‘The politics and policy of English Higher Education in 2018: why is another review under way?’

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Overview

- Review & Backdrop
- Loans – for & against
- Review Options
- Interest Rates
- (Accounting for loans)
- Conclusion

"… it is clear that the current post-18 system is not working as well as it could be - for young people or for the country.
The review will ensure that post-18 education is giving everyone a genuine choice between high quality technical, vocational and academic routes, students and taxpayers are getting value for money and employers can access the skilled workforce they need."

DfE press release, February 2018

Review Areas & Terms

- Choice and Competition
- Skills provision
- Accessibility to the tertiary system
- Value for money

Terms:

- Maintain graduate contribution with progressive & income contingent payments
- there will be no cap on students *overall*
- the review can make no recommendations about taxation
- its recommendations must be consistent with the Government's fiscal policies to reduce the deficit and have debt falling as a percentage of GDP.
  - ONS review of student loans in the national accounts
    - Determines impact of policies on deficit – may be more fundamental review

Supplementary Estimates 17/18

May's own announcement in October to increase the repayment threshold on post-2012 loans to £25,000 was very, very expensive:
Estimated at £2billion per cohort
But it also lowers the value of existing loans:

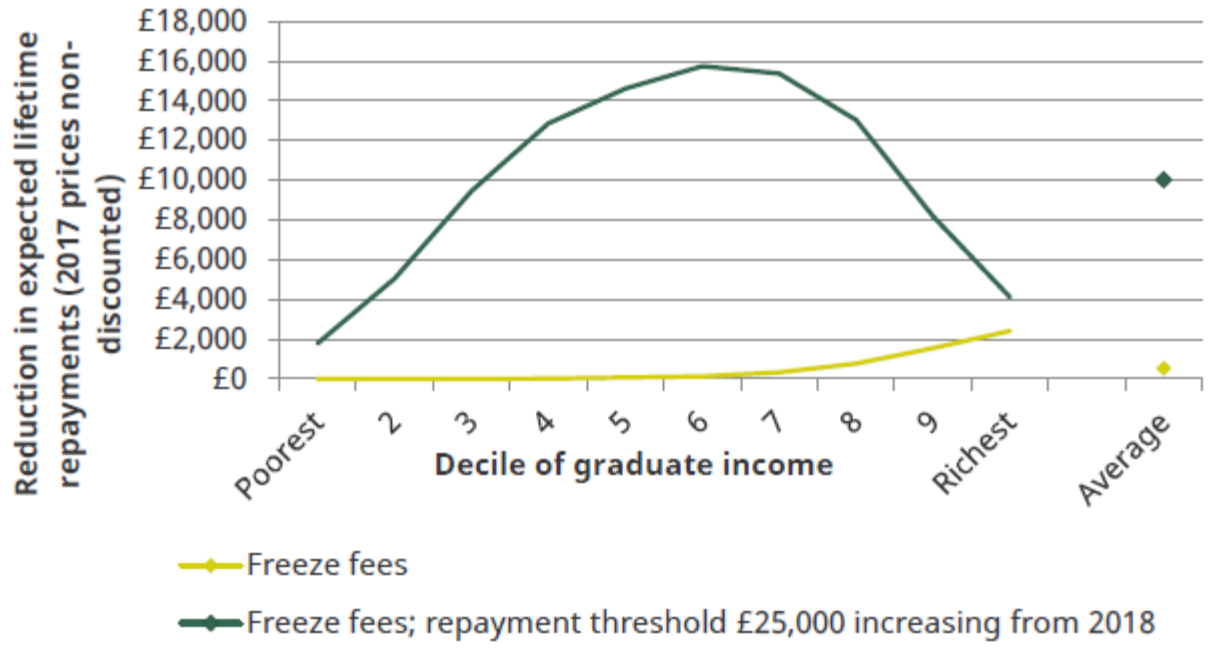
(Section L) The increase is due to the annual revaluation of the student loan impairment budget for the impact of the macro economic factors and policy changes.	14,684,643,000

Increase in Resource Departmental Expenditure Limit (RDEL).
DfE's total RDEL was £74billion in 2016/17.
£5.7bn was the total impairment on post-2012 loans in 2016/17.

