were changed, a simple cut in tuition fees would only help graduates on higher-incomes –those who would otherwise end up repaying loans in full. Lower earning graduates would not be affected, most would still not repay their (smaller) loans in full.

If lower fee income were made up with an equal sized increased in direct funding for universities **it could lead to pressure for student number controls**.

3.2 Change student loan repayment terms

Students are eligible to take out loans to pay for tuition fees and maintenance costs.

Concern has been expressed about the repayment terms of these loans, particularly about the interest charged and on the income threshold for repayments. Changing these factors could have a significant impact on the amount that particular graduates repay over a lifetime.

Interest rates

The higher education funding reforms in 2012 introduced a new **tiered interest rate system** on student loans.

While studying interest is charged on loans at RPI plus 3%, from April after graduation the interest rate is tiered from RPI when graduates are under the income threshold, to RPI plus 3% for graduates with incomes over £45,000.

The Institute for Fiscal Studies report, *Higher Education funding in England: past, present and future options for reform*, calculated that the 2012 interest rate system resulted in students accruing **£5,800 in interest on average whilst studying**.[11]

Several bodies have suggested various changes to the system:

- Treasury Committee report February 2018:

  "The Government should **abandon the use of RPI in favour of CPI** to calculate student loan interest rates"

  "**Applying an interest rate above the level of inflation to tuition fee loans whilst the student is still at university is perceived to be a punitive measure and should be reconsidered**".[12]

- House of Lords Economic Affairs Committee report June 2018:

  "We call for the interest rate to be reduced to the level of the 10 year gilt rate (currently around 1.5 per cent)."[13]

The interest rates on student loans are discussed in a library briefing paper, Student loan interest rates FAQs, 1 February 2019.

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11 The IFS, *Higher Education funding in England: past, present and future options for reform*, July 2017 p3

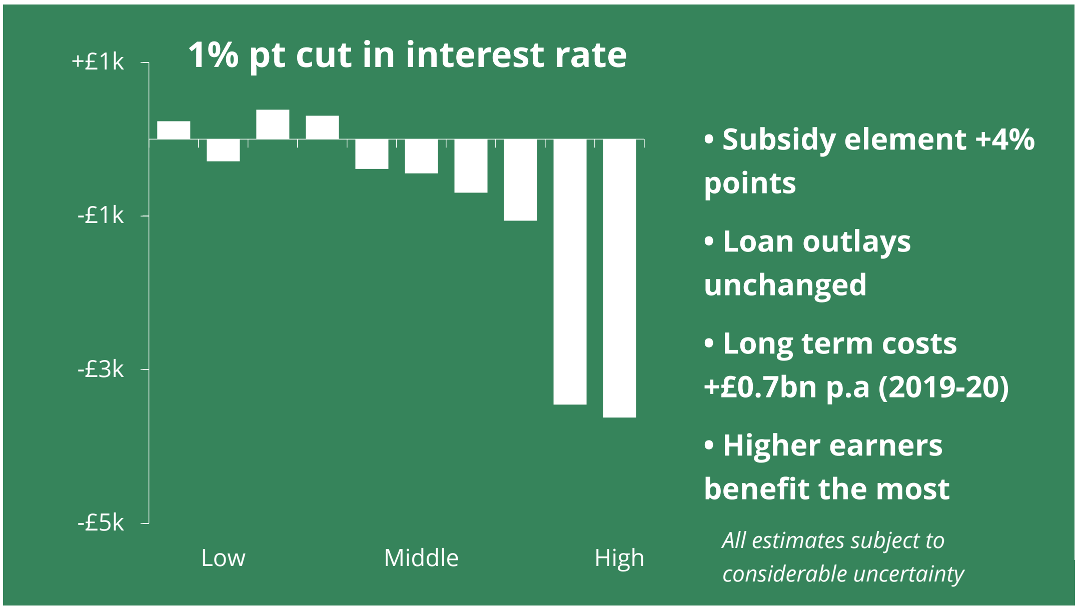
12 Treasury Committee, *Student Loans*, 6 February 2018, HC 478, p19

13 House of Lords Economic Affairs Committee, *Treating Students Fairly: The Economics of Post-School Education*, 11 June 2018, HL Paper 139, p8

Impact

General impact of a cut in interest rates

- Universities –no direct impact.
- Taxpayer –Reduces value of repayments in longer term, hence **higher costs** in longer term.
- Students –there may be **incentive effect**, although the **operation of loan repayments is generally not very well understood**.
- Graduates –**Benefit to better off** who see lifetime repayments cut. **No financial benefit to lowest earning graduates**.



