Examination of higher education fees and funding across the United Kingdom

Policy note

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Head Office: Somerset House, New Wing, Strand, London, WC2R 1LA, United Kingdom.

w: londoneconomics.co.uk e: info@londoneconomics.co.uk Twitter/X: @LondonEconomics
t: +44 (0)20 3701 7700 @LE_Education

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Authors

Dr Gavan Conlon, Partner; gconlon@londoneconomics.co.uk

Maike Halterbeck, Divisional Director; mhalterbeck@londoneconomics.co.uk

James Cannings, Senior Economic Consultant; jcannings@londoneconomics.co.uk

Overview and context

As part of a research project funded by the Nuffield Foundation, London Economics are undertaking a range of in-depth analyses in relation to higher education (HE) fees and funding arrangements across the four Home Nations of the UK, ahead of the next General Election. In this policy note, we provide a 'cross-country comparison' of how current undergraduate fees and funding arrangements vary across the Home Nations.

Disagreement over higher education funding has resulted in significant political fault lines across the UK since the 1990s. Most major political parties have made significant manifesto commitments at successive elections or following unsuccessful electoral campaigns. For example, in England, aside of the Liberal Democrats' ill-fated promise not to raise tuition fees ahead of the 2010 General Election (link), some of the more notable pledges include Labour's commitment to reduce fees to £6,000 ahead of the 2015 General Election (link) and subsequent commitment to abolish tuition fees ahead of both the 2017 and 2019 General Elections (link). In contrast, in direct response to the Conservatives' election 'defeat' in 2017, in October 2017, then Prime Minister Theresa May announced the decision to raise the student loan repayment threshold from £21,000 to £25,000 (link). In Scotland, the Scottish Nationalist Party's victory in 2007 led to the abolition of the 'Graduate Endowment' in 2008 (link), and the reversion to 'free fees' and a predominantly state-funded higher education system.

However, policy making based on election commitments has often been inconsistent and resulted in a number of unintended consequences (for instance, the 2017 increase in the repayment threshold from £21,000 to £25,000 resulted in a 50% increase in the Exchequer cost of HE funding in England). The refusal to adjust tuition fee levels with overall inflation levels (predominantly because of the lack of popularity amongst the public (link)) has resulted in a structural underfunding of higher education institutions (HEIs) and extensive redundancies in many universities. In addition, from students' perspective, there is now a widespread acceptance that the level of public maintenance support available to students is inadequate to cover students' large and rising costs of living.

Given the political tensions associated with HE fees and funding systems across the United Kingdom, the policy approach to initiating structural reforms of these systems has generally been to commission independent reviews of higher education. This approach has been adopted in part to ensure bipartisanship across the political spectrum, but also to provide the *appearance* of tackling a particular issue or national priority that has arisen (such as the financial sustainability of the sector). However, in reality, the approach has essentially *deferred* decision making and the implementation of any reforms (or provided political cover for implementing the most contentious reforms), and it is no coincidence that the reviews have often been announced ahead of, and published after, General Elections. The Browne Review provides a recent example of this (link). Commissioned in November 2009 (6 months ahead of the 2010 General Election), it reported its findings and recommendations in October 2010 (five months post-election). The Coalition government's response resulted in the trebling of tuition fees in 2012-13.[1]

[1] More recently, in February 2018, Theresa May announced the independent Review of Post-18 Education and Funding to address, amongst other things, the financial arrangements in higher education (also referred to as the 'Augar Review' (link)). The final report of the Review (link) was published in May 2019 (being one of the last political events undertaken by the then Prime Minister), and the Department for Education's response to the Augar Review's recommendations was not announced until April 2022 (link).

Capitalising on a widespread lack of understanding of HE funding systems, many of the above-mentioned election pledges or post-election amendments have been short-sighted, and, despite the number of independent reviews commissioned, the recommendations of these reviews have generally (with the exception of the Diamond Review in Wales (link)) been cherry-picked rather than being implemented in full. As a result, there have been significant adverse impacts on different groups of students and graduates, and a number of unintended, but often deeply problematic, consequences.

What are the current fees and funding arrangements operating in each Home Nation?