DfE's RAB allocation for 2017/18 - £3.8bn

Fair Value of post-2012 loan book at 31 March 2017: £31.6bn

Figure 2b – Impact of reforms on expected average lifetime repayments by decile of graduate lifetime income for 2017–18 cohort (2017 prices, non discounted)



Notes: Figures in 2017 prices, deflated using CPI inflation, not discounted. These figures apply to young full-time English-domiciled students studying at the 90 largest universities in England starting in 2017–We assume that all

IFS, *Higher Education finance reform: Raising the repayment threshold to £25,000 and freezing the fee cap at £9,250*
October 2017

LOANS – FOR & AGAINST

Arguments in favour of current fee-loan regime

- Universities were spared austerity from 2009:
  - Willetts: we increased university funding by £1.5bn while delivering cuts to spending of £3bn
- No more rationing – all caps on undergraduate recruitment lifted in 2015
  - Any Home/EU student with a place at university can take out fee loan
  - "post-political" provision
- New loan support for part-time (maintenance) & postgraduate study (taught & research)
- Private gain to individual – through higher earnings
  - Fairer to use loans than grants
- HE is not universal provision (unlike primary & secondary education)
  - So unfair to ask those who did not, or do not, get to go to university to contribute more to make it free
- Public Subsidy continues in loan non-repayment (c. 45p per £1 lent)
  - Subsidy to individual replaces direct grant to university

Arguments against Graduate Tax

- Concurrency – repaying Maintenance Loan & paying Graduate Tax
  - Higher burden on recent graduates
- Who is a graduate?
  - Non-completion
  - Sub-degrees (foundation, HNC, HND, Cert HE etc.)
  - Part-time
- Cannot collect outside of UK tax jurisdiction
- Overpayment – ICR loan has mechanism for contributions to stop
  - Drive some students out of UK HE?
- Accounting problems (deficit)
  - Tax payments are income, but Outlay is current Expenditure
- Universities keep fees – independence of income
- No price competition & no link between price and quality
- Cannot *sell* right to graduate tax contributions – no tax farming

For more see
Russell Group, "Objections to a Graduate Tax", 20 September 2010
http://russellgroup.ac.uk/news/objections-to-a-graduate-tax/

"No other country has a graduate tax."

REVIEW OPTIONS

Review is circumscribed:

- By cost of threshold rise
- And cross-party and cross-sector consensus:
  - Maintenance support needs to be reviewed
    - Restoration of maintenance grants
  - Interest rate on student loans needs to be reduced - “punitive” according to ex-Secretary of State for Education Justine Greening
  - Both of these measures are more costly & unlike threshold rise impact directly on the deficit
- What options for saving are being looked at?

Philip Hammond

"As far as I am aware, there are no alarm bells at the moment telling me that we should review value for money from a policy perspective. There is clearly another aspect, which is value for money to the individual, and the situation the individual finds themselves in. There is a significant difference between a graduate who leaves university with a significant level of debt and a well-recognised degree in an area known to provide strong employment opportunities and, on the other hand, a graduate who has a similar level of debt but may not have a degree that will enhance his or her employment opportunities in the same way.

"We have a responsibility to look at the way the system is working in practice. It is probably fair to say that the original expectation was that there would be a bigger range of outcomes in relation to fees charged than has actually turned out to be the case."

Speaking before Economic Affairs Committee, September 2017

Hammond at EAC (cont.)

"It is a matter of concern, which several vice-chancellors have drawn to my attention, that universities incur significantly higher costs in teaching some subjects compared with others, and the funding system does not reflect those higher costs in a way that necessarily incentivises universities to focus on increasing their STEM teaching. Indeed, some have argued that there is a perverse incentive in the system, in that they can generate surpluses in relation to some of the humanities subjects that are cheaper to teach."