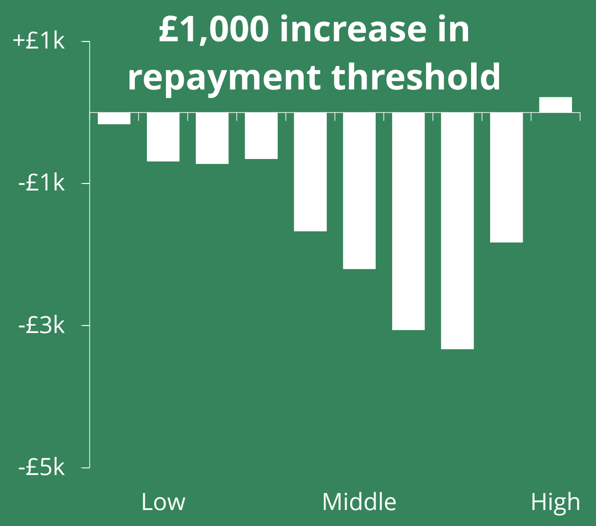
A one percentage point cut in interest rates **will only benefit those who are currently expected to repay their loans in full – better off graduates**. The top two income deciles would see the lifetime value of their repayments cut by around £3,500.

Repayment threshold

Graduates start to repay their loans from the April after they graduate when their income is over a set threshold. In April 2018 the income threshold for Plan 2 loans was raised from £21,000 to **£25,000**.

General impact of an increase in the repayment threshold:

- Universities –no direct impact.
- Taxpayer –Reduces value of repayments in longer term, hence **higher costs** in longer term.
- Students – there may be **incentive effect**, although the **operation of loan repayments is generally not very well understood**
- Graduates –**Benefit to middle earners** who see lifetime repayments cut the most. **No financial benefit to lowest earning graduates** who have already been taken out of repayments by current threshold level.



- **Subsidy element +2% points**
- **Loan outlays unchanged**
- **Long term costs +£0.3bn p.a (2019-20)**
- **Middle/high earners benefit most in £s**
- **Middle/low earners benefit most in %**

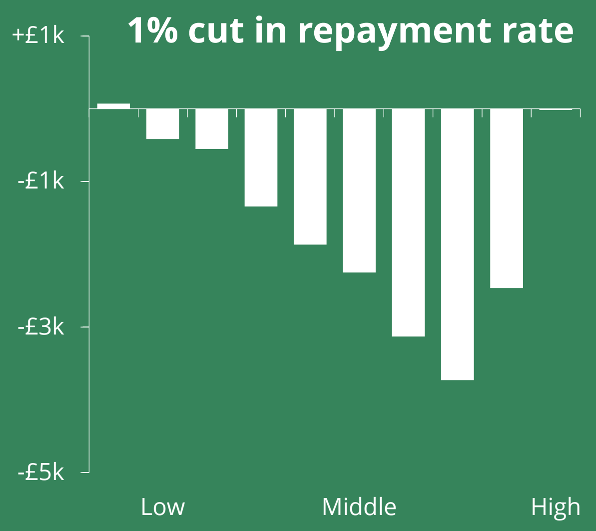
All estimates subject to considerable uncertainty

Increasing the repayment threshold by £1,000 **has very little impact on the highest earning graduates**. Those in **middle/higher deciles would see their lifetime repayments cut by £2-3,000**. While the **lowest earning graduates see a smaller cut in their lifetime repayments** in absolute terms (£5-1,500) the percentage cut is broadly similar for low/middle earners at 10-15%.

