Fees, funding and fairness

Understanding and estimating the costs associated with the student support offer

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7th March 2019

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Overview

Our model of the **Higher Education funding system** estimates:

- The impact of the system on the **Exchequer, institutions and graduates**, for:
  - the **2017/18 cohort** of first-year **English-domiciled students (studying anywhere in the UK)**, and **EU-domiciled students studying in England**;
  - **full-time and part-time students**, and
  - **all undergraduate qualifications** (including first degrees and other undergraduate qualifications below first degree level).

- A range of **metrics** (in NPV in constant 2017/18 prices), including:
  - The **RAB charge**, **student loan debt on graduation**, and expected **lifetime loan repayments**;
  - Total **Exchequer costs** including the cost of **student support** and **Teaching Grant** funding to institutions **across the UK**;
  - **HEI funding** in terms of **tuition fee income** (net of bursaries) and **Teaching Grant** funding from the Exchequer;
  - The **level of public deficit associated with the system**.

- What are the **key problems** with the current system?
- Are there any **potential alternatives?**
- What is the **impact of the recent ONS review?**

What are the key problems with the current system?

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Limited economic growth

1

- **Long run economic growth – and graduate salaries – are anaemic.** The system would not be so costly if economic growth was consistently stronger.

- If average earnings growth was **1 percentage point per annum higher**, the expected Exchequer cost of the current HE funding system would decline by almost **£900 million** per cohort.

£8.74bn

Current Exchequer cost per cohort of HE funding system (with OBR earnings growth assumptions)

£7.84bn

Cost per cohort of HE funding system with an additional 1 percentage point annual graduate salary growth

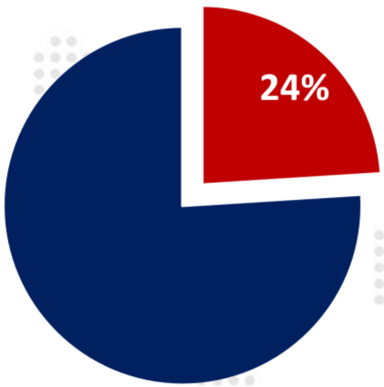
Narrow repayment base

2

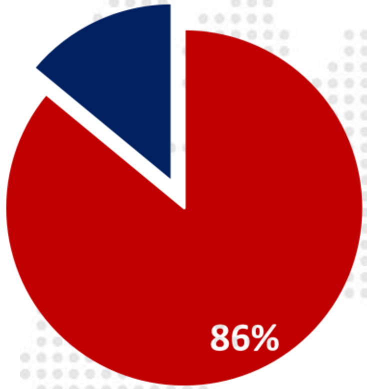
- Related to low earnings growth, **the loan repayment base is weak.** Not enough graduates repay any component of their student loan.

- **Almost a quarter** of full-time first degree students **don't repay *any* of their loan balance**, and **86% never repay the *full* loan balance** over the 30 year repayment period.

Of full-time first degree students:



24% never repay anything



86% never repay their full loan

Political capture

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3

- The current funding system is **too easily and quickly manipulated.**
- The decision to increase the repayment threshold to £25,000 was **hugely expensive – increasing the cost of student support by 46% (£2.76bn) per cohort –** and has resulted in much more **limited room for manoeuvre**.

£5.98bn

Cost per cohort of HE funding system with £21,000 threshold (and associated interest rate thresholds)

£8.74bn

Cost per cohort of HE funding system with £25,000 threshold (and associated interest rate thresholds)

Target chasing

4

- The current funding system is **targeting the wrong metrics.**
- Policies have been implemented based on evocative – but **simplistic** – measures, such as the **deficit**.
- The **wrong policies** have been implemented in an effort to impact the deficit (e.g. removal of maintenance grants and NHS Bursaries), but these have **real-world impacts** (i.e. they are not just **fiscal illusion**).

71%

Increase in price of studying nursing and subjects allied to medicine following removal of NHS Bursaries

22%

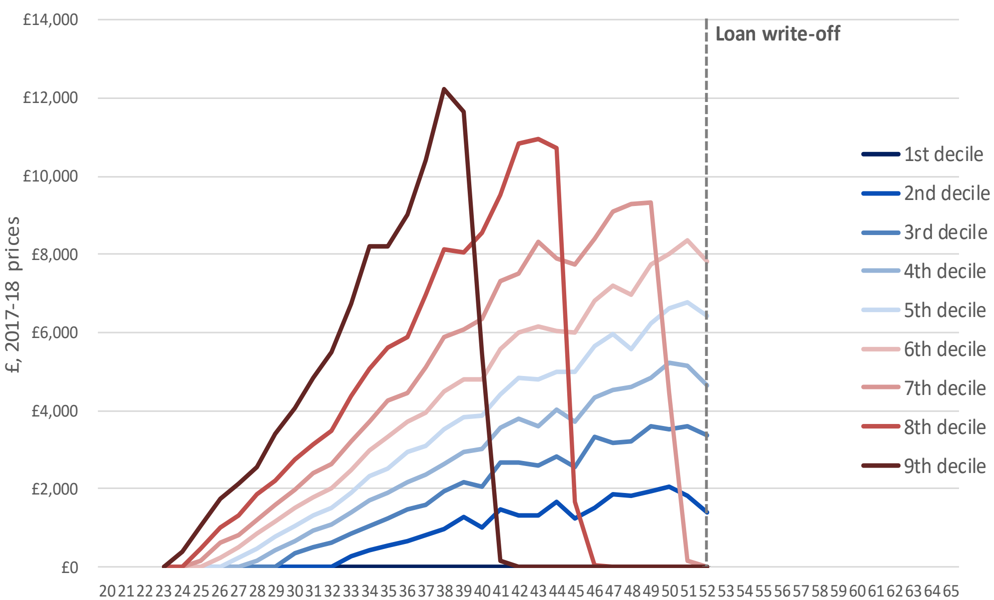
Decline in applications for nursing and subjects allied to medicine following removal of NHS Bursaries

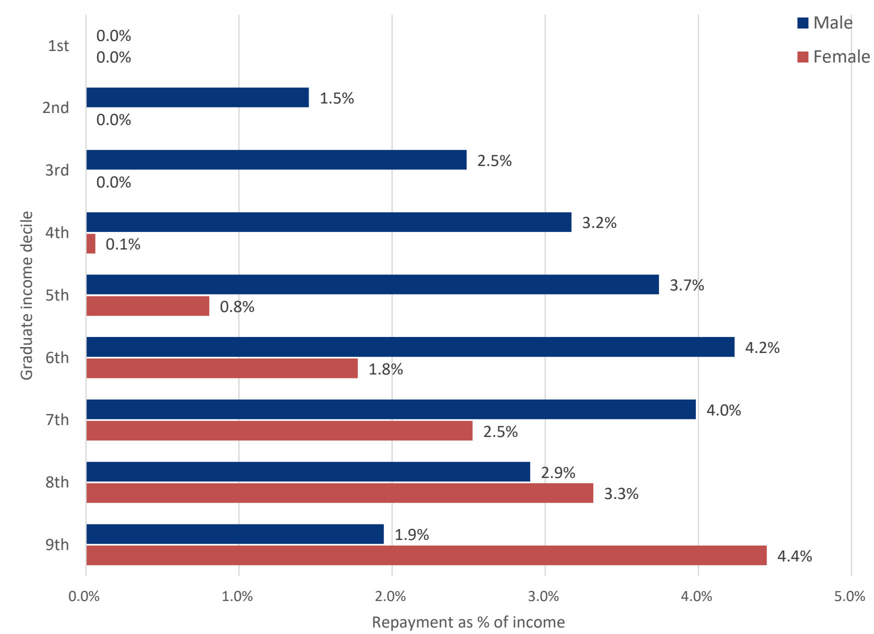
Lack of progressivity

5

- A large proportion of graduates face a **9% marginal tax rate** for most of the 30 year repayment period (with a **51%** marginal tax rate in many circumstances).
- Over the **entire repayment period**, the system **lacks progressivity** – with mid earners repaying more (as a % of their income) than high earners.

