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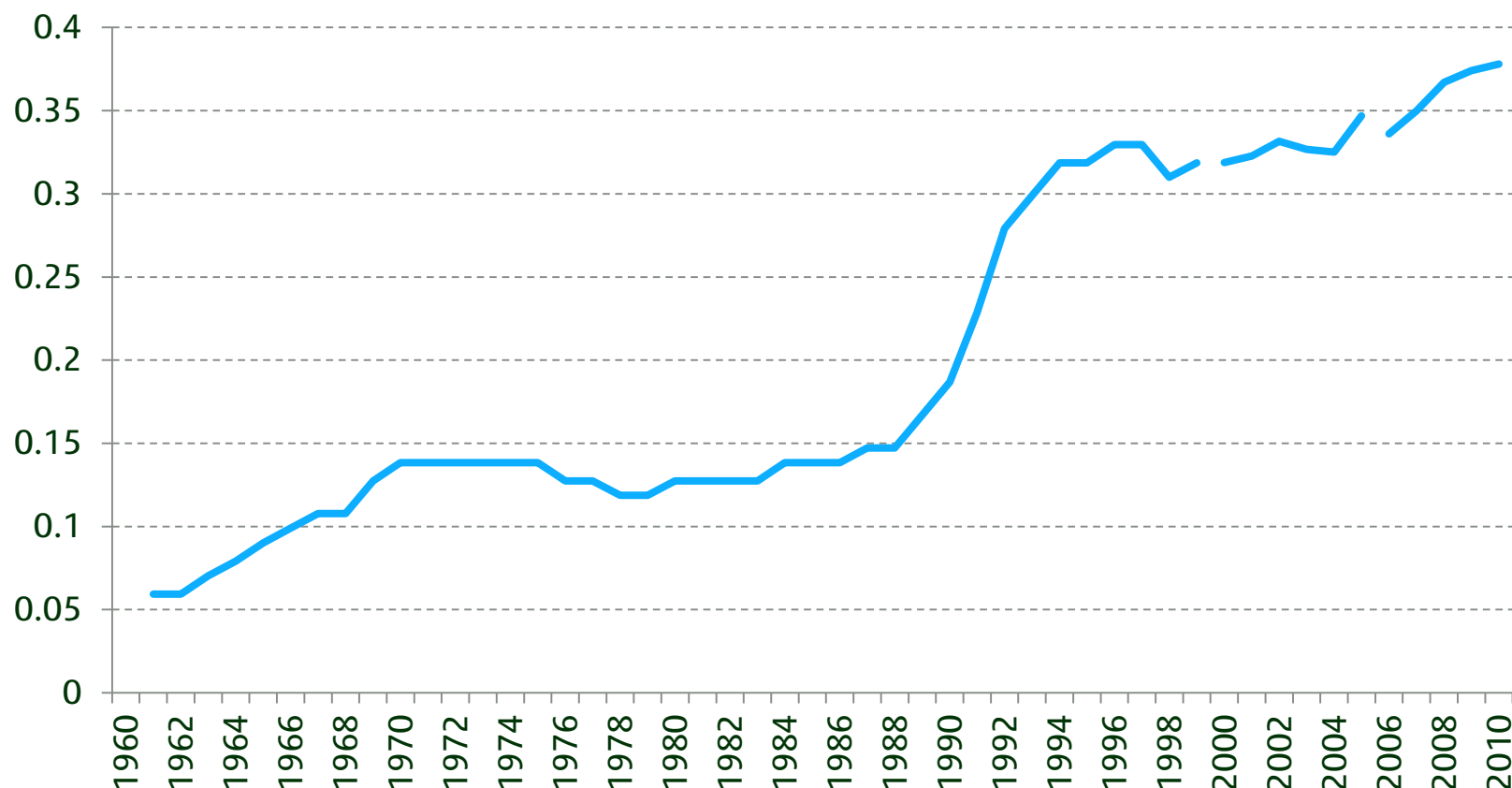
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HE funding in England: implications for students, universities and the government

Claire Crawford

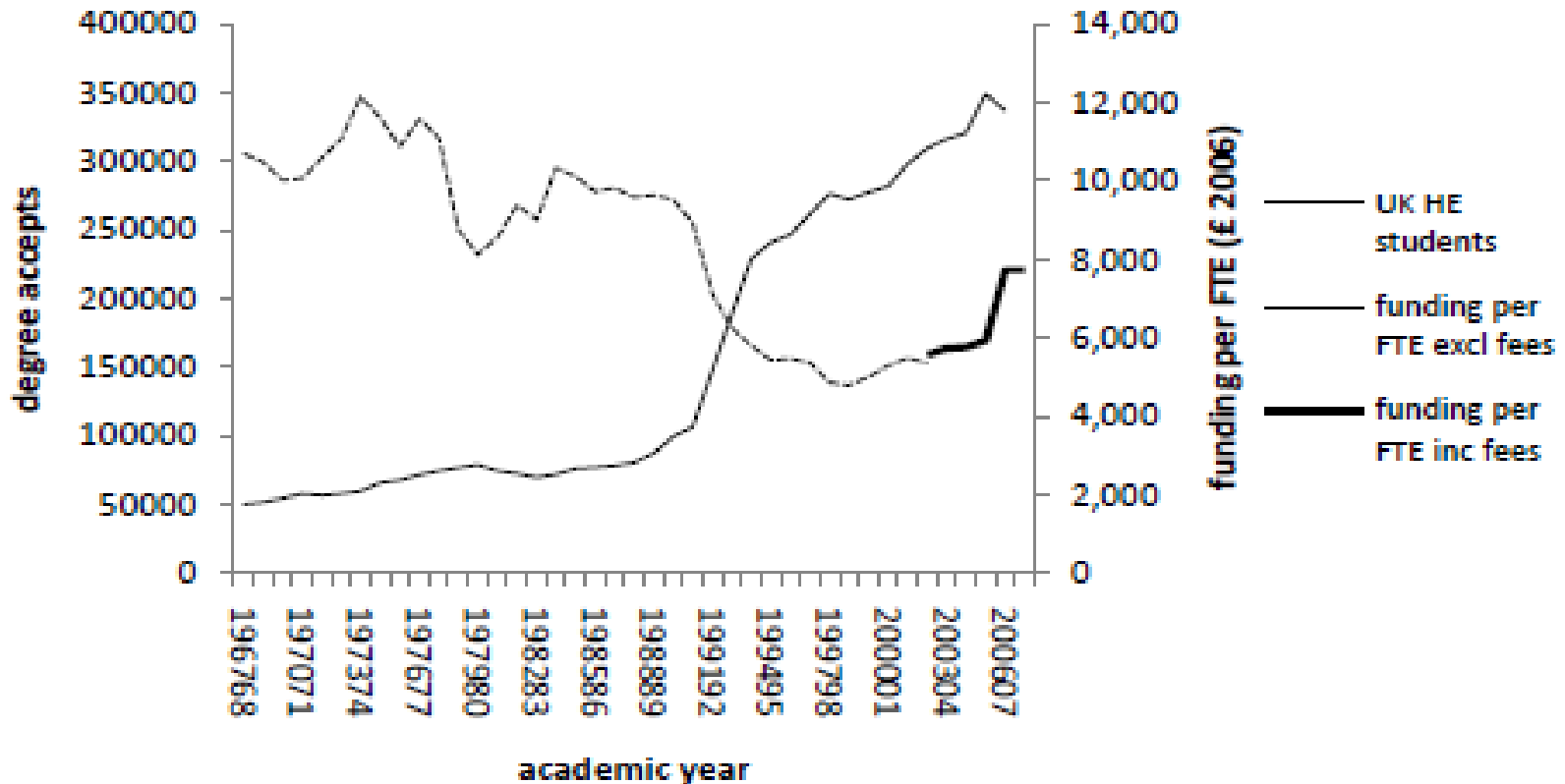
University of Warwick and Institute for Fiscal Studies

Young full-time HE participation in Great Britain has risen dramatically over the last 50 years



Sources. 1961-1999: Elias P. and Purcell K. (2004) 'The Earnings of Graduates in their Early Careers', Warwick Institute for Employment Research, Figure 1; 2000-2010: Department for Business Education and Skills (2014) 'Participation rates in higher education: academic years 2006/2007 – 2012/2013 (Provisional)', 24 August, Tables 1, A and B.