Repayment rate

Currently graduates repay their loans at a rate of 9% of income above the repayment threshold. The general impacts of a lower rate are:

- Universities –no direct impact.
- Taxpayer –Reduces value of repayments in longer term, hence **higher costs** in longer term.
- Students – there may be **incentive effect**, although the **operation of loan repayments is generally not very well understood**
- Graduates –**Benefit to middle and higher earners** who see lifetime repayments cut the most. **No financial benefit to lowest earning graduates**.



- **Subsidy element +3% points**
- **Loan outlays unchanged**
- **Long term costs +£0.5bn p.a (2019-20)**
- **Middle earners benefit the most in £ and % terms**

All estimates subject to considerable uncertainty

Again this change to loan terms **benefits middle earners the most**; deciles seven and eight see repayments cut by £3-4,000 with a one percentage point cut in the rate. Across the middle earners (deciles four to eight) where is a cut in lifetime repayments of 10-15%.

3.3 Re-introduce grants

Maintenance grants were **abolished in England in 206/17**. This change was highly controversial.

In 2014/15 the **maximum grant was £3,387** for students from households with income under £25,000. 395,000 post-2012 students received full grant (**42%** of the cohort) and 135,000 received partial grants (**14%** of the cohort).

Re-introducing grants has wide ranging support from bodies such as: the Russell Group, Million+, UUK , Labour and Lord Willetts.

The House of Lords Economic Affairs Committee also recommended bringing back grants:

> poorer students graduate with the largest debt, "means-tested system of loans and grants that existed before 2016 **must be re-instated**, and total support increased to reflect the true cost of living.[14]

In 2018/19 the Welsh Government introduced a grant of £1,000 for all full-time undergraduate students in Wales.

Impact

In general the impact of reintroducing grants would be:

- Universities –no direct impact.
- Taxpayer – **Higher costs** immediately. Only partially offset by **lower maintenance loan outlays**.
  - c£1.7bn for 'old' arrangements
- Students –Clear targeting at those from low income households.

[14] Ibid p8

  - Incentive effect for young people from low income households.
  - Recipients more likely to be less well-off as graduates
- Graduates –**Biggest benefit to disadvantaged students who go on to be middle/high earning graduates.** They see fall in lifetime repayments.

The cost implications depend on the size of the grant and how it varies with income. No specific figures are given here, although the cost of **grants before they were abolished was around £1.7 billion**.

As the loans model looks at graduate income, not the household income of students it cannot be used to look at the distribution impact of this change. While students from poorer background are *more likely* to be among lower earning graduates, the relationship is not simple, it is a general tendency only. **Students from poorer background who go on to be among higher earning graduates benefit most from reintroducing grants**.

3.4 Fee waivers or fee grants

The *Teaching and Higher Education Act* 1998 introduced tuition fees of £1,000 which were paid upfront. The Act also included fee remission for low-income students on a means-tested basis. Students whose families earned less than £23,000 pa were exempt from fees whilst those families earning between £23,000 and £35,000 a year were charged a percentage of the fees on a sliding scale. Those families who earned over £35,000 a year were charged the full fees.

In 2006 deferred fee loans were introduced which made fee remission less relevant and the fee maximum waiver which was then £1,500 was subsumed into a grant of £3,000 pa for low income students.

In 2001/2 **45 % of students were eligible for full fee remission and 20% were eligible for partial fee remission** [HC Deb 30 April 2003 col 423]

The idea of introducing fee waivers has been backed by the Higher Education Policy Institute:

> "targeted free tuition has both an attractive political and economic logic: it provides benefits to those who need it without providing windfall gains to those who do not. It is a policy option that bears watching closely and its adoption deserves serious consideration everywhere".[15]

Impact

- *Universities* –none if taxpayer-funded.
- *Taxpayer* –**Higher costs** immediately. Only partially offset by **lower fee loan outlays**. Cost depends on value and eligibility
- *Students* –Clear targeting at those from low income households.
  - Incentive effect for young people from low income households.

