

*Review of Higher Education in Wales Phase 1:  
Student Finance Arrangements*

*Report from the Chair of the Task and Finish  
Group*

*Professor R. Merfyn Jones*

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## Contents

	Page
<b>Introduction:</b>	
Background	2
Announcement of Task and Finish Group	4
<i>Press Notice announcing establishment of the Review of Higher Education in Wales</i>	Appendix 01
<i>Pen pictures of the Chair and the Review Task and Finish Group members</i>	Appendix 02
<i>Terms of Reference for the Review</i>	Appendix 03
<i>Meetings of the Task and Finish Group</i>	Appendix 04
Current student finance arrangements in Wales	5
<i>Definition of Funding Types</i>	Appendix 05
<i>Eligibility table and graphs illustrating current student finance arrangements</i>	Appendix 06
Comparison with England	7
<i>Matrix summarising key features of the current student finance arrangements of each of the four UK countries</i>	Appendix 07
Undergraduate student numbers in Wales	9
<i>Summary statistical information on the Welsh HE sector and students normally living in Wales</i>	Appendix 08
<b>Key Issues</b>	10
<b>Scenarios considered and evaluation</b>	14
<i>Student Finance Reform Options – Illustrative Scenarios Considered by the Task and Finish Group (eligibility tables)</i>	Appendix 09
<i>Student Finance Reform Options – Illustrative Scenarios Considered: Student Case Studies</i>	Appendix 10
<i>Student Finance Reform Options – Illustrative Scenarios Considered: Graphs of scenarios</i>	Appendix 11
<b>Options for debt assistance</b>	17
<b>Conclusions</b>	20
<b>Recommendations</b>	22
<i>Glossary of Terms and Abbreviations</i>	Appendix 12

## Introduction

### Background

With effect from academic year (AY) 2006/07<sup>1</sup> responsibility for statutory student finance for students who normally live in Wales was devolved from the UK Government to the Welsh Assembly Government. Since that time statutory student finance for students who normally live in Wales and students who normally live in England has undergone a number of changes.

All students studying in England, regardless of where they normally live, were charged variable fees of up to £3,000 a year in AY 2006/07 (£3,145 in AY 2008/09). At the same time up-front fees were abolished and non-means-tested Tuition Fee Loans were introduced to ensure that no full-time undergraduate had to pay fees at the point of entry to higher education – a Tuition Fee Loan was made available to cover the full variable fee charged. A new non-repayable Maintenance Grant of up to £2,700 a year was also introduced for new full-time undergraduate students which replaced the Higher Education Grant (£1,000).

In Wales, the Welsh Assembly Government met a manifesto commitment that 'top up fees' (variable fees) would not be introduced during the lifetime of the second National Assembly for Wales. This meant that on devolution the Welsh Assembly Government student finance package was virtually the same as that provided in England except that all full-time undergraduate students studying in Wales were charged a tuition fee of £1,200. However, the Welsh Assembly Government also introduced non-means-tested Tuition Fee Loans and removed up-front fees.

Taking advice from an independent study into devolution of the student support system and tuition fee regime in Wales,<sup>2</sup> in June 2005 Ministers agreed that Welsh higher education institutions (HEIs) should charge 'deferred flexible tuition fees' of up to £3000 a year from AY 2007/08 (£3,145 in AY 2008/09). Alongside this, those students who normally live in Wales or in non-UK EU countries, and who study at Welsh HEIs, were offered a non-means tested Tuition Fee Grant – which effectively off-set the additional cost of fees for these students.<sup>3</sup>

In 2007, following the National Assembly elections, the *One Wales* agreement between the Labour and Plaid Cymru Assembly Groups set out a programme

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<sup>1</sup> All references to academic years are given in the format 2008/09 etc. All references to financial years are given in the format 2008-09 etc.

<sup>2</sup> *Fair and Flexible Funding: A Welsh Model to Promote Quality and Access in Higher Education. Final Report of an Independent Study into the Devolution of the Student Support System and Tuition Fee Regime in Wales (The Rees Review)*, April 2005. Chaired by Professor Teresa Rees, this was the report of an independent review group which offered recommendations for how best the devolved powers should be used, within the context of a UK higher education sector, to ensure an adequately funded sector for Wales and fair and flexible support for students.

<sup>3</sup> Non-UK EU nationals are also eligible for all fee support provided by the state within the UK to home students.

for government between 2007 and 2011. It contained the following commitment on student finance:

*We will provide extra assistance with student debt and maintain existing fee levels in Wales up to and including 2009/10. We will maintain the current level of resource throughout the four year Assembly term, doing whatever is possible to mitigate the effects on Welsh-domiciled students if the Westminster government lifts the cap on fees in 2009.*

## Announcement of Task and Finish Group

Against this background, on 25 June 2008, Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills, announced the establishment of the Task and Finish Group to conduct a two-stage review of higher education in Wales. The Task and Finish Group is operating as a sub-group of the Ministerial Advisory Group (MAG) established by the Minister for Children, Education, Lifelong Learning and Skills.