Damian Hinds, Review Press Release

"… with a system where almost all institutions are charging the same price for courses – when some clearly cost more than others and some have higher returns to the student than others – it is right that we ask questions about choice and value for money. We also need to look at the balance between academic study and technical education to ensure there is genuine choice for young people and that we are giving employers access to a highly skilled workforce."

2011/12 Indicative Resourcing by Subject

Table 2.1 Comparative funding for full-time undergraduate study per student

Indicative Subjects	Band	Typical Grant 2011/12	Plus £3,375 fee	Grant 2012/13	Including Maximum Fees (£9,000)	Including Target fee (£7,500)
Clinical Medicine & Clinical dentistry, Veterinary Science	A	£14,601	£17,976	£10,000	£19,000	n/a
Laboratory-based subjects (Science, Pre-Clinical Medicine) Engineering & Technology	B	£5,484	£8,859	£1,500	£10,500	£9,000
Intensive teaching, studio or fieldwork, inc. Art, Design & Mathematics	C	£3,898	£7,273	None	£9,000	£7,500
Arts & Humanities Law & Business	D	£2,709	£6,084	None	£9,000	£7,500

Source: Hefce, 2012 (www.hefce.ac.uk/learning/funding/201213/faq.htm#q4)

Taken from McGettigan, *The Great University Gamble*, p. 27

National Audit Office
The higher education market
December 2017
p. 37
based on HEFCE (2012)