Higher education is a devolved matter – and, as a result, there are fundamental (and increasing) differences between the four Home Nations of the UK, with funding generally depending on students' domicile prior to starting their studies. These differences cover maintenance support (both in terms of level and type of support), fees and fee support, the treatment of part-time students, and loan repayment terms (e.g., including repayment threshold levels (and uprating of these thresholds over time), real interest rates, and repayment periods). For example, focusing just on full-time undergraduate students, in (very) simple terms, the funding arrangements in 2023-24 are as follows:

- **Maintenance support**:
  - English domiciled students can receive a means-tested maintenance loan (only) to a maximum of **£9,978** (minimum of **£4,651**) for students living away from home outside of London (LAFHOL).
  - Scottish domiciled students can receive a means-tested grant of up to **£2,000** as well as a means-tested loan to maximum value of **£7,000**[2]. In contrast to all other Home Nations, funding under the Scottish system is independent of students' living circumstances.
  - Northern Irish (LAFHOL) students can receive a means-tested grant of up to **£3,475** as well as a means-tested loan to maximum value of **£6,776**.
  - Wales offers the most generous student maintenance, with a total of **£11,720** of maintenance support available to Welsh domiciled students irrespective of household income (again for LAFHOL students). This includes up to **£8,100** in grants (and a minimum grant of **£1,000**), with the remainder provided through maintenance loans.
  - In addition to the maximum and minimum level of funding available, the household income eligibility thresholds and associated tapers for grants and loans vary significantly between the Home Nations.
- **Tuition fees and fee support**:
  - English domiciled students (studying anywhere in the UK) are charged a maximum fixed tuition fee of up to **£9,250**, backed by fee loans.
  - Scottish domiciled students studying in Scotland benefit from a free fees system, where their notional fees of **£1,820** (first degrees) or **£1,285** (sub-degree qualifications) are covered by full non-repayable fee grants paid by the Scottish Government. Scottish

[2] The figures here relate to maintenance support for students under the Young Students' Bursary in 2023-24. The Scottish Government recently announced that, from 2024-25 onwards, total maximum maintenance funding under the Scottish system will increase from £9,000 to £11,400 (through an increase in the maximum loan; link).

domiciled students studying elsewhere in the UK pay tuition fees of up to **£9,250**, fundable through fee loans.
- Northern Irish domiciled students studying in Northern Ireland pay a maximum fee of **£4,710**. Unlike the fees charged in England and Wales, this fee increases with inflation over the course of students' study. Northern Irish domiciled students studying in the rest of the UK pay up to **£9,250**; both fee levels are backed by fee loans.
- Welsh domiciled students pay a maximum fee of **£9,000** if studying in Wales, but again up to **£9,250** if studying in England (again both backed by fee loans).
- Because of these differences in fees, the relevant higher education funding bodies in each Home Nation provide additional Teaching Grant funding to higher education institutions (at varying levels). In England, Teaching Grants are paid to support the delivery of high-cost subjects only. At the other end of the spectrum, in Scotland, the Teaching Grant constitutes the largest component of public funding for higher education, compensating for the much lower (notional) level of fee.

- **Loan repayments terms**:
  - English domiciled students/graduates repay 9% of their earnings over **£25,000**, their loans are written off after **40** years, and interest rates are based on the Retail Price Index (RPI)[3]. As discussed in more detail below, the £25,000 repayment threshold is currently frozen until 2026-27 inclusive, after which it will be uprated with RPI inflation each year.
  - Scottish domiciled students repay 9% of their earnings over **£27,660**, their loans are written off after **30** years, and interest rates are based on RPI. The repayment threshold is uprated with RPI inflation each year.
  - Northern Irish domiciled students/graduates repay 9% of their earnings over **£22,015**, their loans are written off after **25** years, and interest rates are based on RPI. As in England and Scotland, the repayment threshold is uprated with RPI inflation each year.
  - Welsh domiciled students repay 9% of their earnings over **£27,295**, and their loans are written off after **30** years. In contrast to all other Home Nations, the loan repayment terms applicable to Wales include non-zero real interest rates, so that interest equals 3% + RPI during study and between 0-3% +RPI post-graduation. The Welsh system also includes a special £1,500 partial maintenance loan cancellation upon graduates' first repayment. The repayment threshold is currently frozen until 2024-25 inclusive, after which it is expected to be uprated with RPI inflation[4].