The first stage of the review, to conclude by the end of September 2008, has considered student finance arrangements in Wales. In particular, the Group was asked to assess the extent to which student finance is targeted to widen access and encourage take up of priority subjects as well as the need to identify options to help tackle graduate debt.

The Group was also asked to take into consideration the context of the 2009 fee cap review in England, and to consider how reform might best be achieved both through national statutory student finance and through other means such as locally delivered bursaries and scholarships.

This report from Professor Merfyn Jones as Chair of the Group is the outcome of this first stage of the review.

Also running concurrently with this review is the Student Finance Delivery Review. The Group recognise that developments in the ongoing Delivery Review may determine the mechanisms to deliver student finance in future years.

The second stage of the review will focus on reviewing the mission, purpose, role and funding for higher education in Wales. This report's recommendations highlight issues raised by the first stage of the review which the Group will give further consideration during the second stage.

The full press notice covering this announcement is at **Appendix 01**.

Pen pictures of all the Group members are at **Appendix 02**.

The full Terms of Reference for the Task and Finish Group are at **Appendix 03**.

A summary of meetings of the Task and Finish Group is at **Appendix 04**

## Current student finance arrangements for students normally living in Wales

The Welsh Assembly Government currently provides statutory student finance for undergraduates in higher education (HE), both part-time and full-time (as well as for further education), through its delivery partners. These statutory student finance services are delivered by the Student Loans Company, Welsh local authorities, Welsh higher education institutions (HEIs), and HM Revenue and Customs, under the 'Student Finance Wales' brand. Each partner has a specific role. These roles include the promotion, assessment and payment of grants and the collection of loans.

### **Example of a student's entitlement**

For AY 2008/09, a new full-time HE undergraduate student normally living in Wales, from a low income background (household income £18,370 or less) who is studying at an institution in Wales and living away from home, could be entitled to the following statutory student finance:

#### Student finance for living costs

- Assembly Learning Grant of £2,835
- Maintenance Loan of £3,370\*

#### Student finance for tuition fees

- Tuition Fee Grant of £1,890
- Tuition Fee Loan of £1,255

In addition to the available statutory student finance, a full-time undergraduate student with a household income of £18,370 or less studying at a Welsh HEI would be entitled, through the Welsh Bursary Scheme, to a minimum bursary of £310 a year from their HEI, regardless of where in the UK they normally live. (Other bursaries and scholarships are also available to some students at most HEIs.)

If such a student normally living in Wales chose to study in England they would no longer be eligible for the Tuition Fee Grant, and they would instead be eligible for a Tuition Fee Loan of up to £3,145. Their entitlement to statutory student finance for living costs would be unchanged (except for those studying in London or living at home).

*\* The maximum amount of maintenance loan will be reduced by £1 for every £1 of Assembly Learning Grant received up to a maximum £1,255 reduction as in this example.*

Entitlement is reassessed annually. For students in specific circumstances, such as students with disabilities/specific learning difficulties, or those with adult dependants or children, additional targeted statutory grants are also available.

For repayment purposes, a borrower's maintenance loan and fee loan are combined as one amount. These loans are subsidised as interest is only charged on them at a low rate equivalent to inflation (as measured by the

Retail Prices Index – RPI). Students do not pay anything back until the April after they leave their course (known as the ‘statutory repayment due date’). They then start repaying loans through the tax system when they are earning more than £15,000 a year. Repayments are made at a rate of 9% of any income received above that £15,000 a year threshold. This means that repayments of loans is progressive – the amount of income that goes into repayments rises as income does.

If borrowers have not paid back their loan 25 years after their statutory repayment due date, the government will cancel their loan. If a borrower dies, or if a borrower receives a disability benefit and because of the disability is permanently unfit for work, the government will cancel their loan.

Key elements of the Welsh statutory student finance system include:

<i>Product</i>	<i>Budget for financial year 08-09</i>
Maintenance Loans	£163m
RAB* Provision for Maintenance Loans	£36m
Tuition Fee Loan Funding	£58m
RAB Provision for Fee Loans	£22m
Assembly Learning Grant for HE	£42m
Tuition Fee Grant	£61m
Targeted Grants (e.g. childcare, disability)	£11m

Tuition Fee Grant, Assembly Learning Grant for HE (ALG (HE)), and targeted grants are funded through Departmental Expenditure Limit (DEL) Cash: cash derived from the Welsh Assembly Government’s DEL.