Loan repayments as % of income, male undergraduate degree students:





How do the different costs stack up – and what is being ‘proposed’ by Augar?

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Impact of current system on the Exchequer, HEIs and students

Resource flows	Amount (£)
Exchequer	
Cost of maintenance grant	£0m
Cost of maintenance loan	(£2,838m)
Cost of tuition fee loan	(£4,588m)
Cost of teaching grants	(£1,312m)
Total	**(£8,738m)**
RAB Charge	**45.9%**
HEI income	
Gross fee income	£10,019m
Teaching grant income	£1,312m
Cost of bursary provision	(£191m)
Total	**£11,140m**
Net HEI resource per student p.a.	**£9,000**
Students	
Ave. debt on graduation (FTUG)	**£46,000**
Av. repayments (FTUG) - Men	**£37,000**
Av. repayments (FTUG) - Women	**£15,400**

£7.42bn

Cost per cohort of student support with £25,000 threshold (and associated interest rate thresholds)

£1.31bn

Cost per cohort associated with Teaching Grant

45.9%

RAB charge

86%

of full-time first degree graduates never fully repay

Note: All monetary values have been discounted to net present values (using standard HMT Green Book discount rates), and are presented in constant 2017/18 prices. All monetary values per student have been rounded to the nearest £100. Debt on graduation and expected lifetime repayments per student are presented for full-time undergraduate degree students only. Gross fee income refers to fee income before the deduction of fee bursaries provided to students.

Impact of a £7,500 fee – no replacement Teaching Grant

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Resource flows	Current	£7,500 fee	Diff.
Exchequer			
Cost of maintenance grant	£0m	£0m	£0m
Cost of maintenance loan	(£2,838m)	(£2,646m)	£192m
Cost of tuition fee loan	(£4,588m)	(£3,478m)	£1,110m
Cost of teaching grants	(£1,312m)	(£1,312m)	£0m
Total	**(£8,738m)**	**(£7,436m)**	**£1,302m**
RAB Charge	**45.9%**	**43.0%**	**-2.9pp**
HEI income			
Gross fee income	£10,019m	£8,124m	(£1,896m)
Teaching grant income	£1,312m	£1,312m	£0m
Cost of bursary provision	(£191m)	(£79m)	£112m
Total	**£11,140m**	**£9,356m**	**(£1,784m)**
Net HEI resource per student p.a.	**£9,000**	**£7,600**	**(£1,400)**
Students			
Ave. debt on graduation (FTUG)	**£46,000**	**£41,000**	**(£5,000)**
Av. repayments (FTUG) - Men	**£37,000**	**£34,500**	**(£2,500)**
Av. repayments (FTUG) - Women	**£15,400**	**£14,800**	**(£600)**

£6.12bn

Cost per cohort of student support with alternatives

£1.31bn

Cost per cohort associated with Teaching Grant

43.0%

RAB charge

79%

of full-time first degree graduates never fully repay but

24%

never repay anything

Note: All monetary values have been discounted to net present values (using standard HMT Green Book discount rates), and are presented in constant 2017/18 prices. All monetary values per student have been rounded to the nearest £100. Debt on graduation and expected lifetime repayments per student are presented for full-time undergraduate degree students only. Gross fee income refers to fee income before the deduction of fee bursaries provided to students

Impact of reintroducing maintenance grants

Resource flows	Current	Proposals	Diff.
Exchequer			
Cost of maintenance grant	£0m	(£1,649m)	**(£1,649m)**
Cost of maintenance loan	(£2,838m)	(£1,777m)	**£1,061m**
Cost of tuition fee loan	(£4,588m)	(£4,258m)	**£330m**
Cost of teaching grants	(£1,312m)	(£1,312m)	**£0m**
Total	**(£8,738m)**	**(£8,995m)**	**(£257m)**
RAB Charge	**45.9%**	**42.9%**	**-3.0pp**
HEI income			
Gross fee income	£10,019m	£10,019m	**£0m**
Teaching grant income	£1,312m	£1,312m	**£0m**
Cost of bursary provision	(£191m)	(£191m)	**£0m**
Total	**£11,140m**	**£11,140m**	**£0m**
Net HEI resource per student p.a.	**£9,000**	**£9,000**	**£0**
Students			
Ave. debt on graduation (FTUG)	**£46,000**	**£39,800**	**(£6,200)**
Av. repayments (FTUG) - Men	**£37,000**	**£33,700**	**(£3,300)**
Av. repayments (FTUG) - Women	**£15,400**	**£14,600**	**(£800)**

£7.68bn

Cost per cohort of student support with alternatives

£1.31bn

Cost per cohort associated with Teaching Grant

42.9%

RAB charge

79%

of full-time first degree graduates never fully repay but

24%

never repay anything

Note: All monetary values have been discounted to net present values (using standard HMT Green Book discount rates), and are presented in constant 2017/18 prices. All monetary values per student have been rounded to the nearest £100. Debt on graduation and expected lifetime repayments per student are presented for full-time undergraduate degree students only. Gross fee income refers to fee income before the deduction of fee bursaries provided to students

Impact of an alternative approach:

reintroduce of maintenance grants, stepped repayment rates, reduce repayment threshold, extend repayment period, increase top-end interest rate

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Resource flows	Current	Proposals	Diff.
Exchequer			
Cost of maintenance grant	£0m	(£1,649m)	(£1,649m)
Cost of maintenance loan	(£2,838m)	(£1,067m)	**£1,772m**
Cost of tuition fee loan	(£4,588m)	(£2,585m)	**£2,003m**
Cost of teaching grants	(£1,312m)	(£1,312m)	**£0m**
Total	**(£8,738m)**	**(£6,612m)**	**£2,126m**
RAB Charge	**45.9%**	**26.4%**	-19.2pp
HEI income			
Gross fee income	£10,019m	£10,019m	£0m
Teaching grant income	£1,312m	£1,312m	£0m
Cost of bursary provision	(£191m)	(£191m)	£0m
Total	**£11,140m**	**£11,140m**	**£0m**
Net HEI resource per student p.a.	**£9,000**	**£9,000**	**£0**
Students			
Ave. debt on graduation (FTUG)	**£46,000**	**£39,800**	**(£6,200)**
Av. repayments (FTUG) - Men	**£37,000**	**£41,000**	**£4,000**
Av. repayments (FTUG) - Women	**£15,400**	**£20,700**	**£5,300**