Perhaps unsurprising that as student numbers have risen, funding per student has fallen



Challenge for governments: how much to subsidise HE and how best to deliver this subsidy

- Why should governments subsidise HE?
 - Efficiency reasons:
 - HE delivers positive externalities (e.g. more productive workforce)
 - To overcome market failures, e.g. credit-constraints
 - Equity reasons:
 - Because HE delivers private returns and if there are differences in access by socio-economic background, this will perpetuate social inequalities
- Does this mean 100% subsidy?
 - Graduates on average earn more and therefore pay higher taxes
 - But they are also benefitting from a service to which not everyone has access and from which they derive personal benefit
- What is the right balance between public and private contributions?

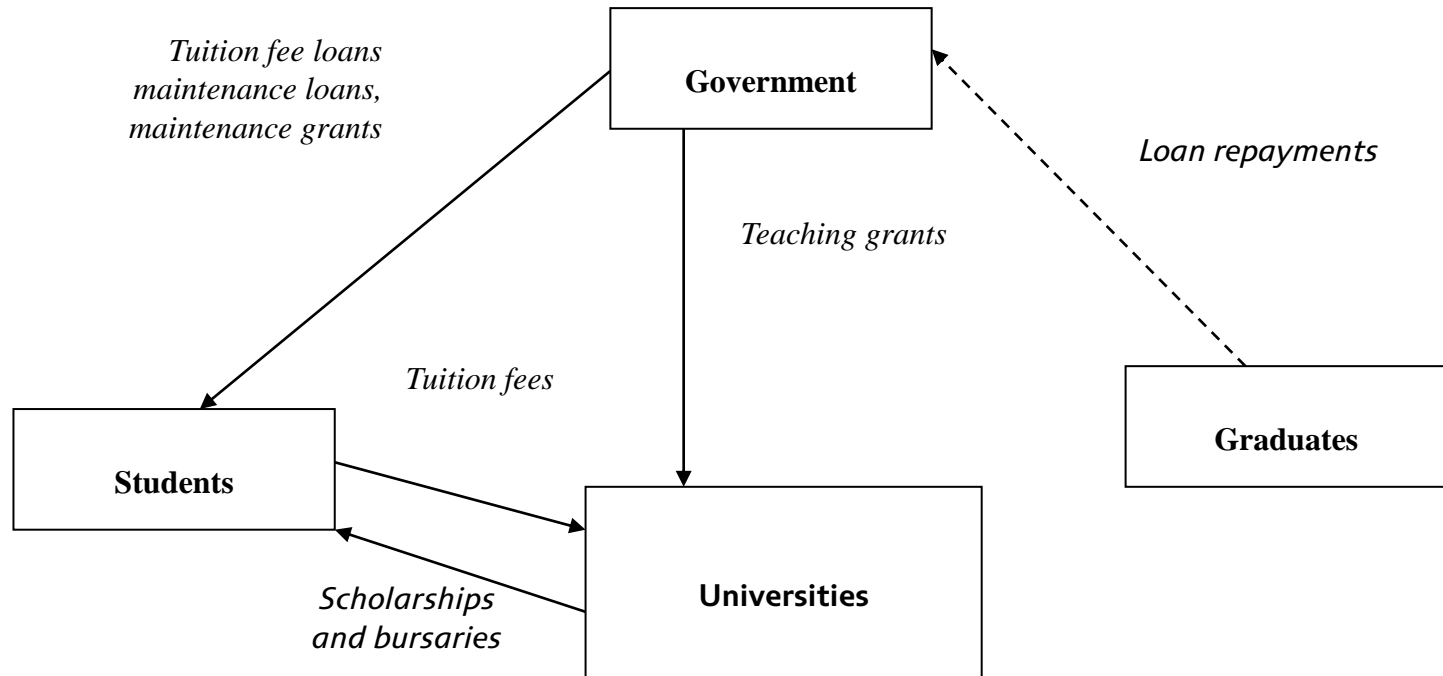
How is HE funded in England?

- Since the late 1990s, those who go to university have been asked to make increasing contributions to the cost of their education
 - Upfront (but means-tested) fees of £1,000/year introduced in 1998
 - Fees rose to £3,000/year in 2006 and were subsequently increased in line with inflation; paid by all students but no longer upfront
 - Maximum fees rose to £9,000/year in 2012 and cap has stayed there since
- At the same time teaching grants paid directly from government to universities have fallen; only clinical and lab-based years funded now

What about student support?

- England is relatively unusual in offering students financial support to help cover living costs as well as tuition fees
- **Grants**
 - Those with family income of up to £25,000/year are entitled to the maximum grant which was expected to reach £3,489 in 2016-17
 - 41% of students receive this, with 16% receiving a partial grant
- **Loans**
 - All students are entitled to borrow some money from the government
 - Students with family income of around £43,000/year can borrow the most – up to £5,912 per year for a student living away outside London
 - Amounts are higher in London; lower for those living at home

England's HE funding system in summary



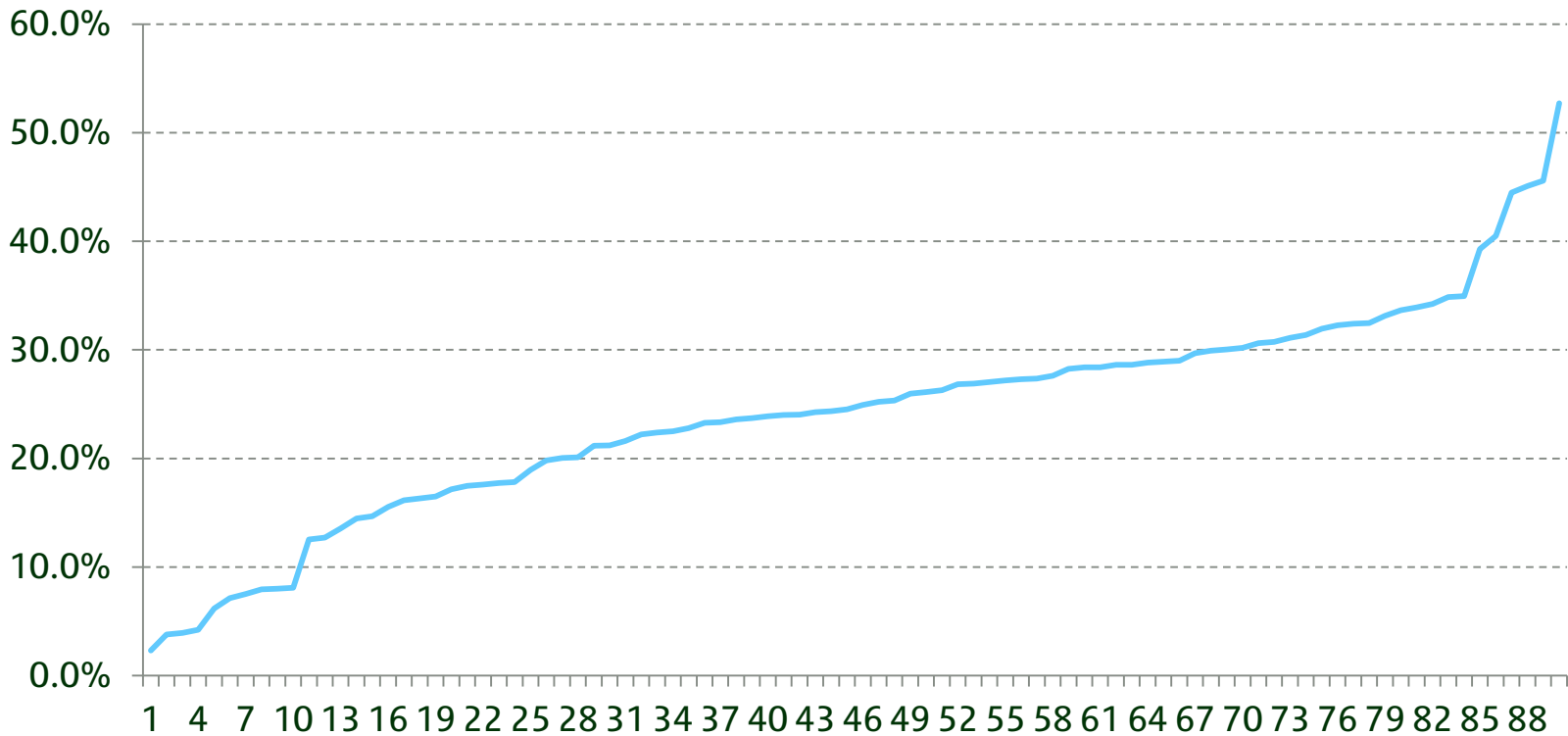
England's 2012 reforms

England's HE funding system: 2011-12 vs. 2012-13

	2011-12	2012-13
Fees	Max £3,375 Deferred via fee loan No exemptions	Max £9,000 Deferred via fee loan Partial fee waivers for poorest students
Maintenance grants	Up to £2,906, plus bursaries	Up to £3,250
Maintenance loans	Up to £4,950	Up to £5,500
Loan repayment	9% of earnings above £15,795 in 2012 (uprated with inflation)	9% of earnings above £21,000 (in 2016) (uprated with earnings)
	Interest rate = RPI + 0%	Interest rate = RPI + 0% rising to RPI + 3% for income of £41,000+
	Debt write off after 25 years	Debt write off after 30 years