Tuition Fee Loans and Maintenance Loans are funded directly (i.e. the money the student borrows) through Annually Managed Expenditure (AME). AME is reviewed and set by HM Treasury each year. Any unspent provision is returned to HM Treasury; it cannot be carried forward to the following year, nor can it be recycled from one AME programme to another or transferred to increase the DEL.

Tuition Fee Loans and Maintenance Loans are funded indirectly (i.e.\* the cost of providing the loan’s interest rate subsidy and write-off provision, identified above as the Resource Accounting and Budgeting (RAB) provision) through Welsh Assembly Government DEL Non Cash.

Definitions of DEL Cash, AME Cash, DEL Non Cash and RAB are included in **Appendix 05** of this report.

Current student finance arrangements for full-time HE undergraduate students normally living in Wales are set out in the form of an eligibility table and graph at **Appendix 06**.

## Comparison with current student finance arrangements for students normally living in England

### **Example of a student's entitlement**

By way of comparison, a full-time HE undergraduate student normally living in England with the same household income and studying anywhere in England or Wales (except those studying in London and those living at home) could be entitled to the following statutory student finance:

#### Student finance for living costs

- Maintenance Grant of £2,835
- Maintenance Loan of £3,365\*

#### Student finance for tuition fees

- Tuition Fee Loan of up to £3,145

*\* The maximum amount of maintenance loan will be reduced by £1 for every £1 of maintenance grant received, up to a maximum £1,260 reduction as in this example.*

However, student finance arrangements for students who normally live in England have recently undergone some changes of their own:

- For AY 2008/09 significant increases have taken place in the household income levels for the Maintenance Grant, equivalent to Wales's Assembly Learning Grant for higher education (ALG (HE)), so that more students qualify for a grant. New full-time students will be eligible for a full Maintenance Grant if their household income is £25,000 or less, or a partial Maintenance Grant if their household income is between £25,000 and £60,005. By way of comparison, new full-time students normally living in Wales will be eligible for a full ALG (HE) if their household income is £18,370 or less, or a partial ALG (HE) if their household income is between £18,370 and £39,300.
- The UK Government's Department for Innovation, Universities and Skills (DIUS) have also announced that from AY 2008/09, all 16-year-olds in England who qualify for an Educational Maintenance Allowance (EMA) will be guaranteed a minimum level of maintenance support at university.
- Also, all students normally living in England, starting a higher education course in AY 2008/09 or later, taking out their first student loan, and having a statutory repayment due date of April 2012 or later, will be entitled to a repayment holiday. Repayment holidays are intended to help borrowers make flexible choices over their finances at key points in their lives and careers (for example when buying a property or starting a family). Qualifying borrowers will be offered the choice of putting their student loan repayments on hold for one to five years, although the full five years offered as a repayment holiday do



not have to be taken consecutively. Repayment holidays will be linked to tax years, but otherwise there is no time restriction on when a repayment holiday can be taken. Interest – at the rate of inflation – will continue to accrue on the outstanding loans during the repayment holiday. Any repayment holiday will extend the 25-year write off period by the length of the repayment break – for example, someone who takes a repayment holiday of 5 years will extend their 25 year write-off period to 30 years.

A matrix summarising the key features of the student finance system of each of the four UK countries is included in **Appendix 07**.

## Undergraduate student numbers in Wales

In AY 2006/07:

- About 66,000 full-time undergraduate students were enrolled at Welsh HEIs, 12 per cent more than the number five years ago;
- About 51,000 full-time undergraduate students normally living in Wales were studying at UK HEIs, 7 per cent more than the number five years ago;
- About 38,000 part-time undergraduate students were enrolled in Welsh HEIs, 15 per cent more than the number five years ago;
- About 37,000 part-time undergraduate students normally living in Wales were enrolled in UK HEIs, 6 per cent more than the number five years ago.

Cross-border flows of students between Wales and England are a notable feature in Welsh higher education. In AY 2006/07, among those students normally living in the UK and enrolled as full-time undergraduates at Welsh HEIs, approximately 55 per cent were students normally living in Wales. This is lower than the equivalent figures for the other UK countries.

Cross-border flows between UK countries for full-time / sandwich HE undergraduate student enrolments 2006/07 (a)

<i>Percentage</i>	Country studying in				Studying in home country
	Wales	England	Scotland	Northern Ireland	
Welsh students	65	34	1	0	65
English students	3	95	2	0	95
Scottish students	0	5	94	0	94
Northern Ireland students	1	19	11	70	70
Home students	55	96	83	99	

(a) Figures exclude students from the Channel Islands and Isle of Man

Among those students normally living in the UK and enrolled as full-time undergraduates at Welsh HEIs, 44 per cent were students normally living in England.