[15] HEPI Report 112, *Targeted Tuition Fees is means-testing the answer?:* p56

  - More likely to be less well-off as graduates

- *Graduates* –**biggest benefit to disadvantaged students who go on to be middle/high earning graduates.** They see fall in lifetime repayments.

The impact is very similar to reintroducing maintenance grants. Again the cost depends on the value and eligibility criteria.

3.5 Differential fees

The *Higher Education Act 2004* allows higher education institutions to charge variable tuition fees – **different fees for different courses**. These provisions were brought in to **stimulate a market** in higher education but in practice most institutions charge the same fees for all of their courses.

It has been proposed that institutions could **charge less for courses which are cheaper to deliver, or which produces lower economic returns** for graduates. Library briefings: *Returns to a degree*,19 September 2018 and *Cost of university courses in England*, 28,August 2018, discuss these issues.

Reports suggests that the Review is considering lowering fees for **classroom subjects to £6,500** and **raising fees to £13,000 for STEM** subjects.[16]

UK **higher education bodies however are generally against** differential fees with both the Russell Group and Million+ saying that such a move would damage social mobility:

> "greater variation in fees levels", such as by cost of subject or level of graduate earnings, pose "many practical difficulties and risks", including that poorer students "may choose cheaper courses of study to the detriment of achieving their potential". (UUK)

The Institute for Fiscal Studies has also cautioned against varying fee caps on the basis of graduate earnings.[17] Research by the IFS in 2016 showed that graduates from richer family backgrounds earned significantly more than their less wealthy counterparts even when they held similar degrees from similar universities.[18]

Impact

With so many different ways to introduce and 'fund' differential fees there is no way to look at impacts in a meaningful way unless/until the Review decides to make recommendations on this.

3.6 Cap on student numbers

In 2015 student number controls were completely removed and since then higher education institutions have been able to **recruit unlimited**

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16 "Tuition fees cut to £6,500 but higher for science?" *BBC News*, 2 November 2018

17 IFS, *Response to call for evidence for the post-18 funding review from the Institute for Fiscal Studies*, May 2018

18 "Graduates from wealthy backgrounds reap earnings benefits", *Times Higher Education*, 13 April 2016

numbers of students for most courses.[19] Many of the changes suggested to the funding system would increase costs for the Government and this could create pressure to re-introduce a cap on student numbers.

However the Review is to be guided by the need to, (among other things):

> **Place no cap on the number of students** who can benefit from post-18 education;

Nevertheless there has been speculation that student number controls of one form or another might have to be introduced to balance out increases to costs from other reforms of the system.

It has been suggested that **student loan eligibility may be restricted to students awarded higher than DDD in their A level exams**. This would in effect act as a control on student numbers. Denying loans to students with lower grades has however been criticised on social mobility grounds by Million+ and HEPI.[20] The costs of the proposal are discussed in an article on the Wonkhe website.[21]

Chris Skidmore, the Universities Minister has said that he "**does not support the introduction of minimum grade thresholds** for entering higher education". [22]

"I don't believe that we should be having [a threshold], because ultimately it's about protecting the most disadvantaged students who may not have had the opportunity to reach those [higher grade] qualifications,"

Chris Skidmore Universities Minister, Times Higher Education, 7 February 2019

Impact

If student numbers were capped, controlled to control public spending:

- *Universities* –fewer students = less income.
  - Likely to vary institution-by-institution.
- *Taxpayer* –**lower costs** could be used to 'fund' other measures that increase costs per student
- *Students* –**Some will miss out on higher education**. More likely to be disadvantaged unless accompanied by effective measures to further widen participation.
- *Graduates* –**none** for those who still go to university.

3.7 FE and sub-degree awards

As noted in section 1 above, the Review covers post-18 education and so covers post-18 FE as well as HE. While this may potentially involve changes to the FE funding system for lower skill levels – for example, changes around the eligibility for grant funding – the majority of evidence to the Review and subsequent commentary has appeared to **focus on higher level skill levels and sub-degree awards**.