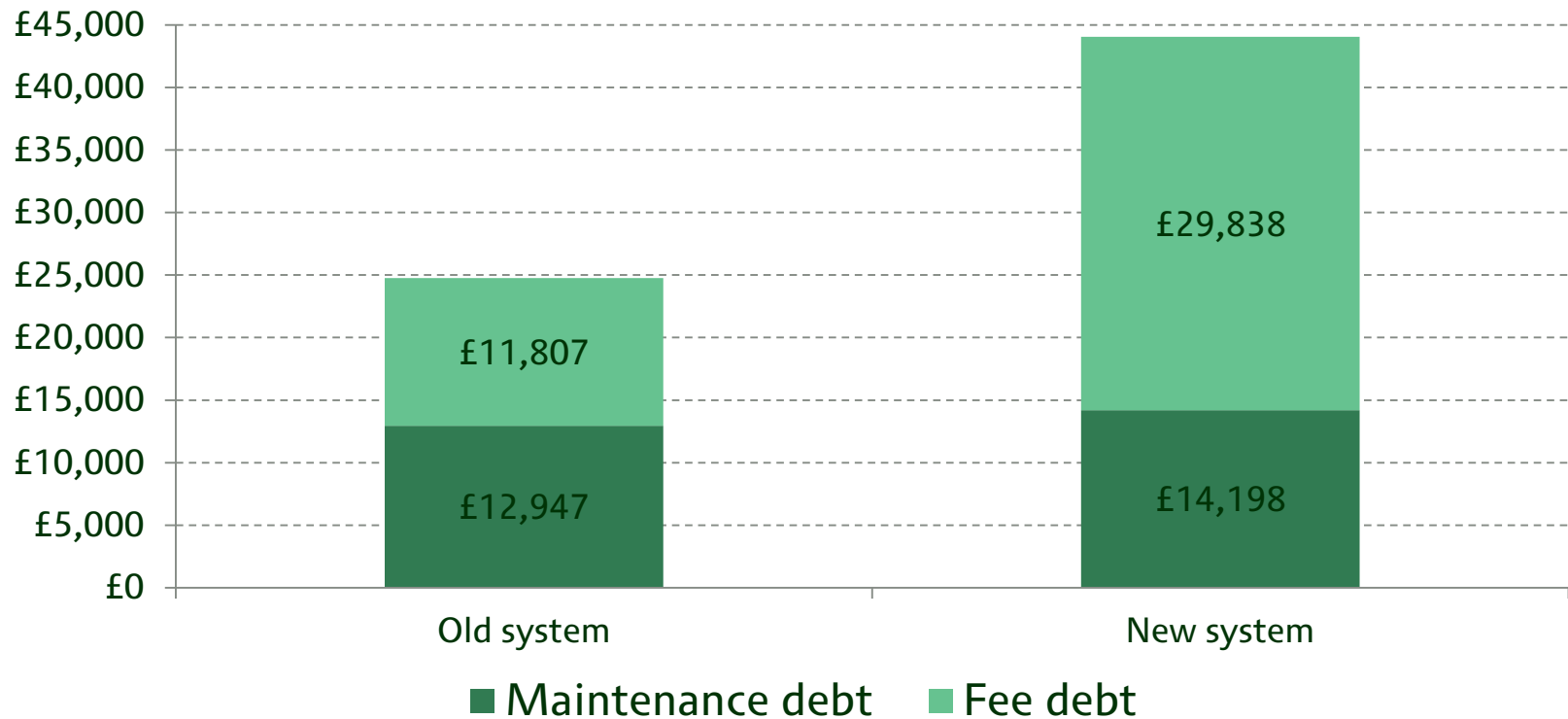
Implications for universities: more funding

Percentage increase in funding per student between 2011 and 2012 for 90 largest universities in England



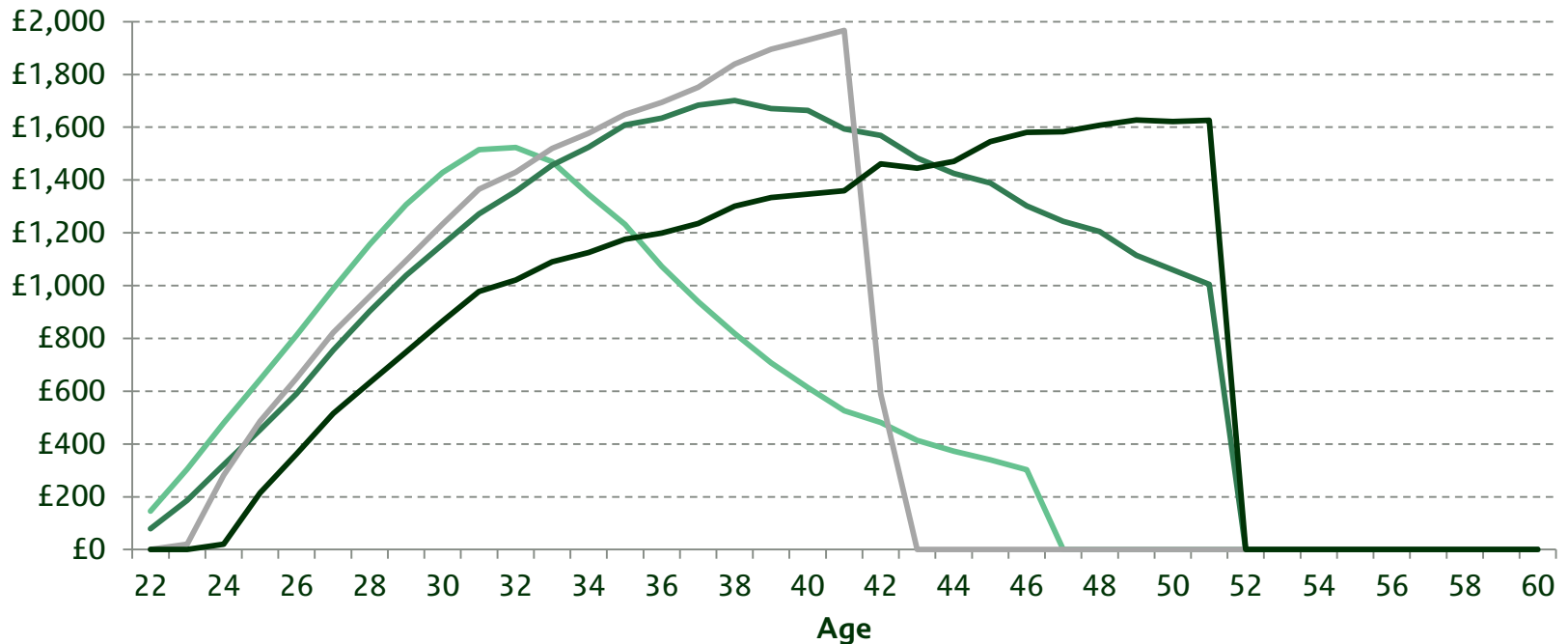
Implications for students: higher debt

Average real student debt at graduation under old (2011-12) and new (2012-13) systems (in 2014 prices)



Implications for graduates: lower annual repayments, but made for longer . . .