Some further statistical information on the Welsh HE sector and students normally living in Wales is given in **Appendix 08**

## **Key issues**

Mindful of the tight timescale set out in its Terms of Reference, the Group set for itself an achievable but narrow scope and reviewed student finance provision provided for full time undergraduate students only. In the course of its deliberations, the Group identified a number of issues to which it wishes to return in Phase 2. The Group recognised the need, explicit in its Terms of Reference, for Phase 1 'to evaluate recommendations against budgetary and financial considerations'. The Group has agreed, however, that this will not constrain thinking in Phase 2.

The Group quickly acknowledged the need to make recommendations that were both affordable and effective, that would build on the strengths of the current system and support the Government's 'One Wales' priorities. In a difficult financial environment, the Group recognised that government spending is appropriately subjected to rigorous analysis. The Group did not consider, however, that it was within its remit to propose precise levels of support, tapers or thresholds. The Group has instead suggested a broad framework which it considers to be appropriate and, guided by that framework, has made recommendations for a reformed package of student finance with illustrative examples.

The Group particularly felt the need to simplify rather than complicate an array of options available to potential students as they evaluate for themselves the costs and benefits of entering higher education.

The Group's starting point with the student finance system was to recognise the strengths of the current arrangements, their overall impact on students and current alignment with wider Welsh Assembly Government policies. The Group identified a number of serious limitations with the existing Tuition Fee Grant policy for full-time students and found it to be no longer the most effective nor the most sustainable option.

Its Terms of Reference asked the Group to consider the extent to which 'student finance' is targeted to enhance widening access opportunities. The Welsh Assembly Government has a Tuition Fee Grant policy that provides a flat level of fee support to full-time students who normally live in Wales and who study in Wales, irrespective of their household income and does not help those from low income households studying outside Wales. The current system seems to, amongst other things, direct funding unintentionally to provide generous fee support for students from non UK European countries. And finally, the current system concentrates student funding in nationally agreed statutory finance rather than effectively supporting a broader range of options for students that could be assessed and targeted more effectively at a local level to address Welsh Assembly Government priorities.

Members of the Group were acutely aware of the comparative levels of funding in Wales and England, particularly in light of HEFCW's recent estimates of a higher education funding gap of at least about £61m in AY 2005/06 between HE in Wales and England, and the urgent need to improve

levels of investment in the sector for the ultimate benefit of students. The Group recognised that the quality of the student experience and of provision, whether it be a sector with excellence in its facilities or one with an attractive and well targeted bursary system, is essential to ensuring the best, in terms of quality and value for money, that HE can offer to students.

The Group were also of the firm view that investment in higher education is of benefit to the wider economy, society and culture of Wales - not just to those studying and working in the sector. No modern society exists which does not see a well-resourced HE sector as pivotal to its prosperity and future.

The Task and Finish Group developed a framework of priorities in which it sought to balance opportunities, desirable outcomes and constraints, and which was then used to underpin its discussion and to evaluate options. Taking the Terms of Reference as its starting-point, the Group agreed that any student finance system should:

- Effectively address Welsh Assembly Government policy objectives including widening access, take-up of priority subjects, a skilled workforce for Wales, and promotion of Welsh-medium study;
- Ensure that students from the lowest income households are, if possible, no worse off as a result of a reform to the student finance system. For those families, the level of grant support should at least match that currently available for students who normally live in Wales and study at a Welsh HEI;
- Be as simple and transparent as possible, particularly for students, in line with the recommendations of the second Rees Review *Fair and Flexible Funding*;
- Provide value for money by targeting support to reduce the cost and debt associated with HE for those students and households who would benefit most at the time they would benefit most, i.e. support those in need when they most need it;
- Retain a system that is free to full-time undergraduate students at the point of entry;
- Be mindful of different entry routes to study, different modes of study, and different levels of study;
- Be alert to the “England and Wales” nature of the HE marketplace and the importance of English students to the Welsh HE sector.
- Recognise the need to maintain a vibrant, healthy and high quality HE sector in Wales, which the Group will return to consider further in Phase 2.
- Be affordable in the context of a tight public finance settlement for at least the next few years.

With this broad framework in mind, the group looked at the current student finance arrangements in Wales and their wider context.

The Group identified a number of strengths with the existing system:

- Since the introduction of subsidised Tuition Fee Loans and no up-front fees, higher education has been free at the point of entry to full-time undergraduate UK and EU students. This has enabled participation rates to rise despite the increase in tuition fees in AY year 2006/07.
- The means tested Assembly Learning Grant (for higher education) supports students from low income households. **Appendix 08** sets out distribution of Assembly Learning Grants and related statistics on student finance for full-time undergraduate students normally living in Wales. The Assembly Learning Grant is one of the key measures supporting the Welsh Assembly Government's Widening Access Agenda. Data on participation is also included at **Appendix 08**.
- Subsidised Maintenance Loans for all eligible full-time undergraduate students help students with living costs during their study.
- Income Contingent Repayment terms on student loans mean that repayments are linked to earnings.
- Mechanisms are in place to enable HEIs directly to target funding to students in the form of bursaries and scholarships.