£5.30bn

Cost per cohort of student support with alternatives

£1.31bn

Cost per cohort associated with Teaching Grant

26.4%

RAB charge

81%

of full-time first degree graduates never fully repay but only

6%

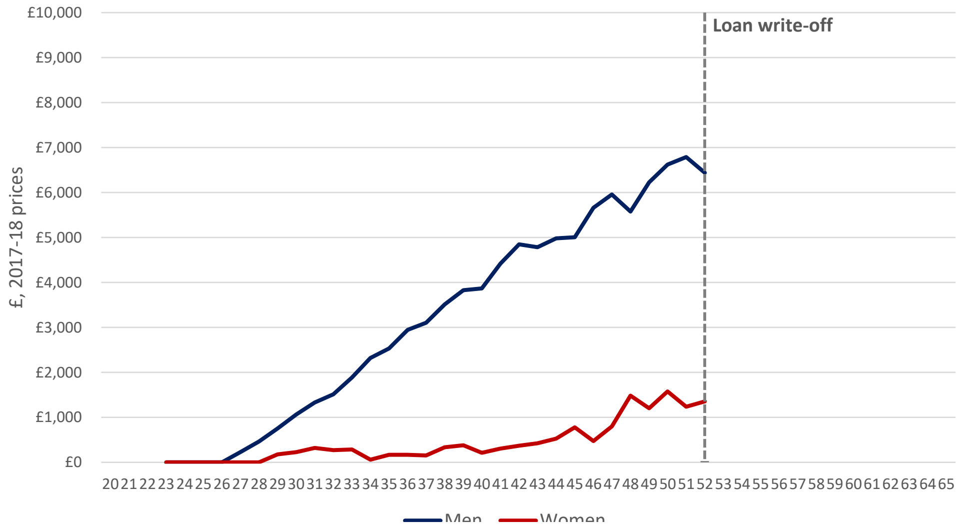
never repay anything

Note: All monetary values have been discounted to net present values (using standard HMT Green Book discount rates), and are presented in constant 2017/18 prices. All monetary values per student have been rounded to the nearest £100. Debt on graduation and expected lifetime repayments per student are presented for full-time undergraduate degree students only. Gross fee income refers to fee income before the deduction of fee bursaries provided to students

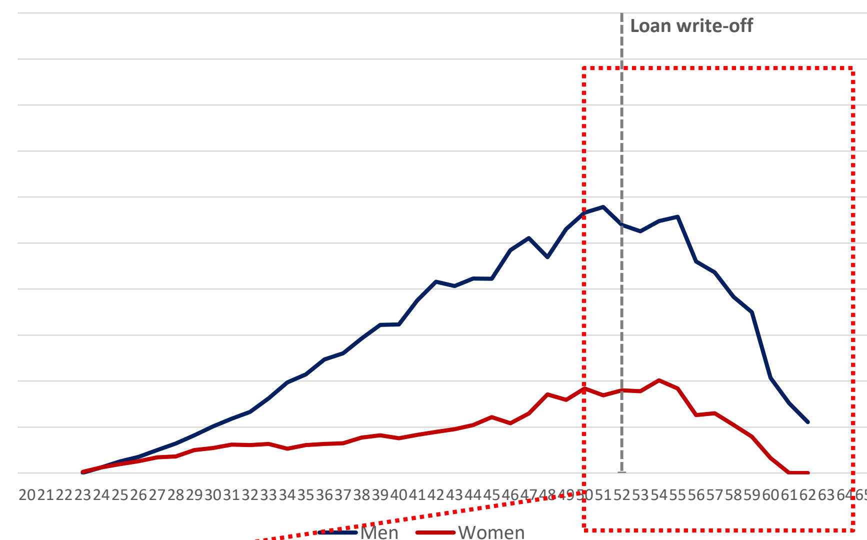
Scenario consists of the reintroduction of maintenance grants at 2015-16 levels (with an associated reduction in maintenance loans); loan repayments rates of **3%, 5%, 7%** and **9%** at **£15,000**, **£25,000**, **£35,000** and **£45,000** respectively; **40 year** repayment term; 0-4% interest rate between **£15,000** and **£45,000;** 3% interest rate during study; and **40 year** repayment period.

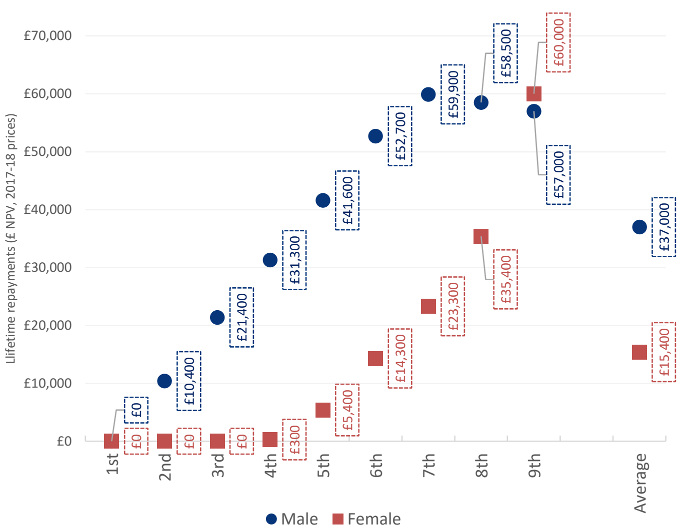
Baseline versus ‘alternative’ proposal

Baseline – current system

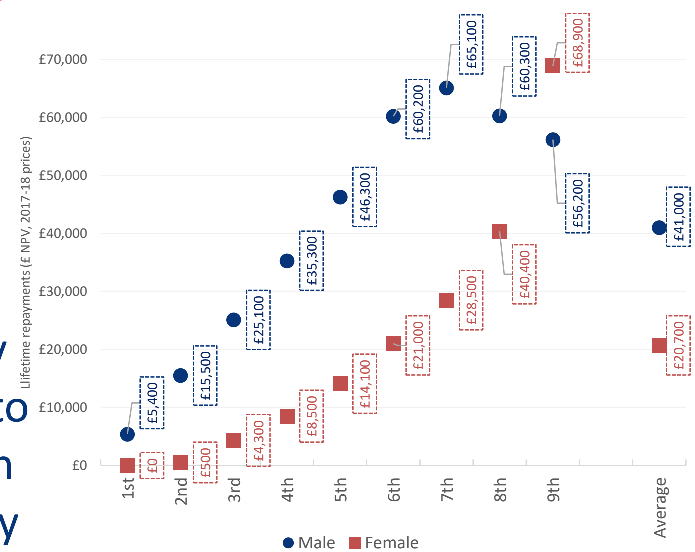


Alternative approach





The generosity of the loan repayment system needs to have some counterbalance in years 30-40 when earnings are potentially high – but can be used to reduce financial burden during study and in early career.



What is the potential impact of the ongoing ONS review – and what is the fiscal illusion?