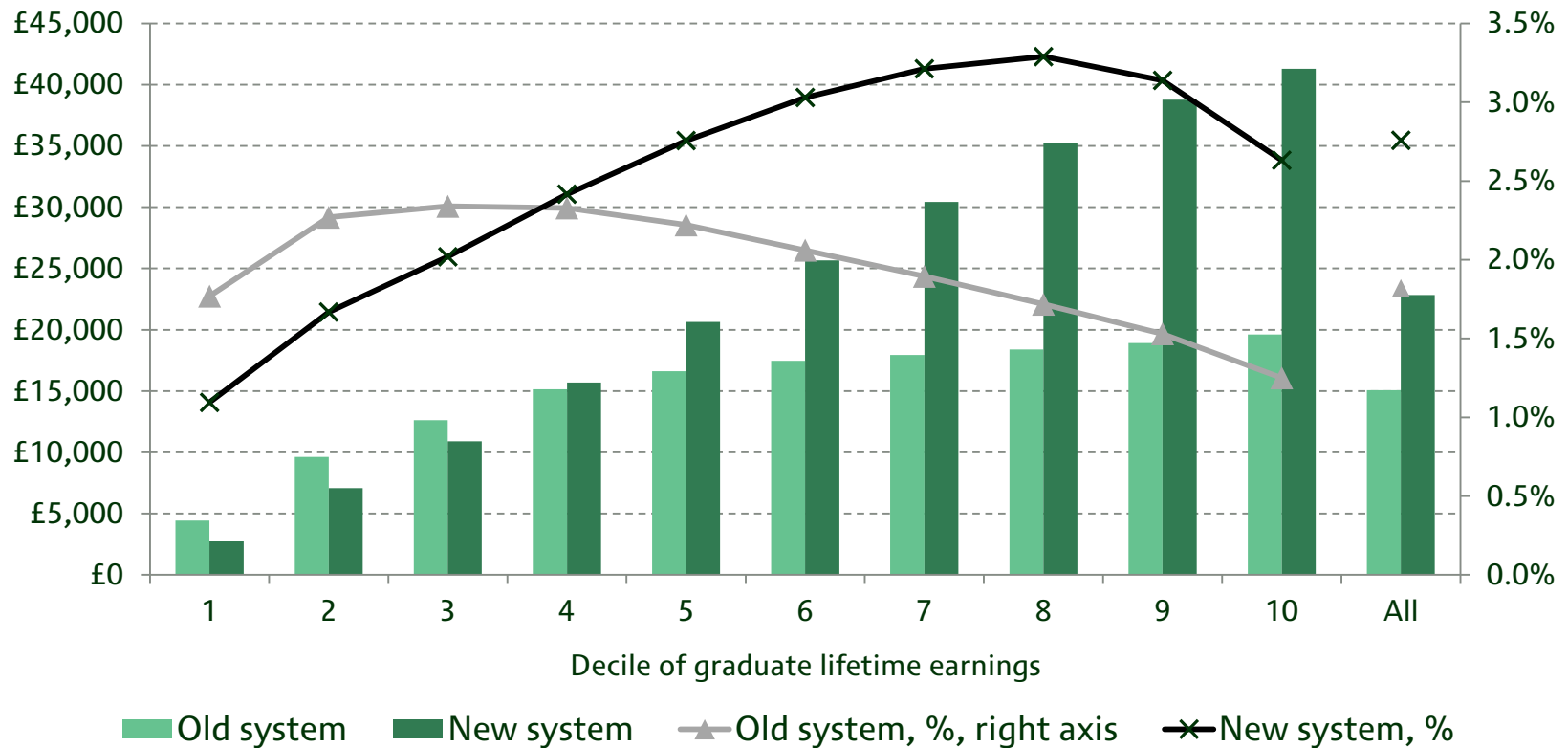
Average real annual repayments over the life cycle (in 2014 prices)



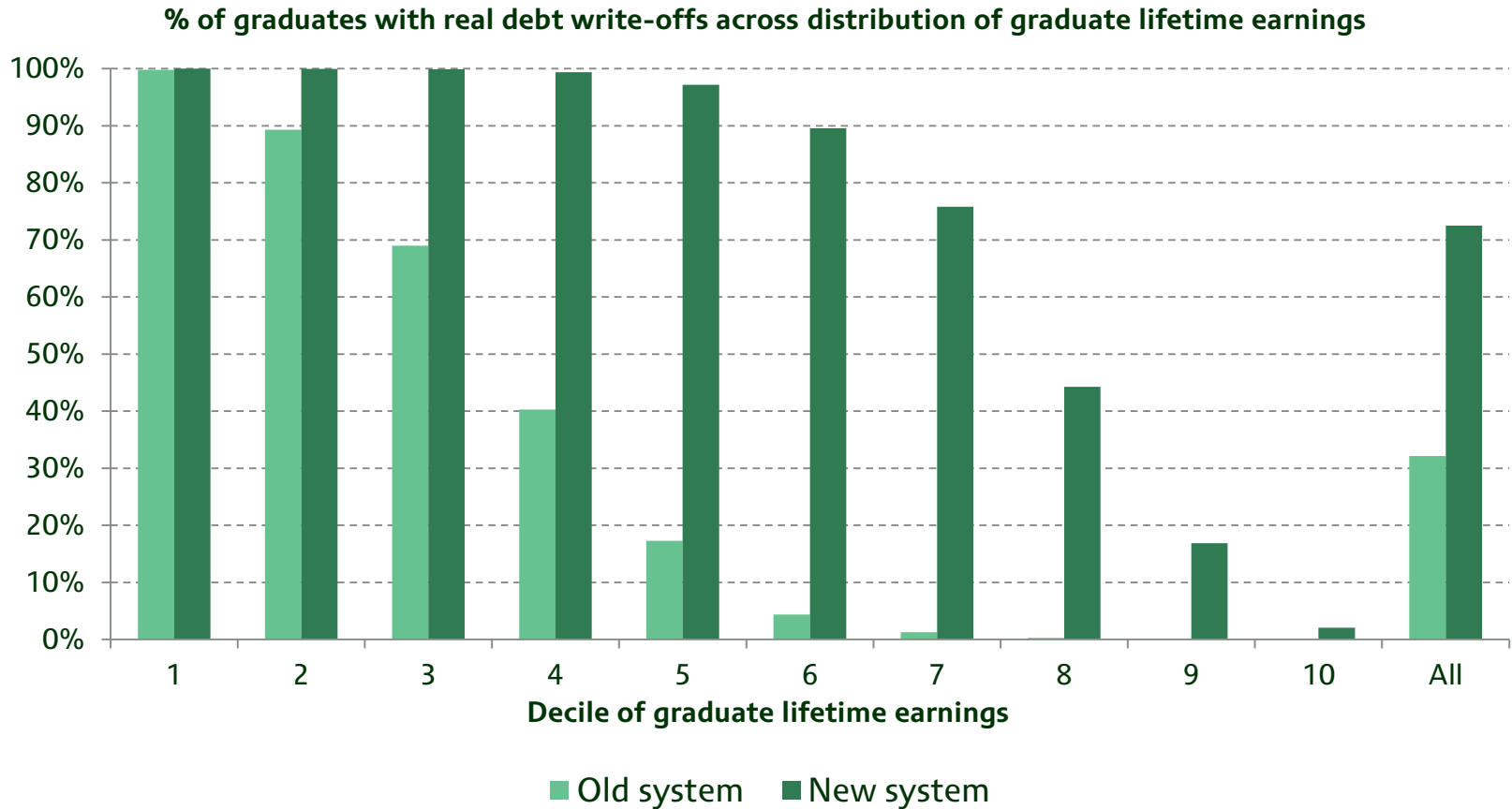
— Old system, mean repayment — New system, mean repayment
— Old system, median graduate — New system, median graduate

... meaning higher total lifetime repayments for most (although not for the poorest)

Net present value of total real repayments and as a share of real NPV lifetime earnings across distribution of graduate lifetime earnings (in discounted 2014 terms)



Most graduates are not expected to repay in full, meaning for many it's like a graduate tax



Implications for the government: better off?

Discounted, 2014 prices	2011-12	2012-13	% change
Total funding per graduate	£40,922	£47,435	16%
Sources of funding			
Taxpayers (% of total)	£25,847 (63%)	£24,592 (52%)	-5%
<i>Of which loan subsidy (%)</i>	<i>£9,094 (37.6%)</i>	<i>£17,443 (43.3%)</i>	<i>92%</i>
Graduates (% of total)	£15,075 (37%)	£22,843 (48%)	52%
Recipients of funding			
Universities	£22,143	£28,250	28%
Students	£18,779	£19,185	2%

Implications for the government: better off?