In comparing the Group's framework of priorities with the current system, however, the Group also raised a number of concerns, chiefly in relation to the Tuition Fee Grant available to students who normally live in Wales and who study in Wales on a full-time basis.

*The Tuition Fee Grant seems inconsistent with the principle of targeting student finance as outlined in the Terms of Reference.*

The Tuition Fee Grant is not means-tested so that those from households with the highest incomes benefit just as much from it as those from low-income households.

*The Tuition Fee Grant is also open to the charge that it unfairly disadvantages some other groups of students.*

Some students have made a case that they are disadvantaged by the current Tuition Fee Grant arrangements. For example, those students who normally live in Wales and study subjects unavailable in Wales to suit their personal needs and circumstances; students who normally live in Wales and who choose to study outside Wales; and students from elsewhere in the UK who choose to come to Wales to study.

*The cost of the Tuition Fee Grant is already high and will rise further in coming years.*

This presents serious future risks to the financial sustainability of the student finance system – in particular, if the uptake of the Tuition Fee Grant by students increased, this would place even greater pressure on student finance budgets.

The Group considered how the current student finance system might be made more sustainable, particularly in light of the commitment by the UK Government to a review of the level of tuition fees in 2009. The Group reflected on this challenge within its Terms of Reference but considered that, with much of the student finance system dependent upon the current fee regime, there were considerable risks involved in trying to pre-empt what could potentially emerge from the 2009 review. It was noted that if the current Tuition Fee Grant were to remain in place and if the 2009 review of tuition fees recommended a lifting of the cap on fees the costs of the Tuition Fee Grant could increase.

The Group focused instead, therefore, on the current position of the Tuition Fee Grant and considered whether having this distinct policy would disadvantage Wales in the run up to that 2009 review.

The Group was also aware that at the same time a substantial funding gap in higher education is emerging between Welsh and English higher education institutions, estimated by HEFCW to be about £61m, leading to a perception of under-investment.

The Group felt that this in itself could discourage students, both those who normally live in Wales and those who live outside Wales, from studying in Wales.

The Group particularly wished to note that the HE sector in Wales welcomes students from England, Scotland and Northern Ireland to Welsh HE institutions. Indeed, the sector is dependent upon providing high quality higher education not only to students from Wales but also to those from elsewhere in the UK. The Group was also conscious that the tight timescale for Phase 1 prevented it from consideration of the important EU and overseas markets.

## **Scenarios Considered**

The Group's secretariat and specialists supported it through providing analysis of a complex web of funding projections and options. The Group was introduced to areas of government accounting as well as policy but the exercise enabled it to ensure that its considerations were well grounded.

The Group's recommendations release funds which should become available for additional targeted student finance and for investment in higher education. They are intended to be within the realms of affordability and to be administratively deliverable.

The Group looked in detail at a series of reform scenarios. It considered the potential for reforming the Tuition Fee Grant, either by means-testing it, reducing it to a lower flat rate, or phasing it out altogether. The Group looked at how it could increase means tested support for students who normally live in Wales through the existing Assembly Learning Grant. It also examined the changes introduced in England this year which open up Maintenance Grant support to students from households on higher incomes and considered the impact of differing student finance systems in Wales and England on a student market which is characterised by large scale cross border flows. The Group considered the effects of varying the balance of funding between that provided directly to the student through the student finance system and that invested in the HE sector. It looked at the balance between statutory and non statutory student finance and how, if that balance were to shift, scholarships and bursaries administered at an institutional level could effectively meet local needs and support Welsh Assembly Government strategies that could enhance the current system.

The Task and Finish Group commissioned illustrative information on a number of scenarios by which student finance arrangements for those studying full-time could be aligned more closely with the Group's framework, and on a number of options for providing extra assistance with student debt.

## **Evaluation**

The Group were determined to steer a path, guided by its broad framework, towards something better. The Group sought solutions which students could understand in practical terms, and which aligned with Welsh Assembly Government priorities.

The Group used a number of methods to assess how far each illustrative scenario and debt assistance option achieved these goals:

- The Group felt it vital to demonstrate how the proposed scenarios and options could improve the system for individual students, for example by widening access; through differentiated support for high priority programmes; or by providing assistance with graduate debt. To this end the Group considered the effect of each scenario on students at different levels of residual household income. The

National Union of Students Wales designed a series of 'student case studies' which enabled us to see the impact on individuals in specific circumstances. This information is provided in full in **Appendices 09, 10, and 11.**

- The Group considered the impact of each scenario on different stakeholder groups, and the extent to which each scenario addressed Welsh Assembly Government strategic and policy objectives; and
- The Group also considered each scenario and debt assistance option in terms of cost and funding mechanisms and administrative implications.