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Treatment of student loans in public deficit accounting

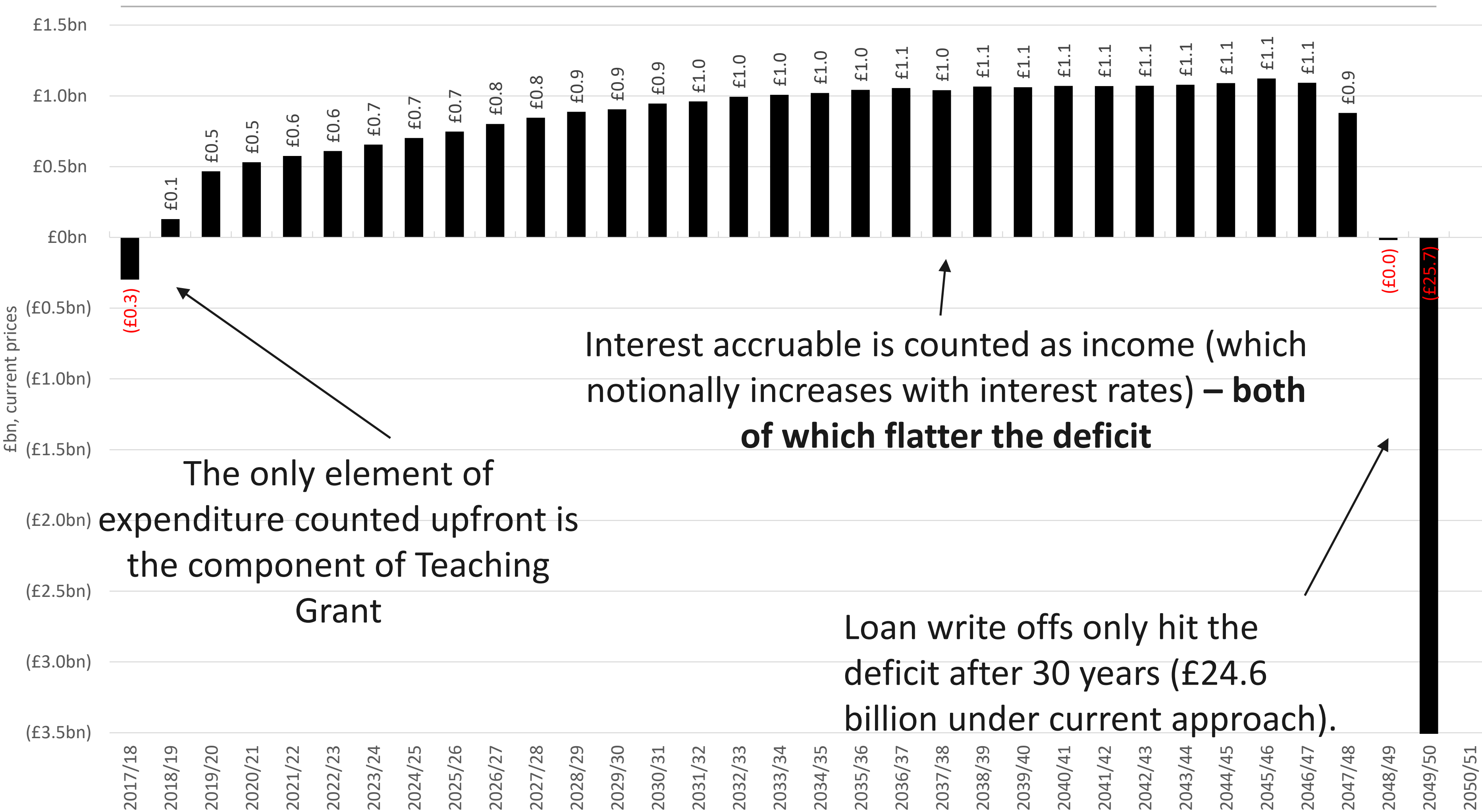
The **deficit** represents **[income]** minus **[expenditure]**:

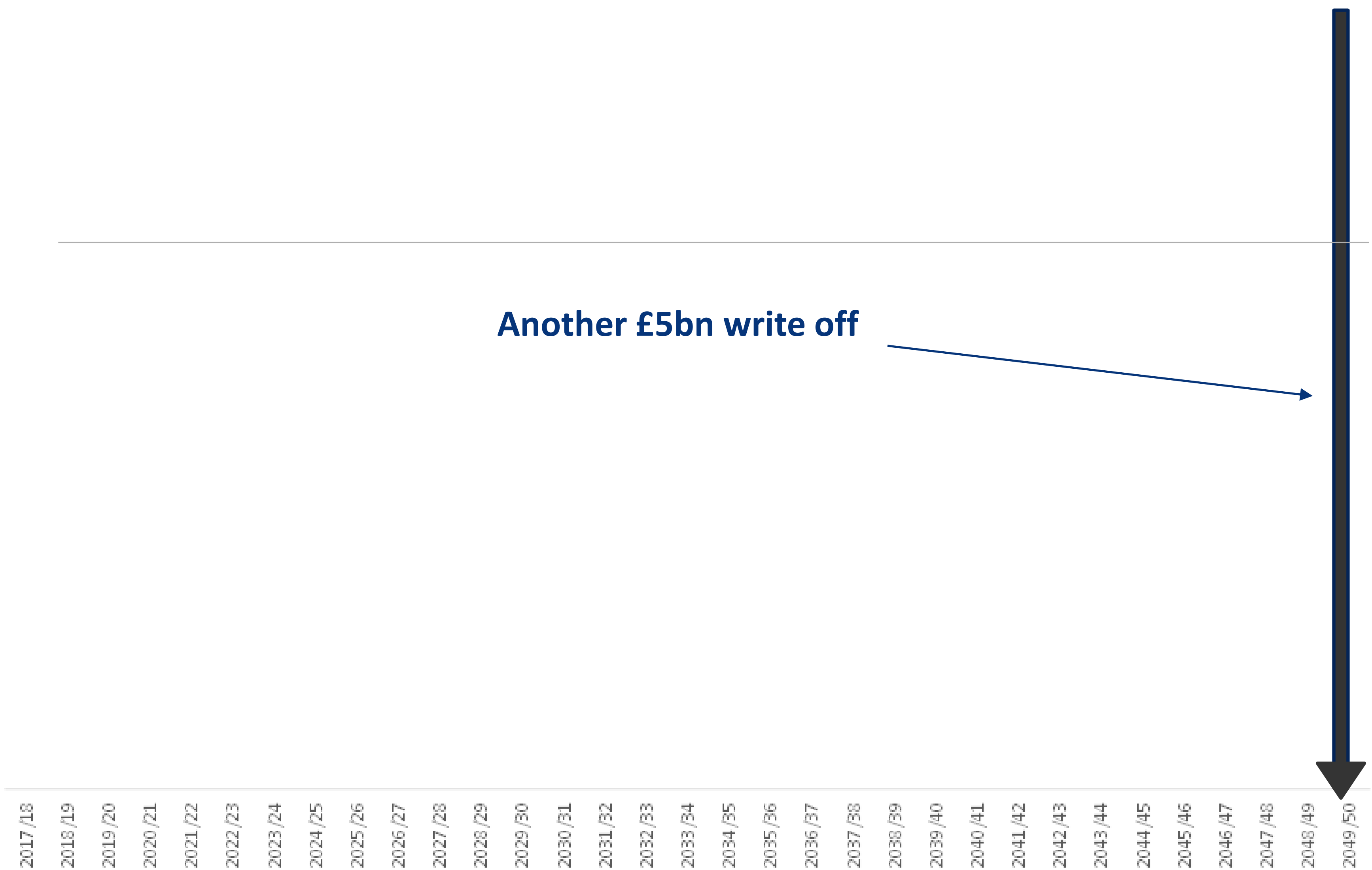
Approach	Income [+]	Expenditure [-]
Current approach	**Interest *receivable*** each year	• **Loan write offs (interest + principal)** occurring intermittently over the 30 year repayment period (because of death and disability), as well as at the **end of the repayment period** • Teaching grants paid during study • Tuition fee and maintenance grants paid during study (if any)
Option 3: Hybrid treatment of loan extension	**Interest *receivable* on loans *expected to be repaid*** each year	• **Loan write offs (interest + principal)** counted as an ***immediate* transfer** to students upon the extension of the loan (i.e. the value of loans expected not to be repaid) • Teaching grants paid during study • Tuition fee and maintenance grants paid during study (if any)