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19 Student numbers are still regulated on a few courses such as medicine and dentistry Office for Students, Health education funding

20 "English review mulls barring students with low grades from loans", *Times Higher Education*, 17 December 2018

21 Wonkhe," Another Augar leak: but does it deliver for the treasury?" 16 December 2018

22 "Don't put a lid on access to HE", *Times Higher Education*, 7 February 2018

Encouraging alternatives to the undergraduate degree

Sub-degree level qualifications have been in decline in recent years with a number of potential causes cited, including:

- FE college funding is partly linked to completion rates and so the incentive for colleges is to focus on courses at **lower levels that have higher success rates**.
- There is currently **no maintenance support for FE** learners.
- Grant funding for learners aged 24 and over studying FE qualifications at levels 4 and 5 was replaced by loan funding (in the form of advanced learner loans) from 2013-14. The budget for such loans has been underspent, perhaps suggesting **demand for loans has been less than originally anticipated**.
- The one-shot nature of the student loan system **incentivises students to take a full-time undergraduate degree,** rather than level 4 and 5 HE qualifications (some level 4 and 5 qualifications, such HNCs, HNDs and foundation degrees, are funded under the HE student support system).[23]

The Review's terms of reference note this trend, stating that "in recent years the system has **encouraged growth in three-year degrees for 18 year-olds**, but does not offer a comprehensive range of high quality alternative routes for the many young people who peruse a vocational path at this stage."[24] Given this, it seems possible that the Review may make some proposals aimed at **encouraging more learners to take sub-degree and higher-level technical courses**.

Single loan entitlement

One thing that has been recommended in the past as a way to incentivise alternative post-18 routes is to provide learners with a **single financial entitlement that can be used for any tertiary education**, with unused funds able to be 'banked' for future use. This was, for example, suggested by Alison Wolf, who is also on the Review panel, in a report published in 2016:

> We should create a single lifetime tertiary education entitlement, which can be drawn down as a loan in whatever instalments an individual pleases, whenever they wish, and used at any approved tertiary institution. An obvious maximum value would, in the immediate term, be the total amount which government currently sees as appropriate for a three-year full-time bachelor's degree.[25]

The report, *Remaking Tertiary Education: can we create a system that is fair and fit for purpose?*, argued that this would change the incentives facing institutions:

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[23] Alison Wolf, *Remaking Tertiary Education: can we create a system that is fair and fit for purpose*, November 2016, chapter 5 & p13; Policy Exchange, *Higher, Further, Faster, More: Improving higher level professional and technical education*, 2015, p41;

[24] Department for Education, *Review of Post-18 Education and Funding: Terms of Reference*, 19 February 2018.

[25] Alison Wolf, *Remaking Tertiary Education: can we create a system that is fair and fit for purpose?*, November 2016, p67.

> Under current conditions, students are offered one loan, tied to a degree, once. Publicly-supported institutions therefore have no incentive to offer anything other than degrees of maximum length at maximum permitted cost. If students held financial entitlements under their own control, institutions' incentives would change.[26]

A similar proposal was made in a report from Policy Exchange in 2015, which recommended that the Government should commit to move towards **one single student loan system that encompasses all post-19 training**, with the single funding system operating as "a draw down account with a lifetime balance" rather than a "single shot" loan book." The report argued that this would help address the "inequality in the financial support available for students depending on the route they choose to access post-secondary education."[27]

The Review's terms of reference state that the Review will look at how it can be ensured that "**the post-18 education system is joined up**". Similarly, Philip Augar has been reported as saying that anything the Review comes up with was likely to be "**blended**", both in terms of the type of learning and the type of provider."[28] Until it reports, however, it will not be clear how the Review envisages achieving this.