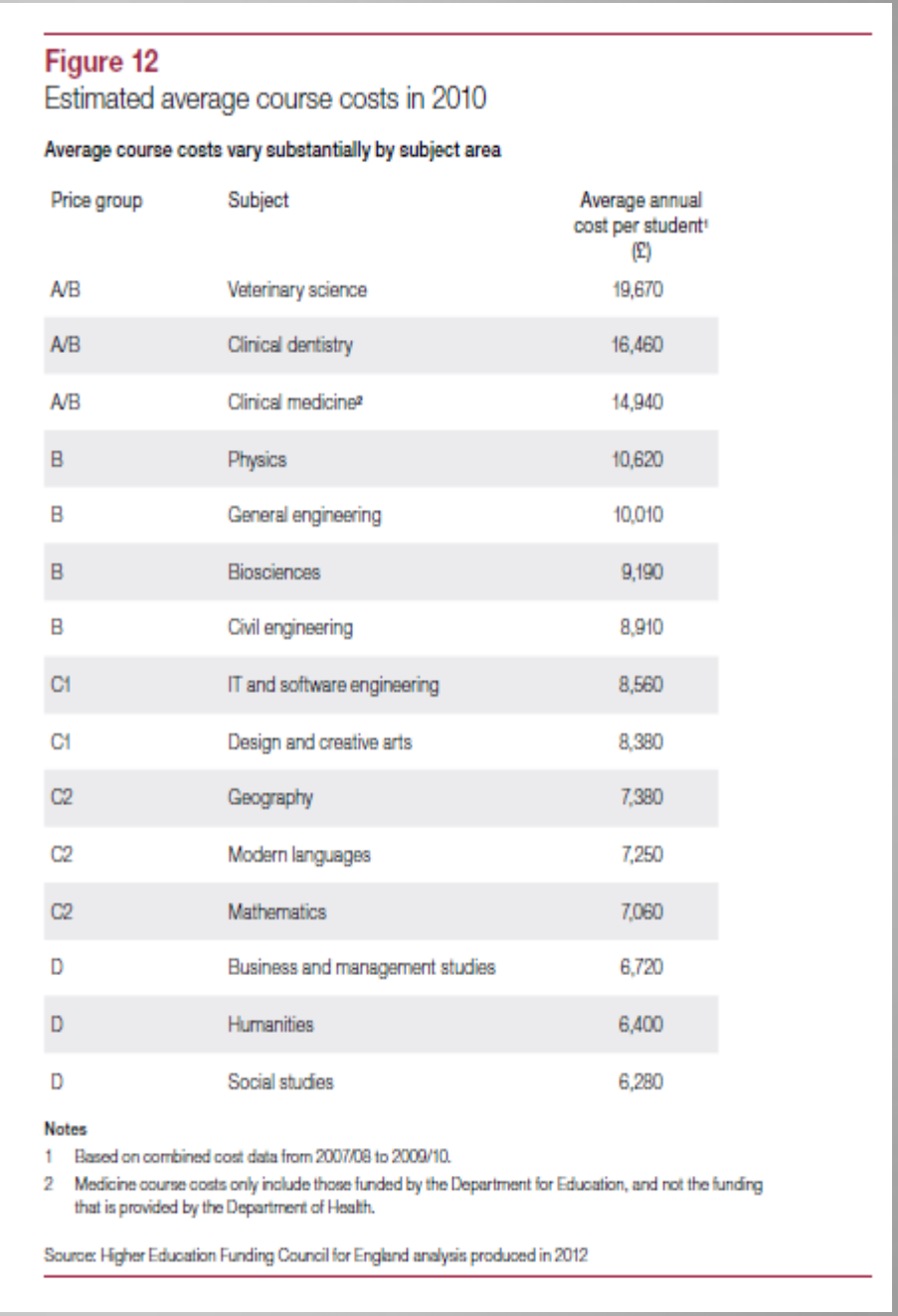


Figure 12
Estimated average course costs in 2010

Average course costs vary substantially by subject area

Price group	Subject	Average annual cost per student[1] (£)
A/B	Veterinary science	19,670
A/B	Clinical dentistry	16,460
A/B	Clinical medicine[2]	14,940
B	Physics	10,620
B	General engineering	10,010
B	Biosciences	9,190
B	Civil engineering	8,910
C1	IT and software engineering	8,560
C1	Design and creative arts	8,380
C2	Geography	7,380
C2	Modern languages	7,250
C2	Mathematics	7,060
D	Business and management studies	6,720
D	Humanities	6,400
D	Social studies	6,280

Notes

1 Based on combined cost data from 2007/08 to 2009/10.

2 Medicine course costs only include those funded by the Department for Education, and not the funding that is provided by the Department of Health.

Source: Higher Education Funding Council for England analysis produced in 2012

NAO on cost-based responses

§3.30 Providers reported that teaching grants for high-cost courses do not cover additional costs, creating incentives to prioritise lower-cost subjects. We found examples of providers opening or expanding cheaper classroom-based courses to strengthen their overall financial position.
Our analysis of applications and acceptances between 2011 and 2016 also found that the cheaper a course is to run, the more likely a provider is to maintain offer numbers in the face of declining applications, or to expand student numbers in response to more applications.