Given these fundamental differences, the unit of resource available to higher education institutions, the overall costs to the Exchequer, students' debt on graduation and graduate loan repayments, and the balance of contribution between the Exchequer and students/graduates all vary markedly across Home Nations.

[3] In other words, the real interest rate is 0%, so that the nominal interest rate is 0% + RPI. These constitute the new Plan 5 loan repayment terms (link) that apply to students entering higher education from 2023-24 onwards, introduced as part of the Department for Education's response to the Augar Review (link).

[4] Prior to the Department for Education's response to the Augar Review, Wales's student loan repayment system was aligned with the English repayment system (based on loan repayment Plan 2). While English domiciled students starting their studies from 2023-24 onwards are now subject to new repayment Plan 5, in May 2023, the Welsh Government announced that it would not implement these reforms (at least for now), but would instead stick to the existing repayment system (link). However, the Department for Education's response to the Augar Review *also* included some retrospective changes to Plan 2 repayment conditions, including a change in the future uprating of the threshold with RPI rather than average earnings growth. Since Welsh students/graduates will remain on Plan 2 repayment terms, it is expected that the same uprating with RPI will apply to the repayment threshold for Welsh domiciled students going forward.

More specifically, what are the current funding arrangements in England?

Before comparing funding across the Home Nations, given the very recent changes introduced in England by the Department for Education, we first take a more in-depth look at the English fees and funding system.

As in other Home Nations, the English higher education sector faces severe financial challenges. Tuition fees for domestic undergraduate students have remained essentially unchanged in cash terms since 2012-13 (apart from a small increase from £9,000 to £9,250 in 2017-18), meaning that the effective unit of teaching resource available to English higher education institutions is now only slightly higher in real terms than it was in 2011-12 (link). The current fee does not cover the cost of teaching domestic undergraduate students, and institutions have become increasingly reliant on international students to cross subsidise their research activities, as well as the teaching of domestic students (link).

However, rather than alleviating the financial pressures faced by institutions, the Department for Education's response to the Augar Review primarily focused on reducing the Exchequer cost of the system (due to the perceived high cost associated with student loan write-offs). The Resource Accounting and Budgeting (RAB) charge, which is effectively the public subsidy on the fee and maintenance loans offered to students, is a key metric in the world of higher education fees and funding. The recent reforms in England were aimed at achieving a significant reduction in the RAB charge, by **increasing the loan repayment period** (from 30 to 40 years), **cutting the repayment threshold** (from £27,295 to £25,000), **freezing the threshold** at £25,000 until 2026-27 inclusive (rather than uprating with average earnings growth), and, after that, **slowing the rate at which the threshold is increased over time** (using RPI inflation rather than (higher) average earnings growth. This slower uprating of the repayment threshold is a form of **fiscal drag**). At the same time, the government **removed the real interest rate** levied on student loan balances (at a significant cost), thereby removing one of the few progressive features of the system.