Some have argued against the idea of a single financial entitlement for all learners on the basis that loans may not be suitable, or equally attractive for learners on non-degree courses. Citing the decline in mature part-time students after the introduction of loans, for example, Lord Willetts argues that "**it is not possible to apply one single financing model to different learners in different circumstances**."[29]

Increased funding for FE

One potential impact of encouraging more learners to take alternative sub-degree qualifications could be an increase in funding for the FE sector, if those qualifications are taken in colleges. This could fit in with a potential broader aim of increasing funding for the sector.

Funding for adult FE has come under pressure in recent years (further information on this is available in Library Briefing 7708, Adult further education funding in England since 2010) and it has been reported that the Government is "said to see **a shift of resources from HE as a means of boosting colleges**" and that the Prime Minister has pushed the Review panel to back **delivering more higher education in colleges** in its initial report.[30]

Philip Augar has also noted that funding for the FE sector was a main theme in responses to the Review's call for evidence. He was reported as saying that "pretty much all of the replies [to the consultation] said

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26 Alison Wolf, *Remaking Tertiary Education: can we create a system that is fair and fit for purpose?*, November 2016, pp7-8.
27 Policy Exchange, *Higher, Further, Faster, More: Improving higher level professional and technical education*, October 2015, p55.
28 Head of post-18 review remains tight-lipped after budget offers no 'little extras' for FE, *FE Week*, 30 October 2018.
29 David Willetts: Less money for universities and more for training. This view is simple, seductive – and wrong. Here's why, *ConsrervativeHome*, 6 February 2018.
30 Post-18 review 'could lead to growth of HE in FE', *TES*, 28 June 2018.

funding was too low particularly in FE. There was a lot of comment about the **bias to the traditional academic route of tertiary education**. We do believe that there is a **skills gap in the country** that we ought to try and address."[31]

Lord Willetts has, however, noted the difficulty politically in rebalancing funding in favour of FE by reducing funding for HE: "The idea that it is a brilliant solution to reduce the unit of resource to 1.5 million first-time voters is not a good idea," said Lord Willetts, who added that "it is not going to happen."[32]

New higher level technical pathway

It has been suggested that one of the reasons for the declining number of learners taking sub-degree awards is the **lack of a national system of awards at levels 4 and 5**. Alison Wolf's 2016 report, for example, cited this as a large factor behind low take up of Advanced Learner Loans. The report recommended that the Government should create a "**national system of sub-degree tertiary awards** which can be offered in further education colleges as well as universities."[33]

In its evidence to the review, the Association of Colleges cited university **validation arrangements** as limiting development of HE in colleges and stated that the Government should develop a stronger higher level technical route.[34]

This has been an area of focus for the Government. For example, the Post-16 Skills Plan stated that the new technical routes (which will have a Level 3 T-Level at the start of them) will extend up to higher skills levels.[35] Following on from this, in October 2017 the Government announced that it intended to conduct a **review of level 4 and 5 qualifications**, with a particular focus on technical qualifications.[36] The post-18 education Review's terms of reference state that the findings of the review of level 4 and 5 qualifications will feed into the Review.[37]

FE maintenance loans

Currently, **students taking higher level FE courses** (i.e. not those level 4 and 5 courses, such as HNCs and HNDs, that are funded under the undergraduate student support system) **are not eligible for maintenance loans**. In its evidence to the review, the Association of Colleges argued that to encourage alternative sub-degree pathways, the financial support for FE students needed to change so that learners are

31 Post-18 education review will try to fix HE and FE funding imbalance, *FE Week,* 26 June 2018.
32 Ex-minister sceptical of English higher education funding review, *THE,* 21 March 2018.
33 Alison Wolf, *Remaking Tertiary Education: can we create a system that is fair and fit for purpose?,* November 2016, p8.
34 Association of Colleges, *The Post 18 education and funding review: Written evidence submitted by the Association of Colleges,* 27 April 2018.
35 Department for Business, Innovation and Skills and Department for Education, *Post16 Skills Plan*, July 2016, pp25-7.
36 Level 4 & 5 technical education to be reviewed, Department for Education, 31 October 2017.
37 Department for Education, Review of post-18 education and funding: terms of reference, 19 February 2018.