The scenarios evaluated were as follows:

1. *Phasing out of the Tuition Fee Grant from AY 2010/11 and increasing the means-tested student support available via Assembly Learning Grant;*

This scenario suggested phasing out the Tuition Fee Grant for new students. Some of the funding released would be used to increase the Assembly Learning Grant and the remainder would become available to invest in the HE sector for the benefit of all students. Two variants were considered to assess the impact of adjusting the proportion of funding retained in the student finance system. The scenario targeted more grant for maintenance support to students from low income backgrounds through the Assembly Learning Grant but did not leave any scope for increased targeting of funding in respect of other priorities, such as priority subjects or supporting study through the medium of Welsh.

2. *Phasing in means-testing for the Tuition Fee Grant from AY 2010/11 and increasing Assembly Learning Grant;*

This scenario suggested introducing means-testing for the Tuition Fee Grant for new students (similar to the means-testing already used for the Assembly Learning Grant). The scenario provided some additional grant for maintenance support through increasing Assembly Learning Grant but to a lesser extent than under the previous scenario. Means-testing the Tuition Fee Grant meant that, while that grant was targeted at those most in need of support, some of the other issues around that grant were not resolved.

3. *Phasing out of Tuition Fee Grant from AY 2010/11 and aligning Welsh student finance system with English model;*

This scenario reflected the arrangements for students who normally live in England for AY 2008/09 as outlined on page 7 above. The Group considered that the grant for the maintenance support element of this scenario was diverted to middle income families, whereas students from lower income household received no additional grant for maintenance support in



comparison with the existing system (and those studying in Wales could be worse off as, under this scenario, they would no longer be entitled to the Tuition Fee Grant).

The Group did recognise that some middle income families do need support, but it was appreciated that any system that specifically targets support to some students will mean that others have less. Based on the Terms of Reference and the Welsh Assembly Government's priorities, and the Group's own framework, the Group agreed that, on balance, funding needed to be targeted to those from lowest income households.

The scenario also included the repayments holiday and the Education Maintenance Allowance to Higher Education guarantee policies. These are addressed separately, later in this Report.

*4. Phasing in a lower flat rate Tuition Fee Grant from AY 2010/11 and increasing Assembly Learning Grant;*

This scenario considered a flat rate Tuition Fee Grant of £500. The Group considered that this approach did not sufficiently target funding for widening access or priority subjects as set out in the Terms of Reference.

*5. Phasing out of Tuition Fee Grant from AY 2010/11 and providing additional bursaries and scholarships from Welsh HEIs.*

This scenario looked at opportunities for targeting a higher level of funding through HEIs for locally targeted bursaries, but released little or no funding for additional Assembly Learning Grant. That approach was considered again not to meet the need to ensure that students from the lowest income households are no worse off, in terms of grant received, compared with the current system.

*6. Phasing out of Tuition Fee Grant from AY 2010/11 and more substantially increasing Assembly Learning Grant for students from the lower income households. It is assumed that this scenario would also include some additional funding for targeted bursaries and scholarship from HEIs.*

The Group agreed that a package of student finance reforms along these lines would best meet the framework identified.

The Group's scenarios took into account projections of student numbers as well as past data. However, there are a series of risks and uncertainties around forecasting expenditure on student finance, particularly where an approach was as yet untested.

## Debt Assistance Options Considered

In parallel, and considering the same framework, the Task and Finish Group also considered a number of other possible options by which the Assembly Government could deliver its *One Wales* commitment to “provide extra assistance with student debt”:

### *(i) Repayment holidays on the model being introduced in England;*

The Group considered that the main attraction of repayment holidays would be to give some relief to borrowers when they are facing other financial pressures. However, it appeared that the greater a borrower's income, the more they would benefit from a repayment holiday as offered through the English student finance system. This did not seem consistent with the Welsh Assembly Government's policy objectives on social justice. If Ministers were interested in pursuing this option, however, they could explore whether an income cap on eligibility for repayment holidays would be practical.

### *(ii) Index-linking the repayment threshold for student loans;*

The current fixed threshold of £15,000 has been in place since it was raised from the original £10,000 level in 2001. The Group considered that the original intent of this threshold was to respond to the relative wealth of graduates who enter the repayment system, to ensure that graduates effectively on ‘non-graduate’ wages are not having to enter repayment. If the threshold were to continue to be held flat over time eventually almost all borrowers would enter repayment after entering employment. The Group considered that indexing the threshold might enable all parties to better budget for the future.

The Group noted that little significant difference would be seen by the borrowers in the first year of this policy – its effects would be felt over time as wages rose with inflation.