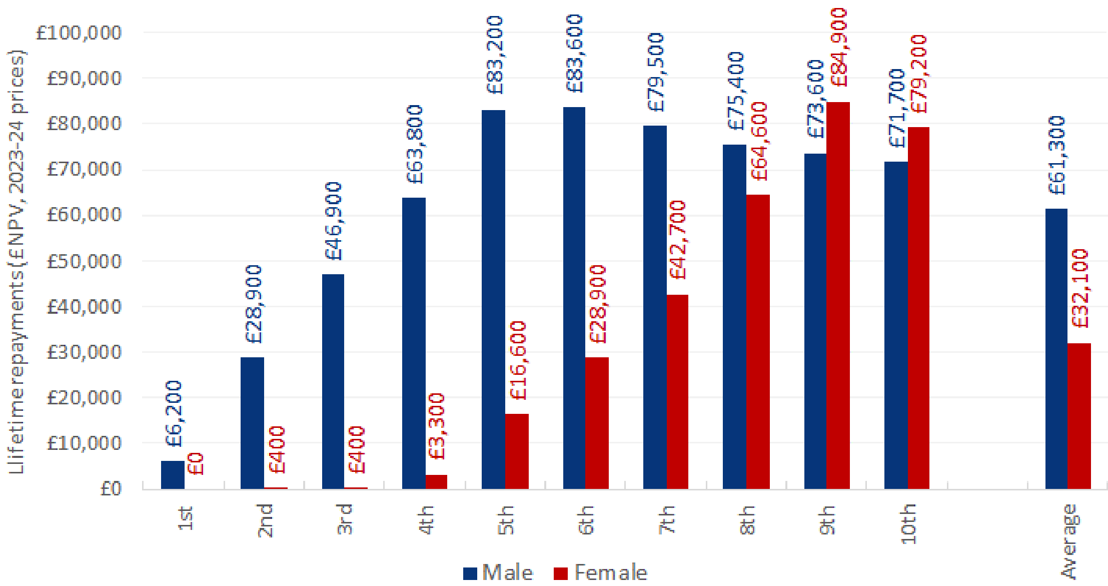
What were the costs of the previous English HE funding system (pre Augar response)?

Here, we estimate the Exchequer cost of the English fees and funding system if the Augar response had *not* been implemented. Focusing on the cohort of English domiciled students starting undergraduate qualifications (anywhere in the UK) in 2023-24, under the pre Augar response system, the total Exchequer cost associated with this cohort would have stood at approximately **£3.13 billion**[5] (which includes the cost of Teaching Grants for high-cost subjects and maintenance and fee loan write-offs). The associated proportion of loans written off at the end of the 30-year repayment period (i.e., the RAB charge) was estimated at **10%**. The average Exchequer cost of the system per student in the cohort (for 'home' domiciled full-time students) would have stood at approximately **£2,600** in 2023-24.

The average expected lifetime loan repayments per male full-time first degree student were estimated at **£61,300**[6], compared to **£32,100** for female students (see Figure 1).

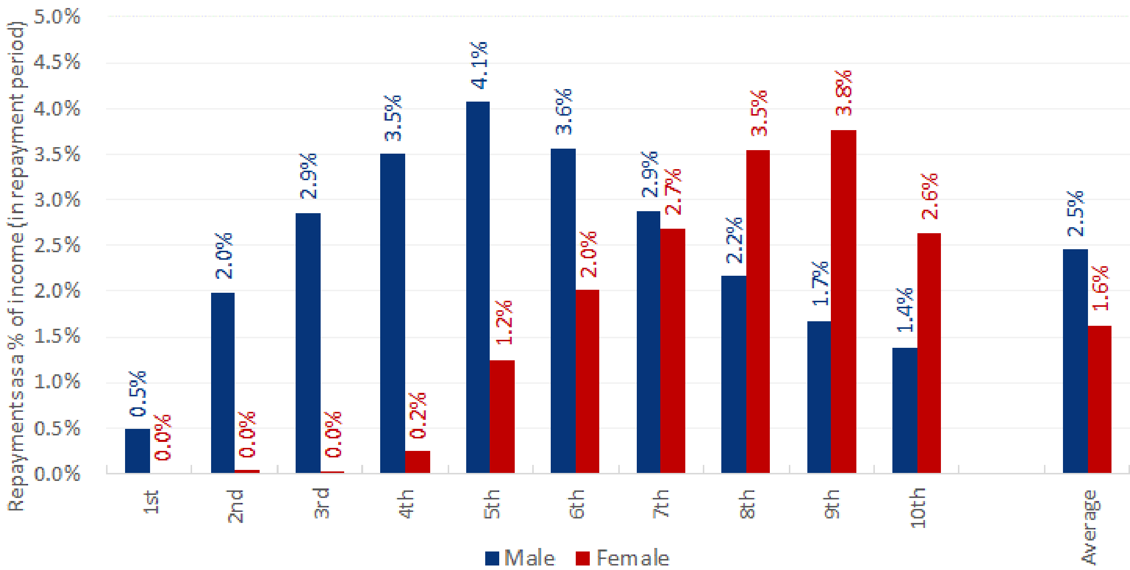
[5] Discounted to net present values (NPV) and in constant 2023-24 prices.
[6] Again, in NPV terms and in constant 2023-24 prices.