Note: * Our modelling assumes that the loan principal is repaid *first* (i.e. we assume that any interest repayments only occur once the full value of the loan principal as has been repaid).

Current approach

Public surplus/deficit per year associated with the 2017/18 cohort (£bn in current prices)




Another £5bn write off
2017 /18
2018 /19
2019 /20
2020 /21
2021 /22
2022 /23
2023 /24
2024 /25
2025 /26
2026 /27
2027 /28
2028 /29
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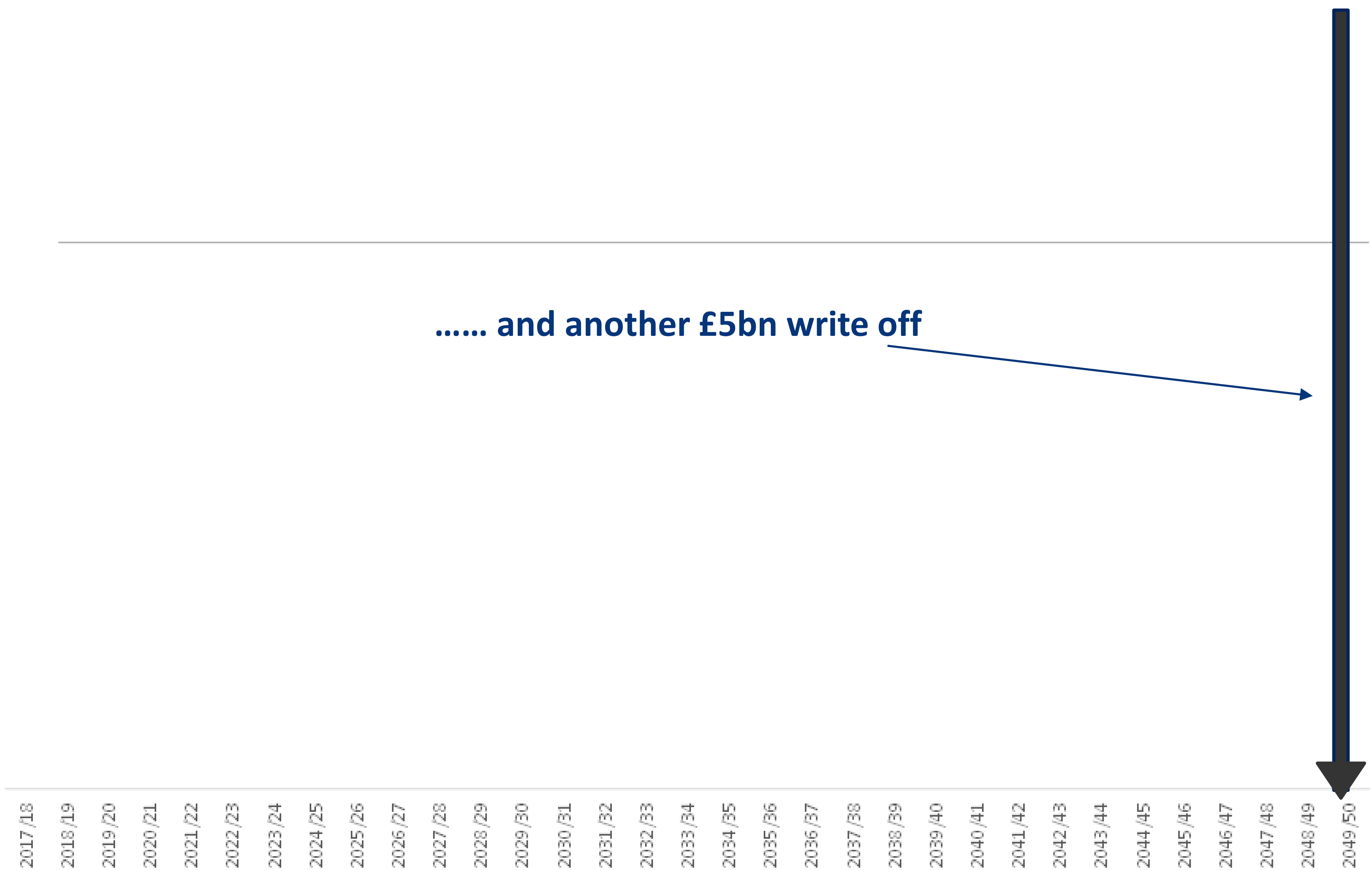
...... and another £5bn write off
2017/18
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2019/20
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2021/22
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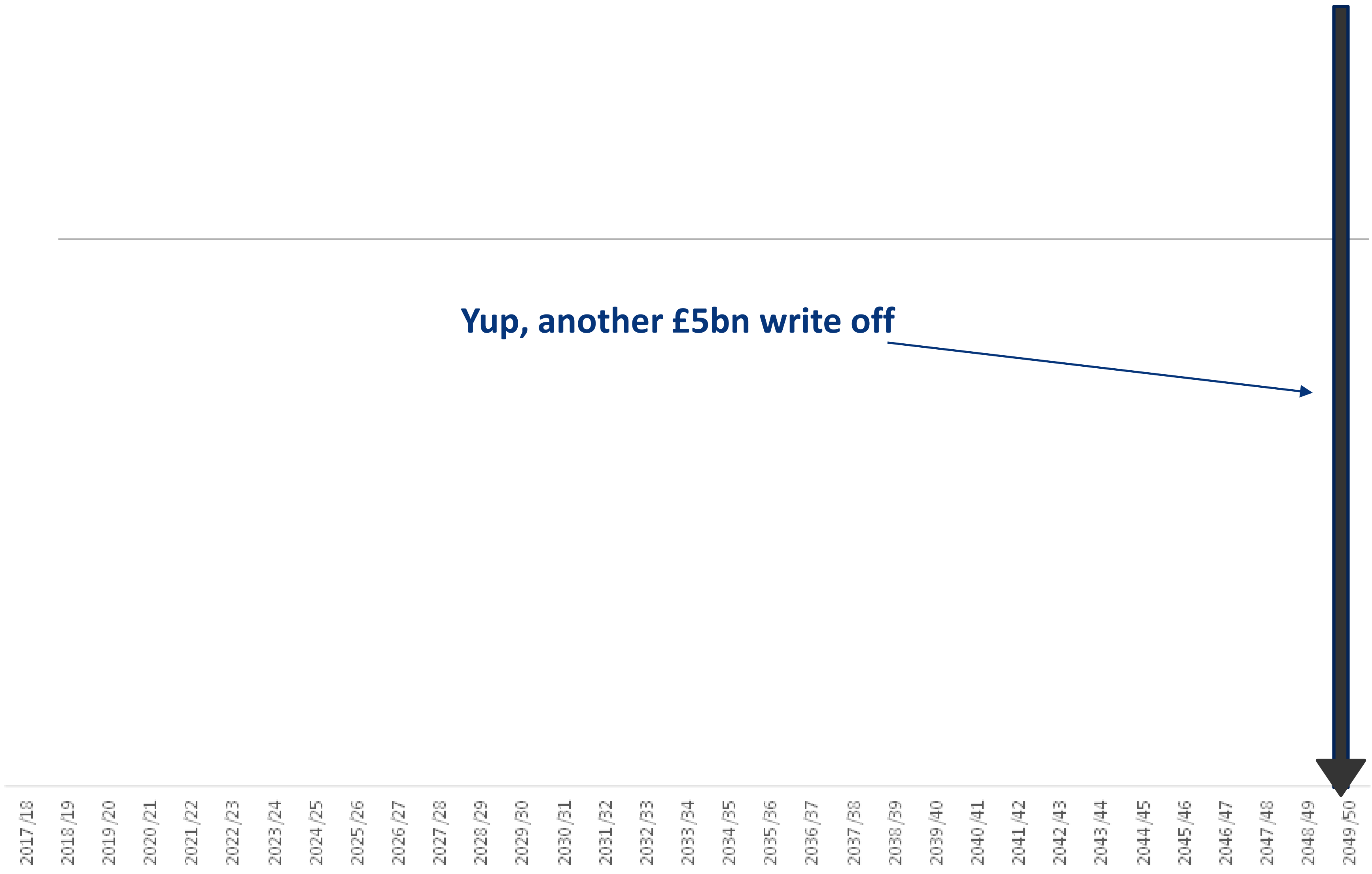