The Group noted that repayment was currently administered on a UK-wide basis and, while they did not wish to rule out a policy purely on the basis of administrative constraints, recognised that one possibility could be to recommend that Welsh Ministers should press for this change across the UK.

### *(iii) A one-off rise in the repayment threshold to £20,000 in FY 2010-11 and index-linking the repayment threshold thereafter;*

This option was similar to the previous one but in addition included a one-off rise in the repayment threshold to £20,000 in FY 2010-11. The Group considered that, if the £15,000 threshold had been index-linked when it was first introduced, this would have risen significantly after 10 years. On this basis the Group considered that there was some reason to consider a larger initial rise in the threshold to about £20,000 before index-linking it.

*(iv) A scheme to repay or write off student loans for former students who live in Wales and who are entering priority professions in Wales;*

Financial incentives for graduate recruitment including schemes to repay or write off graduate debt, if linked to the student finance system, have the potential to be financially and administratively complex, yet may be limited in their effect.<sup>4</sup> There is a long time delay between the promotion of student finance arrangements and a graduate entering employment. The Group concluded that such schemes are more appropriate within labour market policy and cautioned against them being part of student finance arrangements.

*(v) Reducing demand for student loans by replacing these with grants, bursaries or scholarships, particularly for those from lower-income households;*

The Group noted that some of the illustrative student finance reform scenarios they had considered would reduce the demand for student loans, particularly by providing increases in Assembly Learning Grant for some students from lower-income households. Members noted that the Assembly Government could determine the extent to which these increases could offset eligibility for part of the Maintenance Loan. If HEIs received additional funding for bursaries to be targeted at students from lower-income households this might also reduce their demand for student loans.

*(vi) Reducing demand for commercial loans among students by promoting greater take-up of student loans that offer income-contingent repayment.*

The current loan system remains effective in ensuring that 'up front fees' are no longer a barrier in accessing HE. The Group felt, however, that, recognising all the hard work already underway, there is still much more to be done to improve the financial literacy of students and of prospective students particularly in regard to some of the financial benefits of student loans as opposed to commercial loans.

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<sup>4</sup> Patrick Barmby and Robert Coe, *Evaluation of the Repayment of Teachers' Loans Scheme*, Department for Education and Skills Research Report No 576, 2004, evaluated the impact of the Repayment of Teachers' Loans scheme previously operated by the Department for Education and Skills, and estimated that the scheme had impacted on the decisions of 30% of those teachers surveyed for the evaluation in some way.

## Conclusions

Having journeyed through these issues the Group came back to its guiding framework of effectiveness, sustainability and clarity. The Group reached several definitive conclusions:

- The Group concluded that the flat rate Tuition Fee Grant is an inflexible tool, neither effectively targeting funding towards Welsh Assembly Government strategic policy objectives nor sufficiently responsive to student needs or choice.
- Using the Tuition Fee Grant to encourage students who live in Wales to study in Wales creates disparities between a number of groups of students, giving an advantage to some students at the expense of others;
- Whilst it was difficult to assess how sustainable the policy would be in light of the commitment by the UK Government to a review of the level of tuition fees in 2009, it was clear that rising fees, or more flexible fees, could either reduce the proportion of fee covered by the Tuition Fee Grant or significantly increase the cost of the policy. On this basis the Group concluded that continuing the Tuition Fee Grant policy could disadvantage Wales in the run up to that 2009 review;
- In the context of a tight spending review period, any student finance support which is not carefully targeted should be discontinued;
- For these reasons, we believe that the Welsh Assembly Government should not offer a flat-rate Tuition Fee Grant from AY 2010/11;
- The Group were very much in agreement that the key criterion for targeting statutory support should be that of household income, so that full-time students entering higher education from the poorest households receive higher levels of maintenance support which they will not be required to repay. Widening access for those from lower-income households is a priority that should be addressed primarily through the statutory student finance system by increasing maintenance support through the Assembly Learning Grant;
- Promoting Welsh-medium study is a priority best addressed through enabling Welsh HEIs to offer greater non-statutory support such as additional bursaries and scholarships;
- Supporting the study of priority subjects is also best addressed through non-statutory support, i.e. by enabling Welsh HEIs to offer additional bursaries and scholarships, due to the complexity of identifying and targeting these subjects;

- If resources were made available for additional institutional bursaries and scholarships, these funds should not distort the current balance of support for full- and part-time students;
- The most progressive way to offer extra assistance with student debt would be:
  - offering additional maintenance grants for those from lower-income households;
  - providing additional resources to allow HE institutions to create local bursaries for those from lower-income households;
  - index-linking the repayment threshold for student loans, perhaps accompanied by an initial rise in the threshold. If these options entailed more than a simple administrative change, however, Ministers might want to consider whether to press for change on a UK-wide basis rather than pursuing a Wales-only solution;
- Improving the financial literacy of young people, particularly in relation to student loans, is not just a means of providing extra assistance with student debt but a necessary life skill, and Ministers, and the Wales Employment and Skills Board, should investigate how best to address this;
- The funding gap between HE in Wales and HE in England (as reflected, for example, in both levels of institutional bursaries available or in investment in facilities), presents the risk that Welsh HEIs might become less attractive to students.
- The Group concluded that some of the resources available to support students in higher education should be directed more towards investing in higher education provision at our institutions in Wales for the wider benefit of all students.