- An aside on the accounting treatment of grants and loans
 - Grants count towards borrowing (and departmental spending)
 - Loans increase public debt, but only debt interest and any loan write-offs made at the end of the repayment period affect borrowing
- These reforms increased upfront spending on HE, but reduced government borrowing and BIS's departmental spending
- Estimates of future loan write-offs (extent of government subsidy of loan system) accounted for using the “RAB” charge
 - Receives high profile media attention, but is hugely uncertain . . .

Sensitivity of the RAB charge to earnings growth

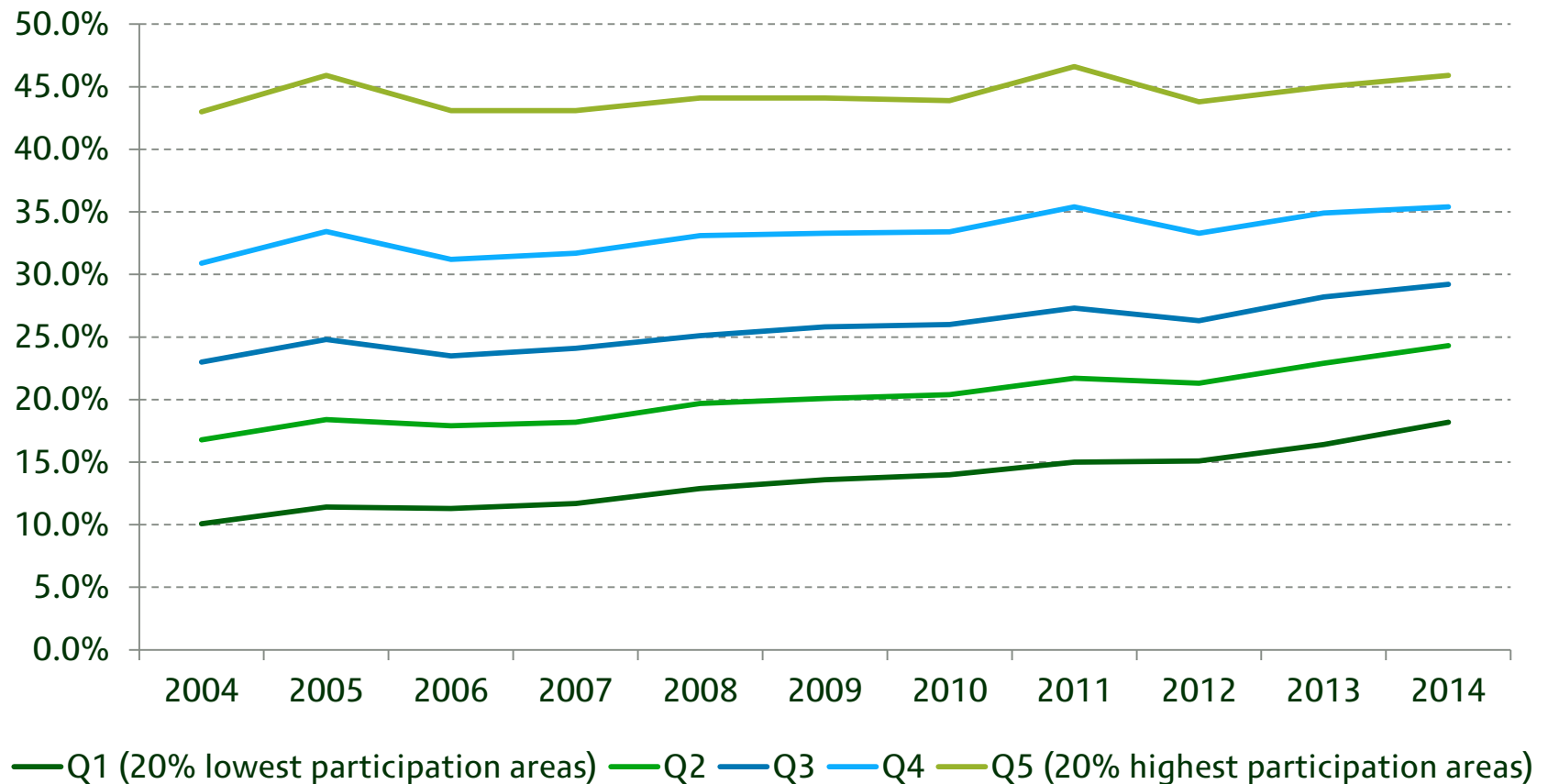
Long-run real earnings growth assumption	Average loan subsidy		Total loan subsidy for intake of 300,000 students
-1% per year	51.6%	£20,806	£6,242m
0% per year	46.8%	£18,859	£5,658m
1% per year	43.7%	£17,596	£5,279m
Baseline (1.1% per year)	43.3%	£17,443	£5,233m
2% per year	40.0%	£16,121	£4,836m
3% per year	36.7%	£14,795	£4,439m

Sensitivity of the RAB charge to discount rate

Assumed government cost of borrowing (discount rate)	Average loan subsidy		Total loan subsidy for intake of 300,000 students
Baseline (2.2%)	43.3%	£17,443	£5,233m
1.1%	30.5%	£12,434	£3,730m
3.5%	55.0%	£21,839	£6,552m

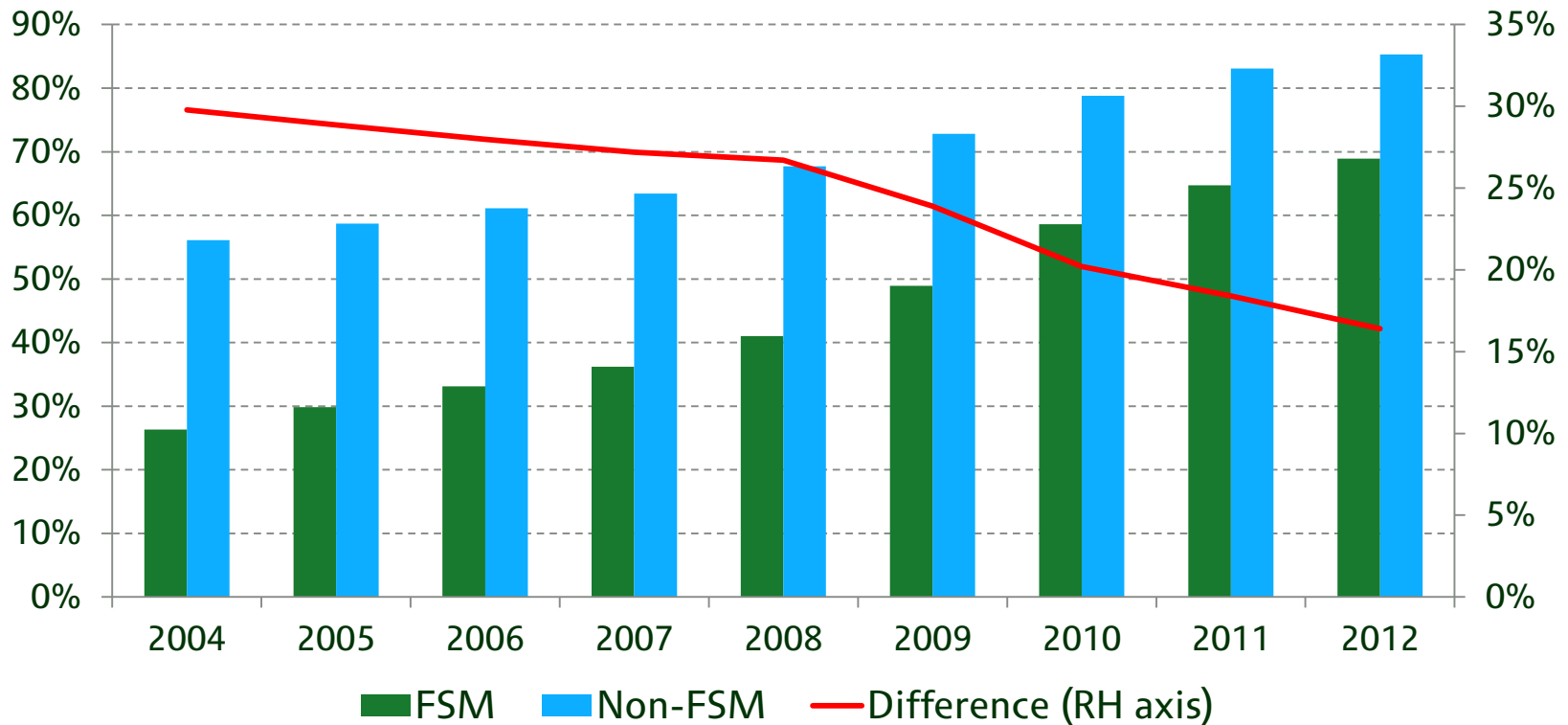
What happened to participation?