Yup, another £5bn write off
2017/18
2018/19
2019/20
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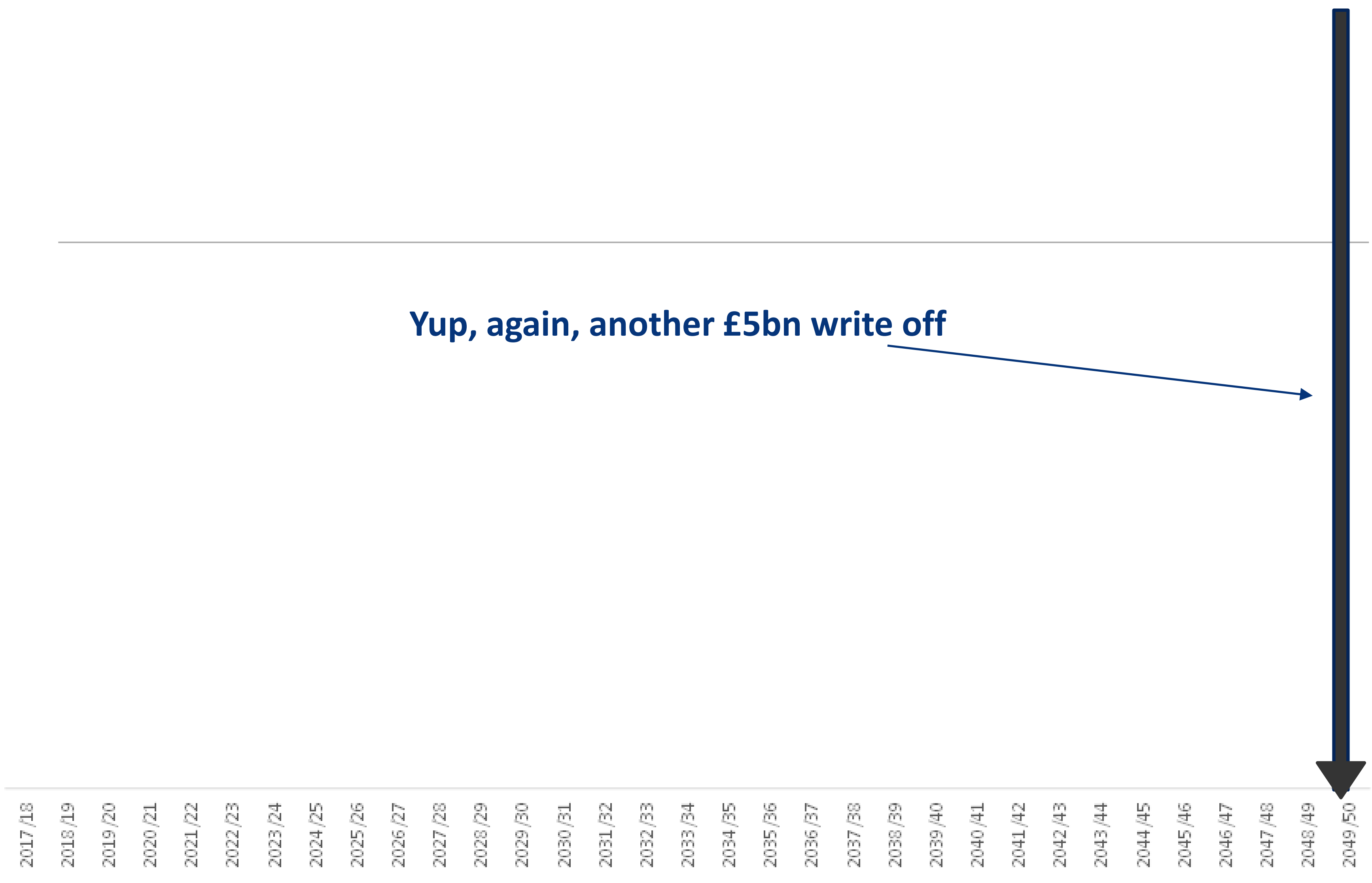