Figure 1 Total loan repayments by English domiciled students who complete full-time first degrees in England (NPV in 2023-24 prices), by lifetime earnings decile and gender – Pre Augar system



All values are based on English domiciled students starting full-time first degrees in England in 2023-24, have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.
Source: London Economics' analysis

Figure 2 Total loan repayments by English domiciled students who complete full-time first degrees in England as a % of income (during repayment period), by lifetime earnings decile and gender – Pre Augar system



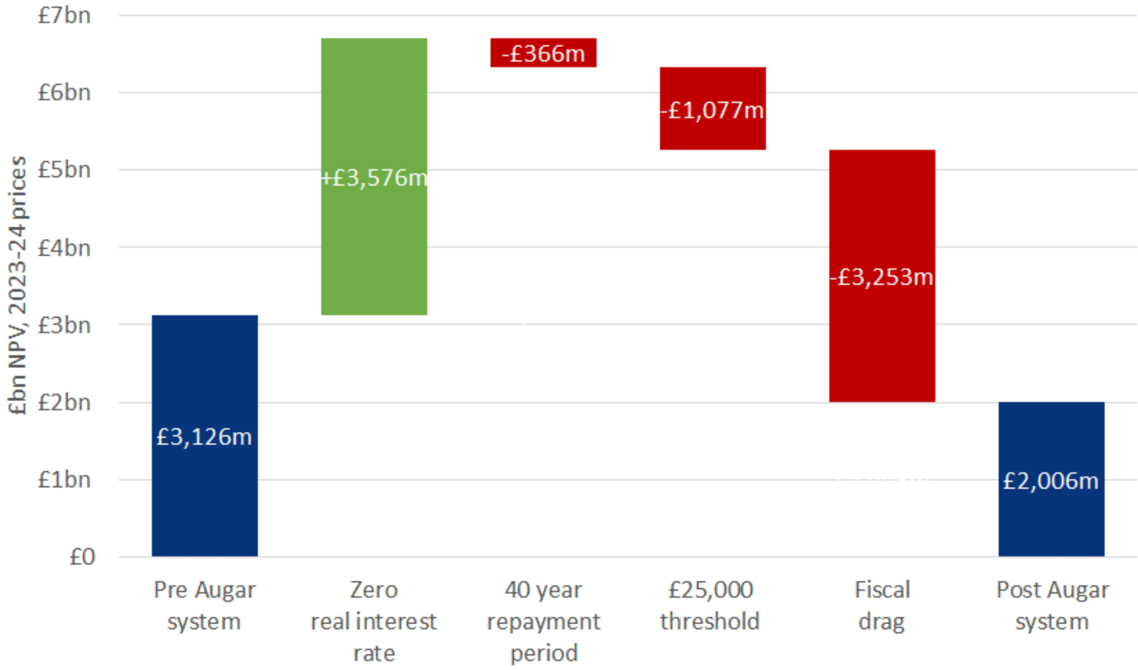
Note: Figures are based on English domiciled students starting full-time first degrees in England in 2023-24, and relate to estimated repayments as a proportion of income throughout the repayment period (calculated based on cash terms (not discounted), for both income and repayments).
Source: London Economics' analysis

Considering differences in repayments across the graduate income distribution, under the pre-Augar system, male graduates on the 6th lifetime earnings decile would have made the highest loan repayments in absolute terms (**£83,600**, equivalent to **4.1%** of their income over the repayment period (see Figure 2)), with repayments then declining to **£71,700** for male graduates on the 10th decile (**1.4%** of income). For female graduates, the highest repayments would have been made by women on the 9th decile (**£84,900**, **3.8%** of income), declining to **£79,200** for female graduates on the 10th decile (**2.6%** of income).

What was the effect of the government's response to Augar on the costs of the English system?