Little evidence that full-time participation has fallen, even amongst the poorest potential students



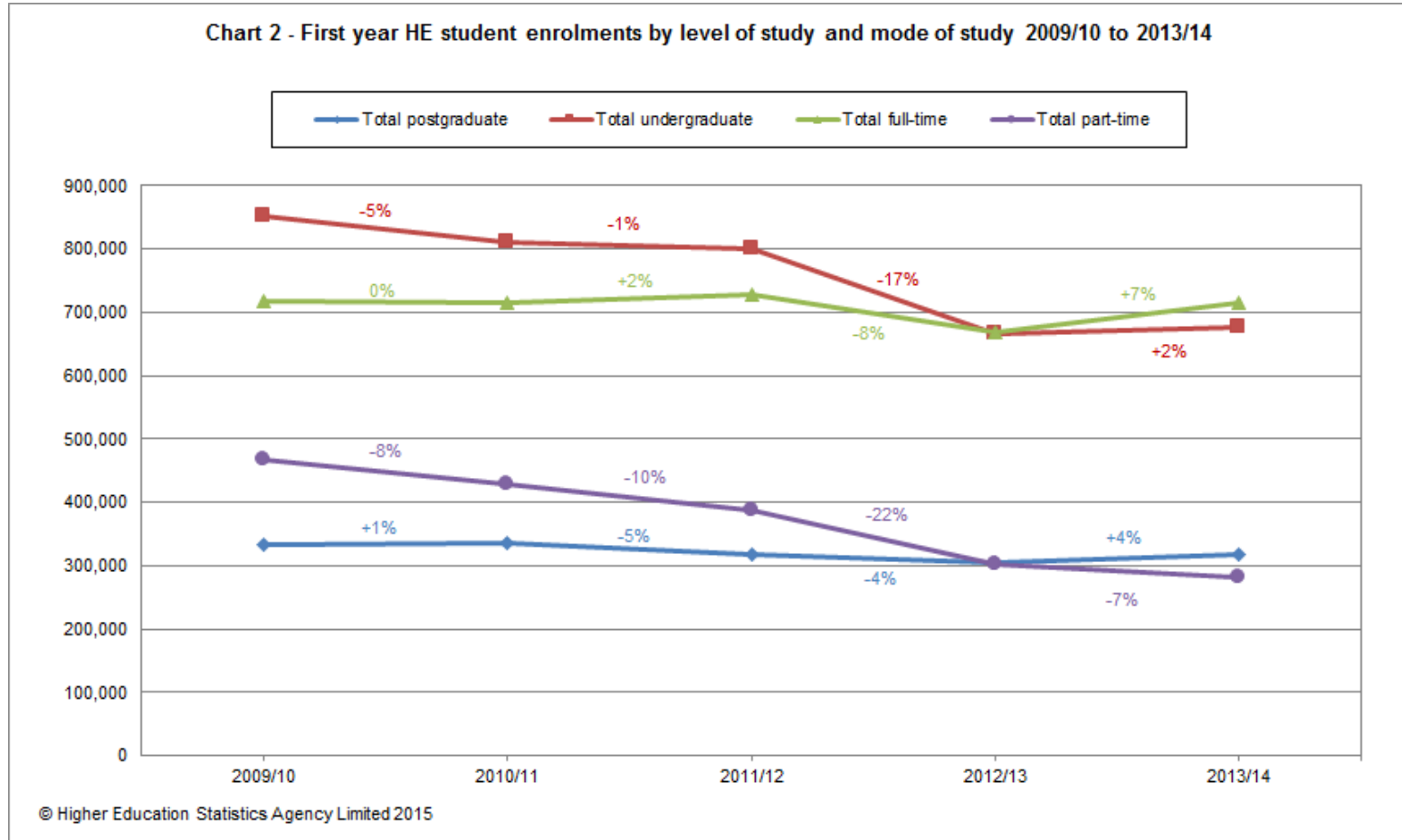
But might the gap have fallen further in the absence of the reform?

% pupils getting 5 A*-C grades in GCSEs and equivalents



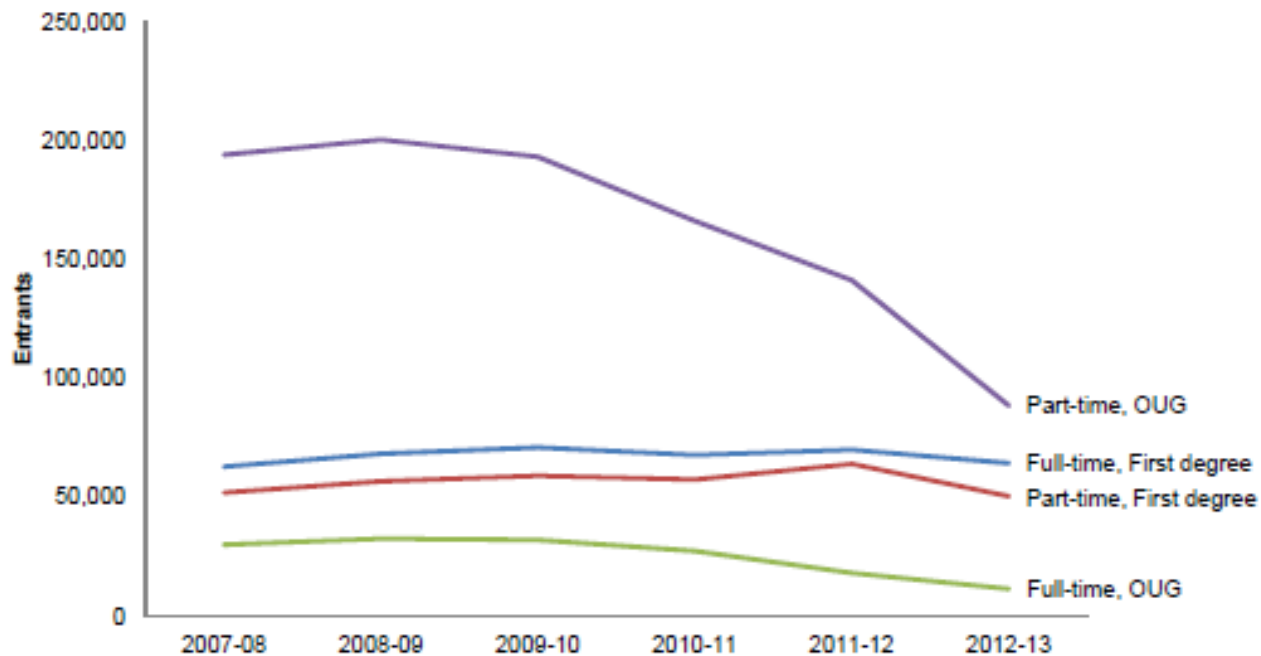
2010-2012 figures based on SFR 04/2013: GCSE and Equivalent Attainment by Pupil Characteristics in England.
2006-2009 figures based on SFR 37/2010: GCSE and Equivalent Attainment by Pupil Characteristics in England.
2004-2005 figures based on authors' calculations using Key Stage 4 and PLASC data.

Part-time participation has fallen substantially



Especially for courses other than first degrees

Figure 10: Trend in UK- and EU-domiciled mature undergraduate entrants to higher education institutions in England by mode of study and qualification type, 2007-08 to 2012-13



Note: OUG refers to other undergraduate courses, those other than first degrees

Source: HESA

What does the future hold?

More students at university?