Yup, again, another £5bn write off
2017/18
2018/19
2019/20
2020/21
2021/22
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2025/26
2026/27
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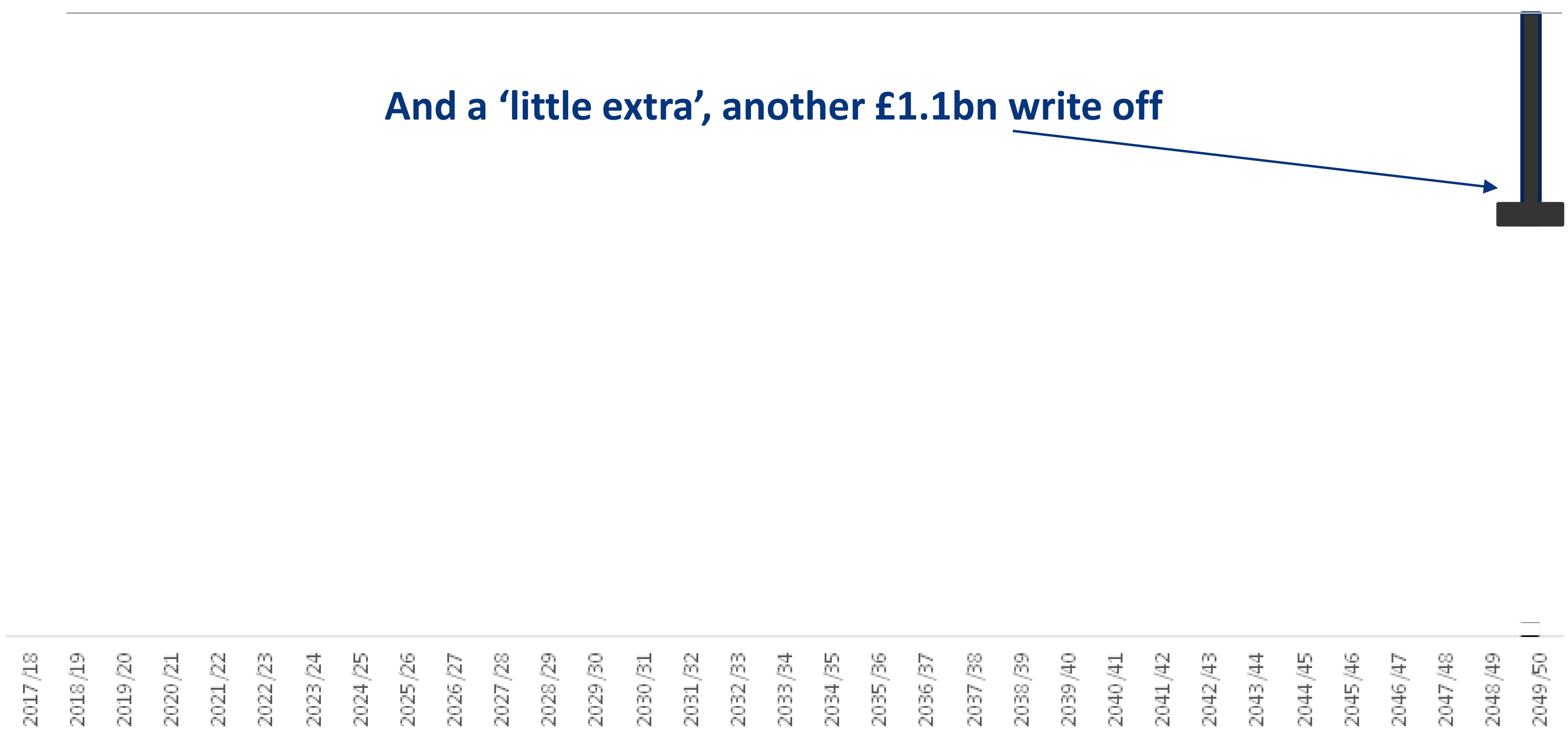
And a ‘little extra’, another £1.1bn write off
2017/18
2018/19
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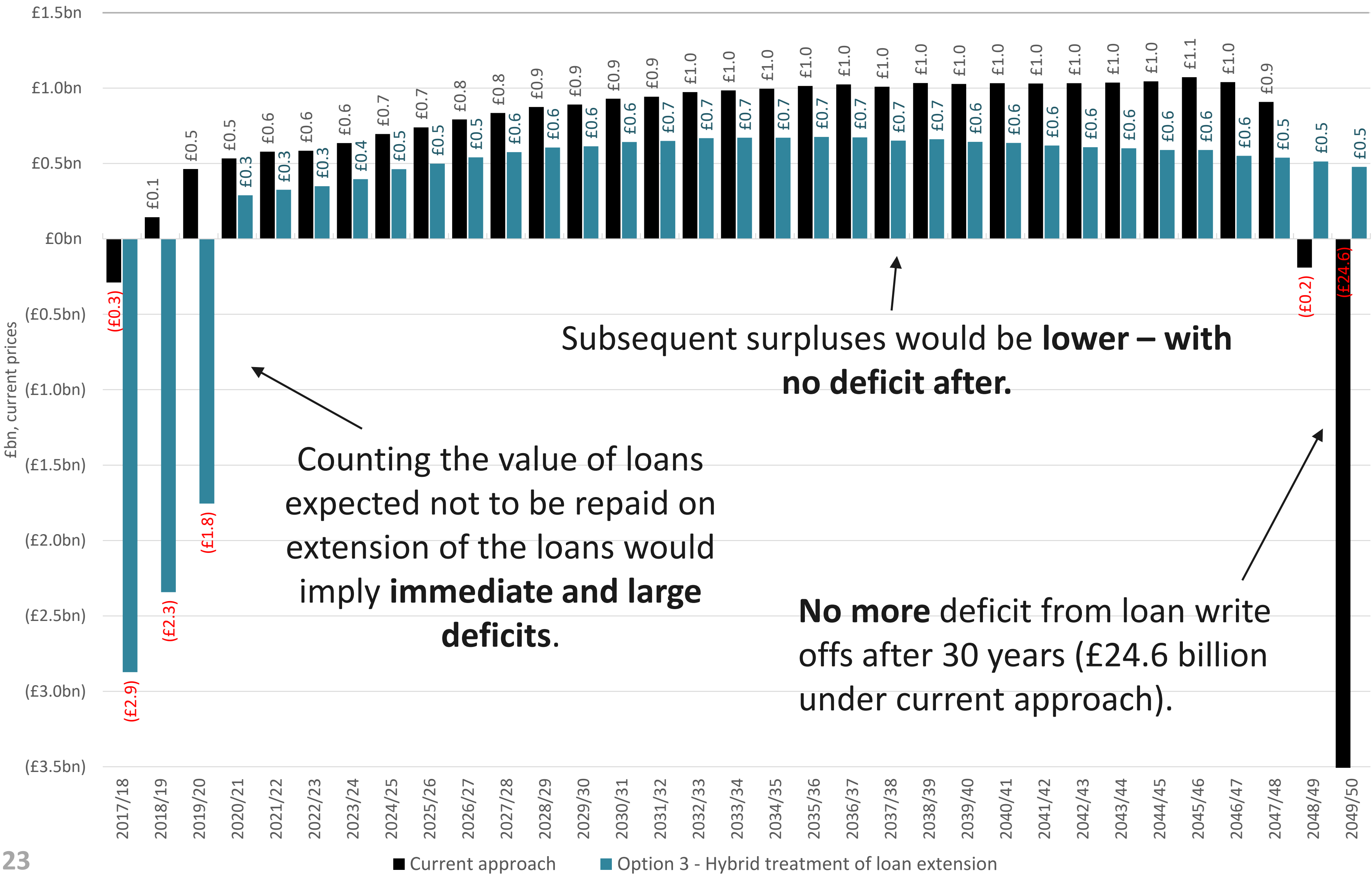
Current approach vs. Option 3 (‘*Hybrid*’)

Public surplus/deficit per year associated with the 2017/18 cohort (£bn in current prices)



Conclusion

There is a fundamental difference between economic costs and the way costs are accounted for. The accountancy approach offers huge incentives to fiddle with policy and ignore the economic consequences.