Compared to the pre Augar system, on a like-for-like basis, the various changes to loan repayment terms as part of the Augar response have reduced the Exchequer cost of the English funding system by around **£1.12 billion** per cohort (from **£3.13 billion** to **£2.01 billion** (see Figure 3)).

Figure 3 De-composition of Exchequer cost changes per cohort following the Department for Education's response to the Augar Review (NPV in 2023-24 prices)



All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £1m.
Source: London Economics' analysis

De-composing this aggregate difference into individual components, the **removal of real interest rates** by itself would have resulted in a **£3.58 billion** cost *increase* for the Exchequer. Against these additional costs, the **extension of the repayment period** to 40 years resulted in Exchequer cost savings of approximately **£366 million** per cohort; the **reduction in the repayment threshold** saved approximately **£1.08 billion**; and the **initial freeze and slower uprating of the threshold** saved **£3.25 billion**[7].

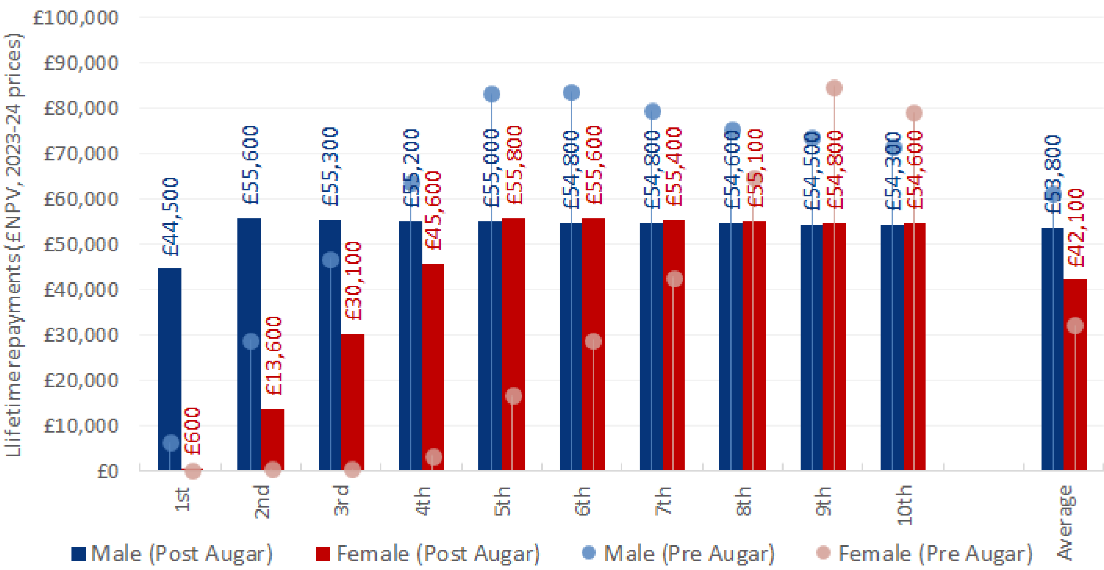
The distributional effects of these changes are critical: For high-income graduates, the reforms lead to a *reduction* in lifetime loan repayments (4th decile and up for male graduates, and 8th decile and up for female graduates; see Figure 4). This is predominantly driven by the removal of real interest

[7] All estimates here are iterative (i.e., the various changes are 'on top of' each other), e.g., the cost savings associated with extending the loan repayment period are calculated based on a repayment system that also includes 0% real interest rates.

rates, but also the lower level and slower uprating of the repayment threshold, allowing these high-earning graduates to repay their loans sooner (as the lower interest rates result in a smaller amount to be repaid, and the lower repayment threshold makes these graduates repay more annually[8]). In contrast, low- and middle-income graduates now repay *more* than under the pre Augar system, since the longer loan repayment period and the lower repayment threshold imply that they make higher annual repayments, but for much longer than under the pre Augar system. For these graduates, the changes to the repayment threshold and repayment period therefore significantly outweigh any beneficial effect of the removal of real interest rates.