provided with "**a minimum income during study** so that costs of living, childcare and loss of earnings do not become unnecessary barriers."[38]

The March 2017 Budget announced that **from 2019-20** maintenance loans like those available for higher education students would be made available to some adult FE learners.[39] However, in its response to a consultation on FE maintenance loans in September 2016, the DfE stated that it needed to "**consider the value for money case and fiscal position before taking any decision on the case for FE maintenance loans**."[40]

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38 Association of Colleges, *The Post 18 education and funding review: Written evidence submitted by the Association of Colleges*, 27 April 2018.
39 HM Treasury, *Spring Budget 2017*, HC1025, March 2017, p41.
40 Department for Education, Further Education Maintenance Loans: A summary of the consultation responses, September 2016, p13.

4. Summary of impact of possible changes

All of the possible options outlined above could have **financial implications** as well as other **non-monetary costs** for stakeholders in the system.

Any reduction in university tuition fees would prompt calls for the **teaching grant to be increased** to make up shortfalls in income. Increasing Government funding would create **pressure to re-introduce student numbers controls**. Changes in these areas could embed the current **hierarchy of higher education** institutions and have consequences for **social mobility**.

Other proposals such as ones around differential fees could create **perverse outcomes** as it is possible that higher fees might **deter some students from taking more expensive courses**. This proposal could negatively impact on social mobility as **poorer students have been shown to be more debt averse** than wealthier students[41], it could also **reduce the supply of STEM graduates** if these courses attracted higher fees.

Changes to the university funding system since 2012 and the removal of student numbers controls have seen mixed fortunes in the higher education sector. A number of universities have seen a **reduction in their student applications**[42] and some are in **financial deficit**. Any changes to the funding system would have to consider the **equilibrium of the sector** as well as value for money.

The Review aims to create an **overarching post-18 system** with FE and HE working to facilitate easy progression for students through the system. If this is to work the funding of FE will be an important aspect of the reforms.

Chris Skidmore the Universities Minister has called for any **major funding change**s coming out of the Review to be **subject to consultation,** and to be **introduced gradually**:

> Mr Skidmore said that his approach would be to "work with the HE sector about there not being any cliff edges, or that…whatever change looks like, that I'm able to reassure the sector that that change would be graduated".
>
> He continued: "My own view is that I would like to see – whether it's a Green Paper approach, whether it's a White Paper approach – an approach that would allow for those recommendations to be tested with the wider sector."
>
> Mr Skidmore said he wanted to ensure that universities do not see the review as "a stick to beat them with", stressing that it was an opportunity to set out a vision for post-school education through

41 Wonkhe, "Fear of debt really is deterring the poorest from university", Claire Callender, 6 June 2017

42 "Mixed fortunes for universities in latest recruitment round," *Times Higher Education*, 7 February 2018

to 2030, involving moving away "from this idea of the two separate routes of HE and FE".

"The important message I want to give to the sector is that I'm a universities minister who believes that there aren't too many people at university," he added.

But, he continued, whether that was "something that happens immediately at 18 and finishes at 21" was a key issue to consider. "What we've got to do is create the learning pathways for people to step on [and] step off," he said.[43]

4.1 Articles

Below is a selection of articles which discuss the Review:

- "Don't put a lid on access to HE", *Times Higher Education*, 7 February 2019
- "English post-18 review faces increasingly uncertain passage", *Times Higher Education,* 16 January 2019
- "Will universities go bust if fees are cut?" *BBC News*, 18 February 2019
- "University chiefs angry over 'elitist' student loan plans", *The Guardian*, 8 January 2019
- "Review to back student loans for further education in England", *Financial Times*, 14 January 2019
- Post-18 Review Archives, Wonkhe
- Higher Education Policy Institute, Post-18 Review: 10 Points-of-Note on fixing the broken parts of our education and training system based on recent HEPI output, 17 April 2018

[43] "Don't put a lid on access to HE", *Times Higher Education*, 7 February 2018

BRIEFING PAPER
Number 8490
21 February 2019