By focusing on the deficit rather than the economics, higher education fees and funding policy has been poor.

The Augar Review has limited manoeuvre.

There are much bigger issues that need to be addressed – both in the wider economy – but also in respect of making the right decisions in respect of student support (irrespective of the 'optics')

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Supplementary Information

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Overview and scope of model

- This presentation provides a model of a number of possible scenarios for amending the current English higher education student support arrangements. In particular, we consider:
  - The **re-introduction of maintenance grants** (previously available to first-year students starting their qualifications in 2015/16);
  - Changes in the **repayment threshold** and **interest rate thresholds**;

- The model estimates the aggregate impact on the Exchequer, institutions and students/graduates for:
  - the **2017/18 cohort** of first-year undergraduate **English-domiciled students (studying anywhere in the UK),** and **EU-domiciled students studying in England**;
  - **full-time and part-time students**, as well as
  - **‘other’ undergraduate qualifications** below first degree level.

- The model estimates a range of **metrics** associated with the HE funding system, including:
  - The **RAB charge**, **student loan debt on graduation**, and expected **lifetime loan repayments** (by income decile);
  - Total **Exchequer costs** including the cost of **student support** and **Teaching Grant** funding to institutions **across the UK**;
  - **HEI funding** in terms of **tuition fee income** (net of bursaries) and **Teaching Grant** funding from the Exchequer.

  All of these measures have been discounted to reflect **net present values**, and are presented in **constant 2017/18 prices**. Full details of the underpinning assumptions are presented in the supplementary Annex.

Assumptions and methodology

Student profile

- The model considers the total number of full time and part time English domiciled first year students undertaking higher education qualifications at any institution in the UK. In addition, all EU students engaged in undergraduate education studying in English HEIs are also included. We have applied various changes to HE fees and funding arrangements based on the most recent HESA data relating to the 2016-17 cohort comprising **485,545** students (**458,815** English and **26,730** EU domiciled students; **397,265** full-time and **88,280** part-time).
- Amongst full-time students, **94%** are undertaking first degrees (**33%** part-time), with **3%** engaged in Other HE (**60%**), **1%** HNCs/HNDs (**3%**), and **2%** Foundation degrees (**4%**).
- Part-time students are estimated to study at **40%** FTE
- Estimated continuation rate was estimated to be **92.5%** for full-time students and **83.3%** for part-time students
- Based on HESA data, to determine the size of maintenance loans received, first year students are categorised by gender, location of study, study intensity and living arrangements whilst in study. We assume that all students take out the maximum available loan to which they are entitled, and we base eligibility for loans using information from SLC Statistical First Releases on the proportion of students that were previously in receipt of full or partial maintenance grants. For example, the average maintenance loan received by a full-time first degree undergraduate student stands at **£6,538** per student per year.

Student profile

- The average gross tuition fee in 2017-18 is **£9,250**, but as a result of Access agreements and the provision of bursaries and fee waivers by HEIs, the net tuition fee is lower (**£9,101**). Based on average study intensity, the average part-time tuition net tuition fee was estimated to be **£3,607** per annum. We have assumed that fees do not increase over the duration of students' courses.
- We have modelled loan eligibility – by location of study (i.e. Living at Home (**21%** (full-time students)), Living away from home outside of London (**67%**), and Living away from home in London (**12%**)) - using the current thresholds provided by Student Finance England
- All analyses are undertaken by gender. For those individuals undertaking Other HE on a full-time basis, the gender split is **46/54**, with the corresponding estimates for HNCs/HNDs, Foundation Degrees and undergraduate degrees standing at **46/54**, **46/54**, and **43/57** respectively
- The average age of enrolment for full time students undertaking Other HE, HNCs/HNDs, Foundation Degrees and undergraduate degrees was **28**, **21**, **25** and **20** respectively. The corresponding estimates for part-time students were **36**, **27**, **30** and **31** respectively.
- The average duration of qualification attainment for full time students undertaking Other HE, HNCs/HNDs, Foundation Degrees and undergraduate degrees was **1**, **2**, **2** and **3** years respectively. Based on study intensity, the corresponding estimates for part-time students were **2**, **5**, **5** and **7** years respectively

Assumptions and methodology

Baseline and alternative assumptions

- In the baseline case, loans accumulate interest at RPI +3% during the period of study. Post graduation, loans accumulate interest depending on earnings, with individuals earning **£25,000** incurring a 0% real rate of interest, increasing to 3% real rate of interest on earnings of **£45,000** per annum or above. For part-time students, we apply current SLC rules in relation to the accumulation of interest during study.
- In the baseline case, we assume that loan repayment is 9% of earnings in excess of **£25,000** per annum and that all loans are written off 30 years from the date of SSRD, and that the maximum interest rate is charged on earnings in excess of **£45,000**.
- In the proposed scenario, we assume that the repayment threshold declines to **£21,000**, with interest rates increasing from zero between **£21,000** and **£41,000.**
- In the Baseline scenario, there are no maintenance grants. In the proposed scenario, we assume that the level of maintenance grant made available stands at **£3,492 per annum**. We assume that the maximum grant is receivable for those on household incomes of less than **£25,000**, while there is no grant available for individuals with household incomes in excess of **£42,641.**
- We assume that there is a withdrawal of some maintenance loan funding for those in receipt of maintenance grants (£0.50 of loan per £1 of grant), with the average maintenance loan paid standing at **£4,441 per annum**.
- We assume that there is pro-rata provision of maintenance grants to part-time workers (based on study intensity)

Baseline and alternative assumptions

- We assume that all thresholds increase in line with average nominal earnings growth (with forecasts taken from medium term and long term OBR forecasts).
- In relation to Teaching Grants, we assume that the average teaching grant per student – by Home Nation – is derived by dividing the total teaching grant funding in each Home Nation by the total number of students, which is the adjusted for the duration of study. The average Teaching grant per student in England, Wales, Scotland, and Northern Ireland is estimated to be **£1,163**, **£317**, **£5,521,** and **£3,098** per student per annum respectively. The corresponding estimates for part-time students stand at **£460**, **£125**, **£2,186**, and **£1,227** per student per annum
- In relation to the estimation of the RAB charge and other financial flows, we assume a real discount rate of **0.7%** as per standard practice.
- We have adopted OBR forecasts in relation to expected Retail Price Index, which were as follows between Year 1 and Year 6: **3.5%, 3.1%, 3.1%, 3.2%, 3.1%** and **3.0%**. We have also taken OBR forecasts in relation to expected nominal earnings growth between Year 1 and Year 6: **0.0%, 2.6%, 2.5%, 2.8%, 3.0%** and **3.1%**.
- The model containing the alternative scenario consists of the reintroduction of maintenance grants at 2015-16 levels (with an associated reduction in maintenance loans); loan repayments rates of **3%, 5%, 7%** and **9%** at **£15,000**, **£25,000, £35,000** and **£45,000** respectively; **40 year** repayment term; 0-4% interest rate between **£15,000** and **£45,000;** 3% interest rate during study; and **40 year** repayment period.