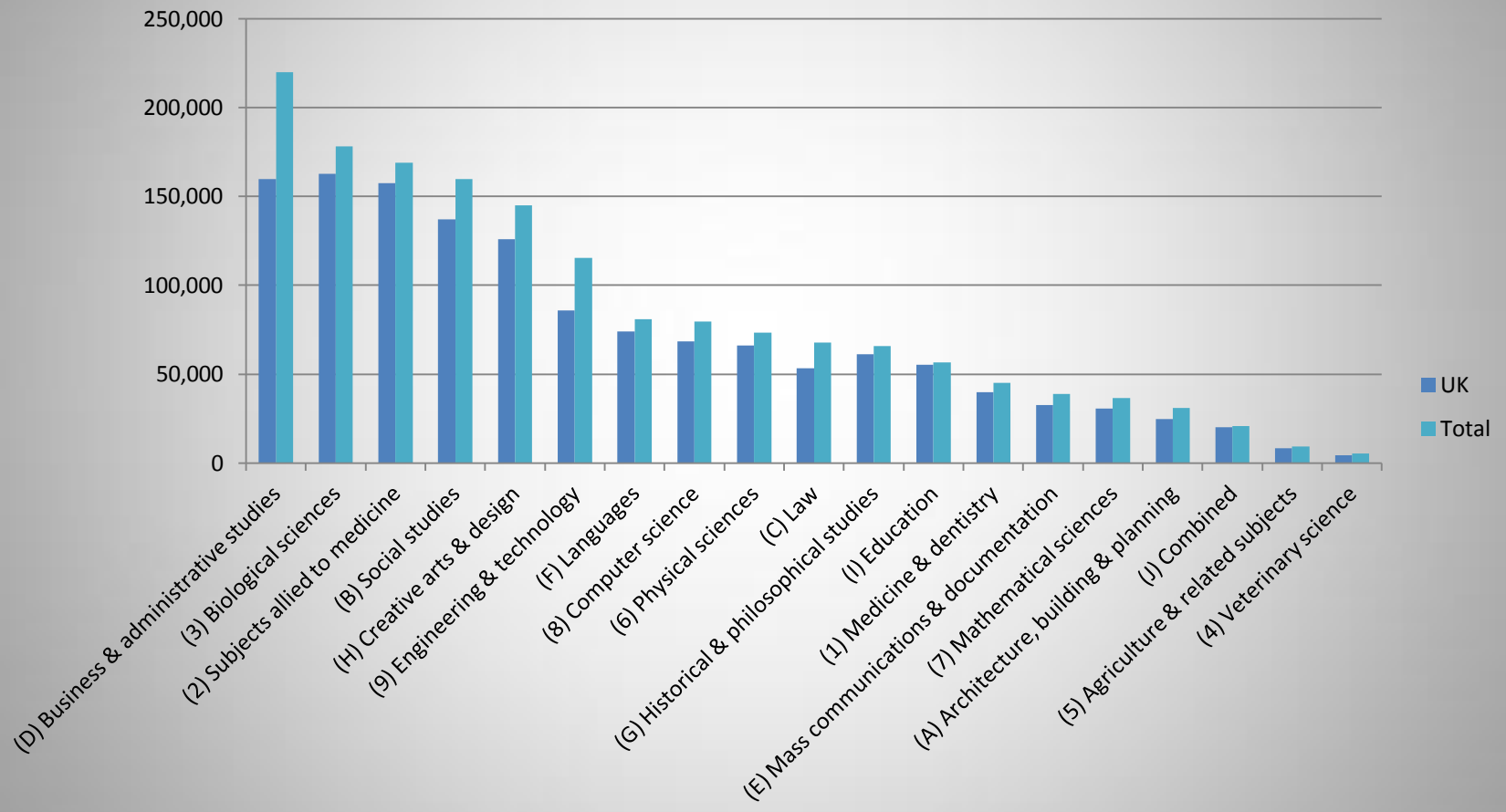
Cross-subsidy & differential fees

- Higher subsidy for high-cost STEM courses?
  - Political optics: additional subsidy is not transparent
  - Again, *more* expense
- Lower tuition fee or tuition fee *loan* for low-cost courses?
  - Hard to square with LSE and Oxbridge
  - Does save on loan outlay, but accounting means savings not seen in deficit for 30+ years
- Creative Arts – particular problem:
  - higher cost (Band C1) but low graduate earnings profiles
- Differentiation by institution …
  - Would need something stronger than “Oxbridge” or “Russell Group”
  - TEF is not fit for this purpose
  - Graduate earnings reflect prior attainment & family wealth
    - even ten years after graduation according to IFS research

Justine Greening on cost-based "solution"

"Universities could be funded for the actual costs of delivering the course rather than the present flat £9k fee. The Higher Education Teaching Grant already bands different degrees on costings, recognising that some, such as STEM degrees, require extra money to cover higher costs. Universities themselves cross-subsidise from lower cost degrees to higher cost degrees. The taxpayer has no sight of this. Instead, doing this at the national level with a banding system (similar to the teaching grant system which already exists for the Teaching Grant to top up STEM degree costs) would also give taxpayers a better driver for ensuring value for money of the same sort of course at different universities and also in relation to the differing career and earning outcomes for graduates."
Blog "Higher Education Options", Sunday, 18 February, 2018

Undergraduate students in English universities



HESA, 2016/17

2010 Browne Review recommendation

"Entitlement to Student Finance will be determined by a minimum entry standard, based on aptitude. This will ensure that the system is responding to demand from those who are qualified to benefit from higher education.