## Recommendations

It is in that context that the Group suggests that you give serious consideration to the following recommendations to enhance and build on the current system of student finance in Wales:

- *Phase out the Tuition Fee Grant policy;*

The Group concluded that Ministers should consider whether they wish to continue the Tuition Fee Grant policy. If Ministers do wish to encourage full-time students who live in Wales to study in Wales, this should be pursued instead by making study at Welsh HEIs more attractive, both by enhancing their capacity to offer additional bursaries and scholarships, and by increasing the funds available for the resources of Welsh HEIs. This would enhance student choice, encouraging students who live in Wales to choose to stay rather than experiencing a financial pressure to do so.

- *Provide increased levels of subsidised Tuition Fee Loan, sufficient to cover tuition fees charged to students and to uphold the ‘no up front fees’ principle.* If the Tuition Fee Grant were to be phased out enhanced levels of Tuition Fee Loans would need to be provided (in order to maintain the policy of no up-front fees).
- *Divert savings released to directly fund the following:*
  - *Significantly increase the level of means tested Assembly Learning Grant for students from households with the lowest incomes.* For example, one illustrative scenario we looked at raised the level of the full Assembly Learning Grant to £5,000 for AY 2010/11 on eligibility thresholds broadly similar to current arrangements – this is just one illustration of how this could be done.
  - *Provide significant increased funding directly to the HE sector in Wales to support additional bursaries and scholarships for students at Welsh HEIs.* This report suggests how measures could be put in place to ensure this funding is effectively targeted to support both national and local priorities such as Welsh-medium study, priority subjects, and widening access for students from lower income households.
  - *Re-invest a substantial proportion of these funds in Higher Education in Wales to reduce the funding gap with England.* For example, even if 55% of the resources released from phasing out the Tuition Fee Grant remained in the statutory student finance system, 45% could still be redirected to the Welsh HE sector, both to fund additional bursaries and scholarships for students at Welsh HEIs and to support additional investment in the HE sector. Phase 2 of the Review will consider and provide

recommendations to you around the types of investment that the Group considers would provide best value.

Whilst the above measures will assist students from the lowest income households with debt, by reducing the overall level of debt they need to incur, there is a need to recognise the strength of the argument to increase the repayment threshold for student loans. Recognising the UK-wide administrative complexities, the Group recommends that you:

- Work with Ministers from England, Scotland and Northern Ireland to press for the repayment threshold to be index-linked. The Group would also support consideration being given to a one- off increase in the threshold at the point of index-linking (to a level comparable with that which it would have achieved if index-linking had been in place since the introduction of that fixed threshold in 2001).
- Give consideration to the repayment holidays offered to students who normally live in England. The Group does not wish students who normally live in Wales to miss out on the flexibility that this policy provides to borrowers or to be disadvantaged in comparison to those who have received their student loans from the English student finance system. However, the Group considered that, as introduced in England, the policy gives a greater benefit to those graduates with highest earnings. To reflect the broad framework agreed, the Group recommends that, were consideration given to introducing repayment holidays in Wales, Ministers should investigate if the benefit could efficiently be capped as earnings rise above a threshold.
- Monitor and explore further the policy introduced in England which guarantees a maximum level of HE funding to students who receive the means-tested Educational Maintenance Allowance.
- Work with delivery partners and existing advice channels (including Careers Wales, schools, colleges, Job Centre Plus and Welsh HEIs), to promote a greater understanding of the costs and benefits of HE and the support available, particularly to ensure that student loans, and the benefits of the loan subsidy and the income-contingent nature of the repayment arrangements are better understood.
- Invite the Wales Employment and Skills Board to review the issue of financial literacy amongst learners in Wales.

In support of the above recommendations, the appendices which follow set out the Group's deliberations more fully.

Throughout the last few months the Group has been conscious of the fixed timetable for drawing to a conclusion our discussions on the student finance system.

The timing has, however, unduly constrained the breadth of the Group's discussions and the Group recognises that in this enormously complex area other options may be or become available and that you will wish to consider these recommendations in that context. The Group may also wish to revisit wider student finance issues, particularly in relation to part-time and postgraduate students, and employer engagement, within the context of Phase 2 of this Review.