- Until 2015-16, universities faced limits on the no. of undergraduate students they could recruit . . . but now the cap has been lifted
- Government predicted up to 60,000 more students would enter
- How much this increases the cost of HE depends on how likely the new students are to repay their loans

If the extra students are similar to ...	Average loan subsidy per extra student	Total loan subsidy for extra 60,000 students	Total taxpayer contribution for extra 60,000 students
... the current graduate population	£17,443	£1,047m	£1,476m
... the bottom 25% of graduate lifetime earners	£33,514	£2,011m	£2,455m
... the bottom 50% of graduate lifetime earners	£28,275	£1,697m	£2,126m
... the bottom 75% of graduate lifetime earners	£22,564	£1,354m	£1,780m

More changes to the HE funding system

- Government made several announcements in the July budget
- From 2016-17, maintenance grants for the poorest students will be scrapped and replaced with slightly higher maintenance loans
 - Poorest students will now graduate with the largest debts
 - And pay back more than they would have done under the old system
 - But they will have slightly more “cash in pocket” whilst at university

Implications of switching from grants to loans

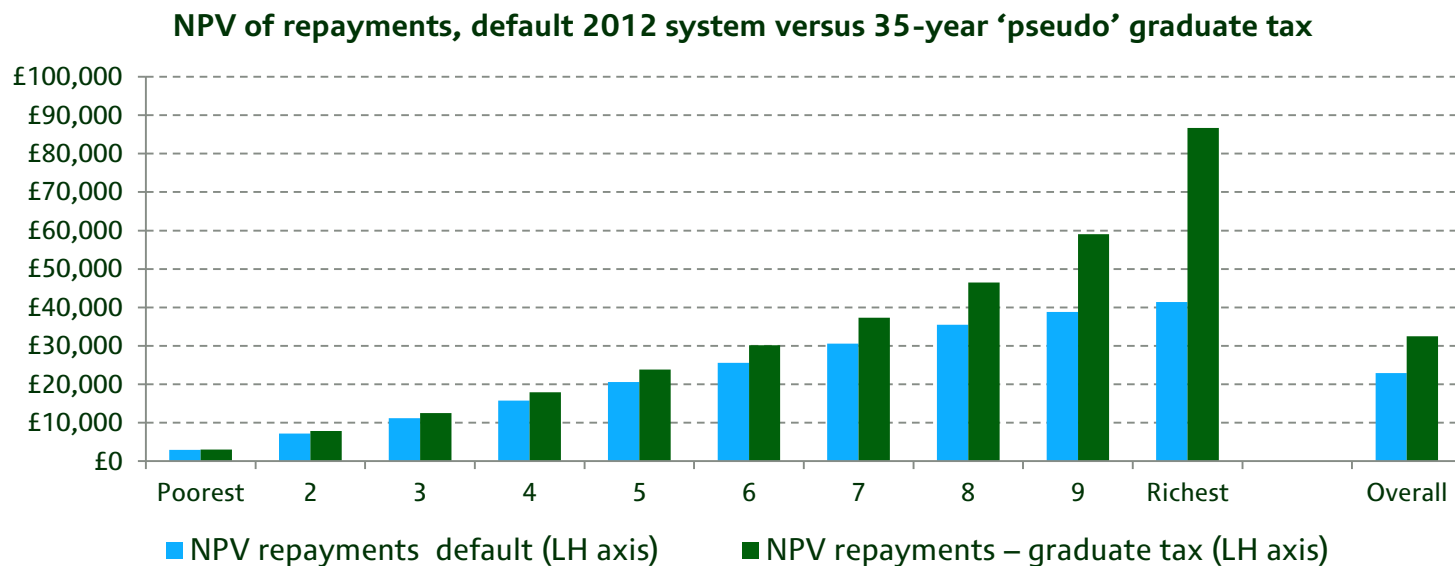
- What implications does this have for government finances?
- Upfront support rises by around £340m per cohort
 - Debt rises but borrowing falls in the short-run
- Whether or not the government saves money in the long-run depends on how much of the new (larger) loans are repaid
 - We estimate they will receive around £600m more in loan repayments, hence saving around £270m (3%) in the long-run

What else might be down the road?

- The government is also consulting on three other proposals:
 - Freezing the threshold above which loan repayments start to be made for five years from 2016
 - Extracts higher repayments from low to middle income graduates
 - Graduate contribution estimated to increase to 62% if implemented
 - Allowing universities with high teaching quality to increase fees in line with inflation from 2017 onwards
 - Higher fees likely to mean higher write-offs (though more resources for universities)
 - Reducing the discount rate attached to student loan repayments in government accounts from RPI+2.2% to RPI+1.1%
 - No change in actual repayments, but means future repayments valued more highly today
 - Affects perception of the value for money of the system only

How similar is the system to a graduate tax?

- With many graduates likely to have some debt being written off, system is similar in many respects to a (hypothecated) graduate tax
- If moved to a system with a minimum repayment period instead, then would extract very high repayments from highest earners
 - Potentially problematic if these individuals can opt out of system



Summary

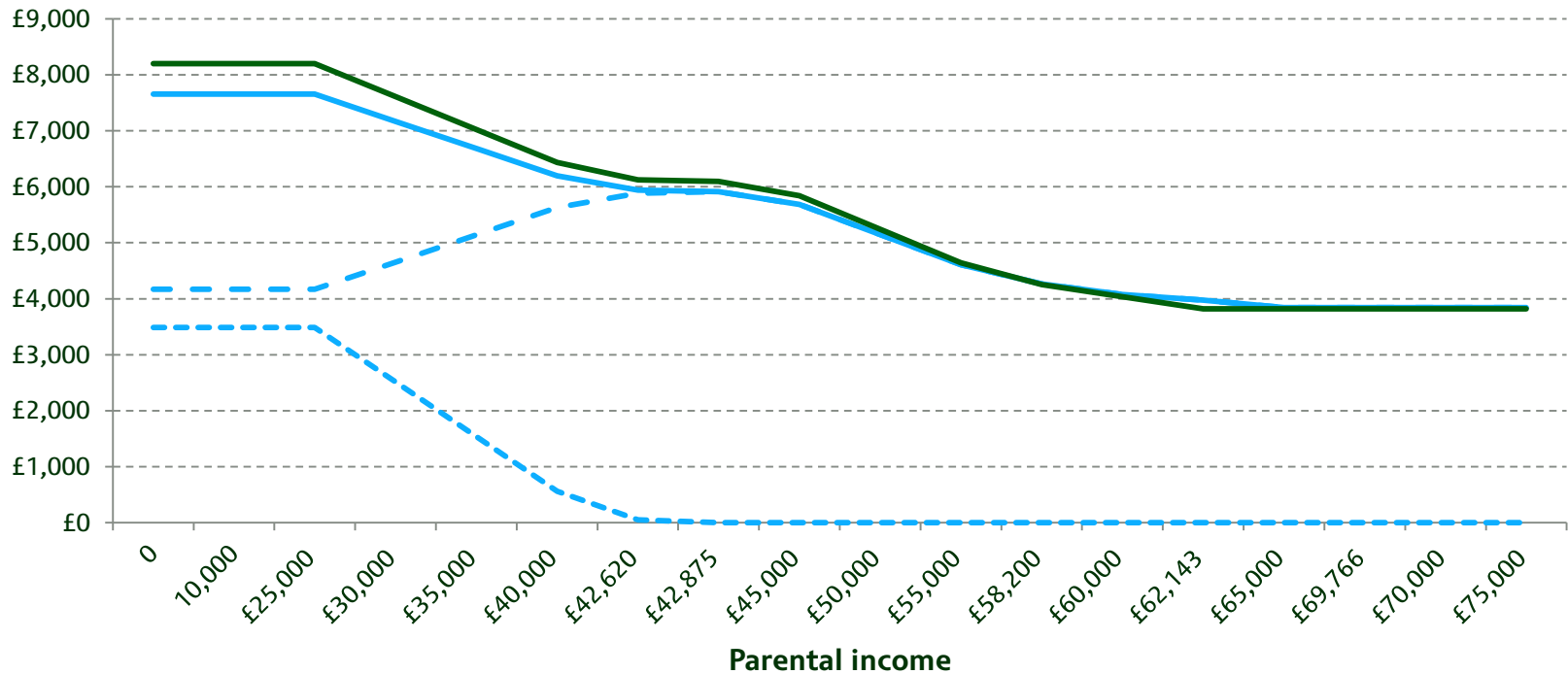
- Direct government subsidy for universities has been reduced, but a substantial indirect subsidy remains via student loan system
- Government contribution to HE (and therefore long-run cost to students/graduates) more uncertain and less transparent
 - Depends on graduate earnings plus any changes to loan repayment terms
- The “RAB” charge has become an unhealthy focus for policy/media
 - Government accused of “getting its sums wrong” when in reality changes to estimated cost of student loans resulted largely from changing graduate earnings forecasts following the recession
- Discourse implies RAB charge should be zero, but that would remove the majority of the government subsidy of undergraduate teaching
- Is that what the government wants? Unclear: no real discussion