"All students who meet the standard will have an entitlement to Student Finance and can take that entitlement to any institution that decides to offer them a place. Institutions will face no restrictions from the Government on how many students they can admit. This will allow relevant institutions to grow; and others will need to raise their game to respond.

"Rather than create a new test of aptitude, our proposal builds on the UCAS tariff admissions system, which is currently used by around 70% of full time undergraduate students. … The minimum tariff entry standard will be set every year by Government shortly after the UCAS deadline for receiving applications."

Securing a Sustainable Future for Higher Education, p. 33

Written by Michael Barber, who has just been appointed as Chair of the Office for Students (to be created by HER Bill)

Sector opposition

Mission and sector group submissions to Augar review published last week.

Russell Group: "… the current system has benefitted students, taxpayers and the Government in important ways. It has helped to widen access to higher education – including for the most disadvantaged - and is starting to place university funding on a sustainable footing."

- Calls for more flexible funding scheme to address part-time
- Concerted opposition to differential fees:
  - "Debt averse students likely to choose cheaper."
- Deliberate refusal to suggest or entertain cost-saving ideas:
  - million plus: "Any reductions in fee income need to be mitigated by direct grant from government to ensure that investment in the student experience can be maintained."
- Sector keen to downplay cross-subsidy between courses:
  - No overall cross-subsidy from teaching to other activities

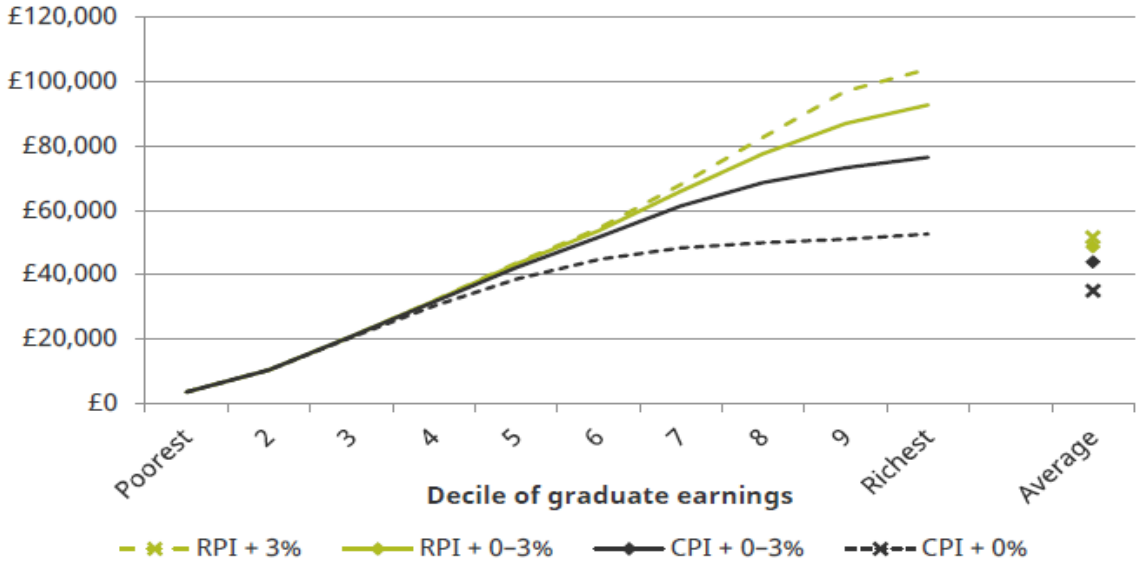
Conclusion

- Theresa May jumped the gun by announcing a very expensive measure in October *before review*
- Politically compelling moves to address maintenance support & interest rates are also expensive measures
- Scope for cost-saving looks limited & little near-term impact on “deficit”
  - Political optics would suggest reducing tuition fee or tuition fee loan

INTEREST RATES

Reducing interest benefits higher earners

Figure 3.8. Impact of interest rates on real graduate repayments by lifetime earnings decile (2017 prices, not discounted)