In other words, the entire **£1.12 billion** Exchequer cost savings from the reforms implemented in England in response to the Augar Review are generated through higher loan repayments from low- and middle-income (predominantly female) graduates, while the highest earning (predominantly male) graduates benefit from lower loan repayments.

Figure 4 Total loan repayments by English domiciled students who complete full-time first degrees in England (NPV in 2023-24 prices), by lifetime earnings decile and gender – Post Augar vs. Pre Augar system



All values are based on English domiciled students starting full-time first degrees in England in 2023-24, have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.
Source: London Economics' analysis

How do the systems in each Home Nation affect students/ graduates, HEIs, and the Exchequer?

The above-described differences in the HE fees and funding systems across the Home Nations lead to very different impacts of each system on students and graduates, the Exchequer, and higher education institutions (see Table 1).

[8] Since these graduates were typically already expected to fully repay their loans within the 30-year repayment period pre Augar, they are unaffected by the extension of the repayment period to 40 years.

Table 1 Comparison of impacts of HE funding systems in each Home Nation on the Exchequer, higher education institutions, and students/graduates

Indicator	England	Scotland	Wales	Northern Ireland
Key indicators for full-time 'home' students only (e.g., English students studying in England)				
Exchequer cost per full-time 'home' student per year in 2023-24				
Maintenance grants	-	£550	£3,800	£1,140
Maintenance loans	£240	£720	(£240)	£330
Tuition fee grants	-	£1,790	-	-
Tuition fee loans	£330	-	(£270)	£310
HEI teaching grants	£1,060	£6,080	£490	£3,030
Total	**£1,630**	**£9,130**	**£3,780**	**£4,810**
HEI income per full-time 'home' student per year in 2023-24				
Gross fee income	£9,250	£1,790	£9,000	£4,710
Teaching grant income	£1,060	£6,080	£490	£3,030
Cost of bursaries	(£90)	-	(£200)	(£120)
Total	**£10,220**	**£7,870**	**£9,290**	**£7,620**
Key indicators across all students (e.g., all English students studying anywhere in the UK)				
RAB charge				
RAB charge	4%	21%	-3%	10%
Balance of contribution between the Exchequer and students/graduates				
Exchequer	16%	113%	44%	51%
Students	84%	(13%)	56%	49%
Total	**100%**	**100%**	**100%**	**100%**

Note: All estimates are based on the relevant 2023-24 entry cohort of English, Scottish, Welsh, or Northern Irish domiciled undergraduate students (studying anywhere in the UK), respectively.
Key indicators for full-time 'home' students only: Monetary values per student relate only to 'home' students studying in each Home Nation (where 'home' here refers to English domiciled students studying in England, Welsh domiciled students studying in Wales, Scottish domiciled students studying in Scotland, and Northern Irish domiciled students studying in Northern Ireland). Values are based on full-time undergraduate students only, are rounded to the nearest £10 (and may not add up to totals due to this rounding), and constitute per-student averages across all types of undergraduate-level qualifications (i.e., first degrees and sub-degree qualifications), in 2023-24 (i.e., the first year of study for the relevant student cohort). Values for tuition fee loans and maintenance loans have been adjusted for the relevant estimated RAB charge.
Key indicators across all students: RAB charges constitute average estimates across all students in the relevant 2023-24 entry cohort of English/Scottish/Welsh/Northern Irish domiciled students (studying anywhere in the UK, and including both full-time and part-time students). Similarly, the balance of contribution between the Exchequer and students/graduates is also based on all students within each relevant cohort.
Source: London Economics' analysis

In **England**, the average Exchequer cost of the system per student in 2023-24 (for 'home' domiciled full-time students in the 2023-24 entry cohort) stands at only approximately **£1,630**. This includes **£1,060** in Teaching Grants, and **£570** in net student support (i.e., maintenance and fee loan write-offs). The overall RAB charge associated with the cohort stands at approximately **4%**. The Exchequer contributes approximately **16%** of the total cost of HE provision for the cohort, while students/graduates contribute the remaining **84%**. This is the lowest public purse contribution across the Home Nations – in both absolute and relative terms – illustrating how the English system constitutes a predominantly student-/graduate-funded system. HEIs receive approximately **£10,220** in income per student (net of bursaries), predominantly through fees.