Concluding thoughts

- Andreas Schleicher (OECD) regards the English system as “the most scalable and sustainable approach to university finance”
 - Subsidises those with lowest private returns the most, i.e. arguably targets those who might otherwise not continue into HE
- If another government were to consider implementing a similar system, then the potential downsides would be:
 - The system is complicated; makes sensible public discourse difficult
 - Extent of government subsidy uncertain (and not very transparent)
 - There is no incentive for universities to charge less than the fee cap: the government guarantees loans and takes all the risk of non-repayment
 - May potentially damage (part-time) participation

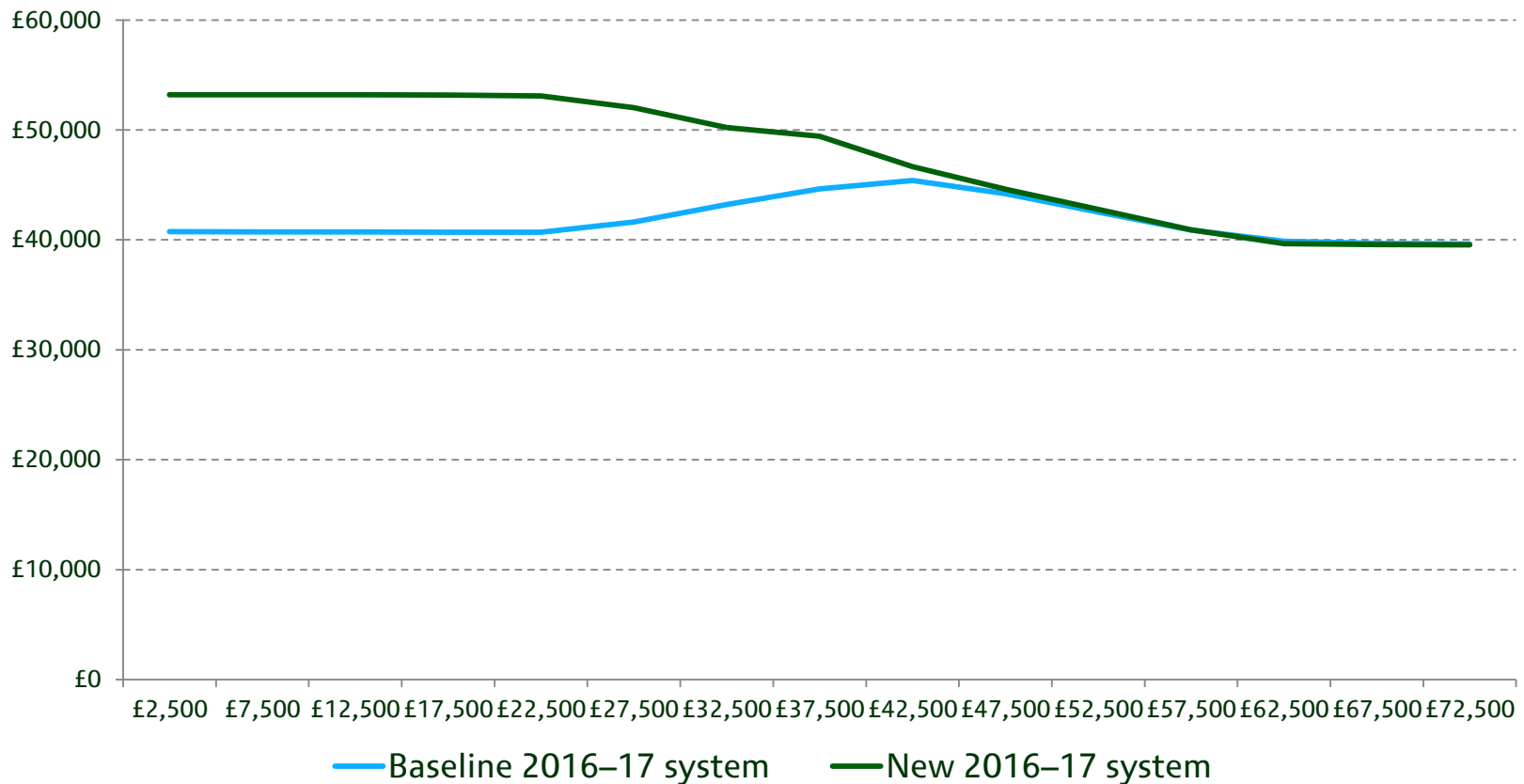
Additional slides

Support per year before and after the reform

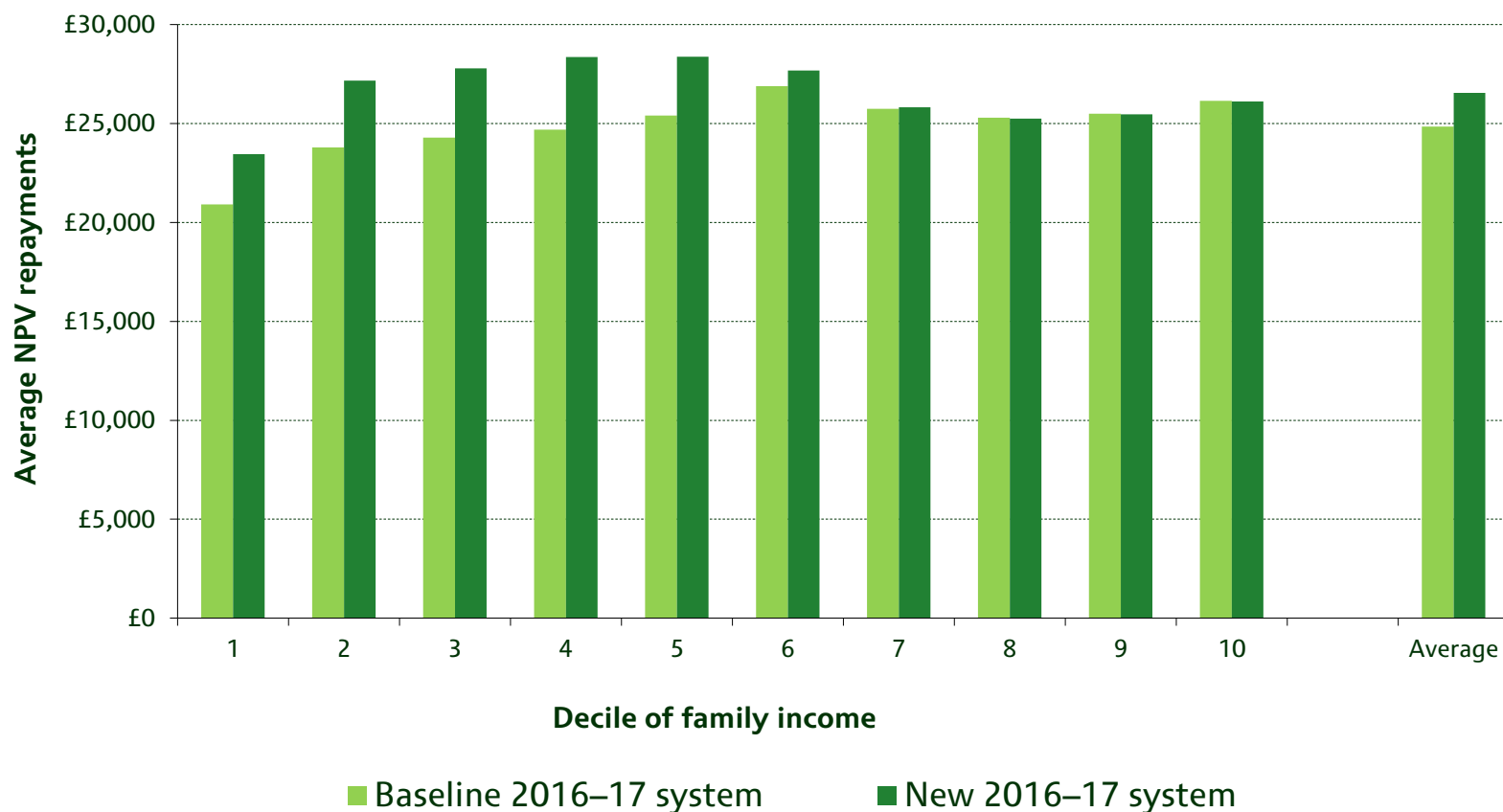


- Loans, baseline 2016-17 system
- Grants, baseline 2016-17 system
- Total support, baseline 2016-17 system
- Total support, new 2016-17 system

Average debt on graduation from a 3 year course



Expected average NPV repayments (2016 money)



Expected average NPV repayments by decile of graduate lifetime earnings (2016 money)