In **Scotland**, the corresponding average Exchequer cost per student in 2023-24 stands at **£9,130** (again for 'home' domiciled full-time students and based only on students enrolled at universities[9]). Given the much lower (notional) fees, the majority of this funding is associated with direct Teaching Grants provided to universities (**£6,080**), with the remainder made up of maintenance grants (**£550**), fee grants (**£1,790**), and maintenance loan write-offs (**£720**). The RAB charge associated with the relevant cohort is larger than in England, estimated at approximately **21%**. Overall, on a like-for-like basis, the mostly state-funded system in Scotland implies that the public purse contribution in Scotland is more than 5 times the contribution in England (and by far the largest across all Home Nations). In terms of the balance of contribution, the free fees system for 'home' full-time students in Scotland implies that students under the Scottish system derive a net *benefit* from HE funding, and the balance of contribution for the Exchequer vs. students/graduates stands at **113% vs. -13%** in Scotland (compared to **16% vs. 84%** in England). The generous Exchequer funding under the Scottish system has resulted in ongoing student number caps for 'home' students studying in Scotland, and an ever-increasing reliance among Scottish higher education institutions on attracting students from England and overseas (with Scottish universities accruing **23%** less in income per 'home' full-time student than universities in England (**£7,870** vs. **£10,220**)).

In **Wales**, the implementation of the Diamond Review (link) from 2018-19 onwards resulted in major changes to the system. In 2023-24, the average public purse contribution per student was estimated to be **£3,780** (more than double that in England). On top of relatively modest Teaching Grants (**£490**), this includes **£3,800** per student in maintenance grant funding (by far the largest across all Home Nations, due to the introduction of a generous maintenance support system following the Diamond Review). However, the current loan repayment conditions – particularly the recent adoption of the (slower) uprating of the repayment threshold with RPI alongside the *retention* of positive real interest rates – means that student loans in Wales are now expected to generate a small *surplus* (**£510**) to the public purse (as the overall RAB charge in Wales was estimated at **-3%**). Higher education institutions receive income of approximately **£9,290** per full-time 'home' student per year (**9%** less than in England). In terms of the balance of contribution, the Welsh public purse contributes approximately **44%** of the cost of the system per cohort, while students/graduates contribute approximately **56%**.

Finally, in **Northern Ireland**, the public purse contributes approximately **£4,810** per full-time 'home' student in 2023-24 (roughly 3 times that in England). This is made up of Teaching Grants of **£3,030** per student (to compensate for the relatively low tuition fee levied on students), **£1,140** in maintenance grants, and **£640** in maintenance and fee loan write-offs (with an overall RAB charge of **10%**). The balance of contribution between the Exchequer and students/graduates stands at **51% vs. 49%** (i.e., as in Wales, the contribution is almost even). Universities receive approximately **£7,620** per full-time 'home' student per year, which constitutes the lowest across the four Home Nations, and approximately **25%** less than in England. As with Scotland, the provision of relatively large Teaching Grants alongside relatively low fees levied has resulted in student number controls in Northern Ireland, and leading many young people to leave Northern Ireland to study elsewhere in the UK (thus placing a 'handbrake on the Northern Ireland economy' (link)).

Conclusion

Higher education funding is at a crossroads in all four Home Nations of the United Kingdom. The lack of economic growth has resulted in limited government budgets, which in turn has resulted in

[9] But excluding undergraduate-level students studying at Scottish further education colleges.

a widely acknowledged underfunding of higher education – both for institutions and students. Higher education is by no means unique, with similar funding issues facing all phases of education. However, since devolution, fees and funding systems have significantly diverged, and now all Home Nations have fundamentally different starting points. Ahead of the General Election, all major political parties will be faced with very difficult decisions on where best to allocate the available resources. We hope that this analysis will shed some light on the current state of each system and potential levers for reform.

Somerset House, New Wing, Strand
London, WC2R 1LA, United Kingdom
info@londoneconomics.co.uk
londoneconomics.co.uk
@LE_Education | @LondonEconomics
+44 (0)20 3701 7700