Note: Average graduate repayments under the current interest rate regime of RPI + 3% while studying and RPI + 0–3% depending on income thereafter; with the same tapered interest rate but using CPI + 0–3% after graduation; with a flat rate of RPI + 3% for all graduates; and with a flat rate of CPI + 0% interest. Figures in 2017 prices, deflated using CPI inflation, not discounted. These figures apply to young full-time English-domiciled students studying at the 90 largest universities in England starting in 2017–18. Cohort of students is held constant across systems. We assume that all students take out the full loans to which they are entitled, that there is no dropout from university, that graduates repay according to the repayment schedule and that they have low unearned income.

Source: Authors' calculations using IFS's graduate repayments model.

IFS, *Higher Education funding in England: past, present and options for the future*, July 2017.

How the interest rate helped mimic a proportionate graduate tax

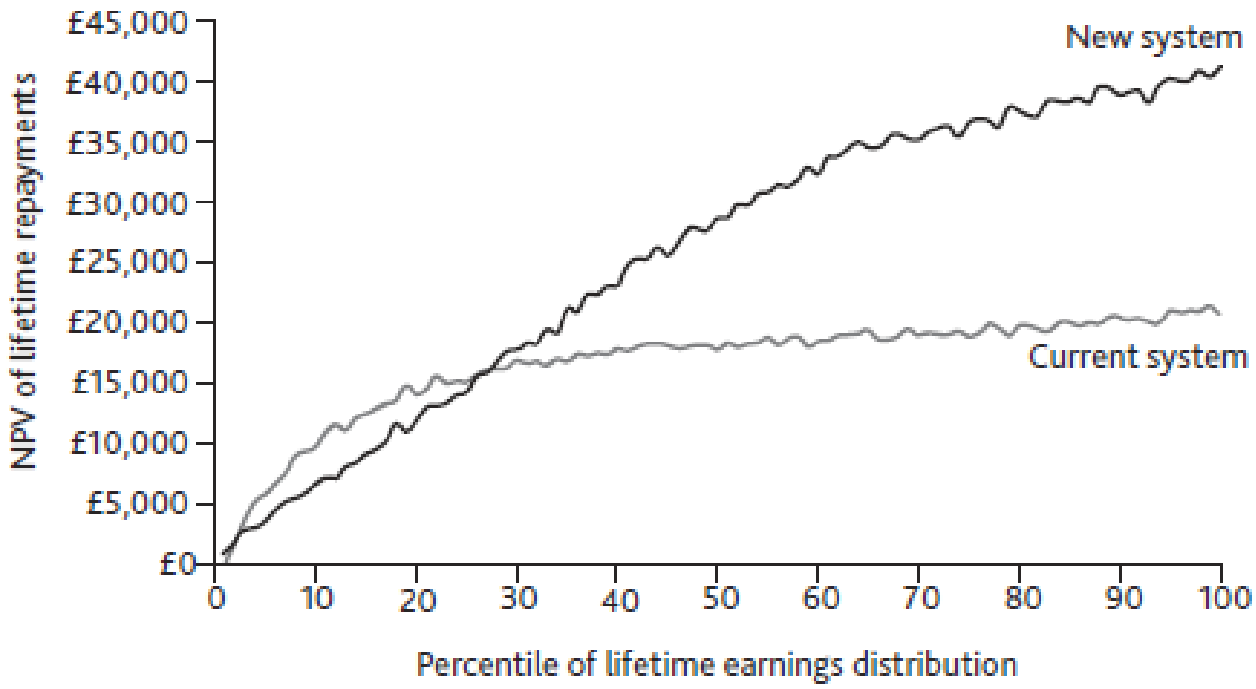


Figure 3.3 Repayments under the old and new schemes

Source: IFS, July 2012

New System" - post-2012 loans

"Current System" - pre-2012 loans

Very little “overpayment” / redistribution in original 2012 design

Table 3.1 Projected graduate repayments by lifetime earnings

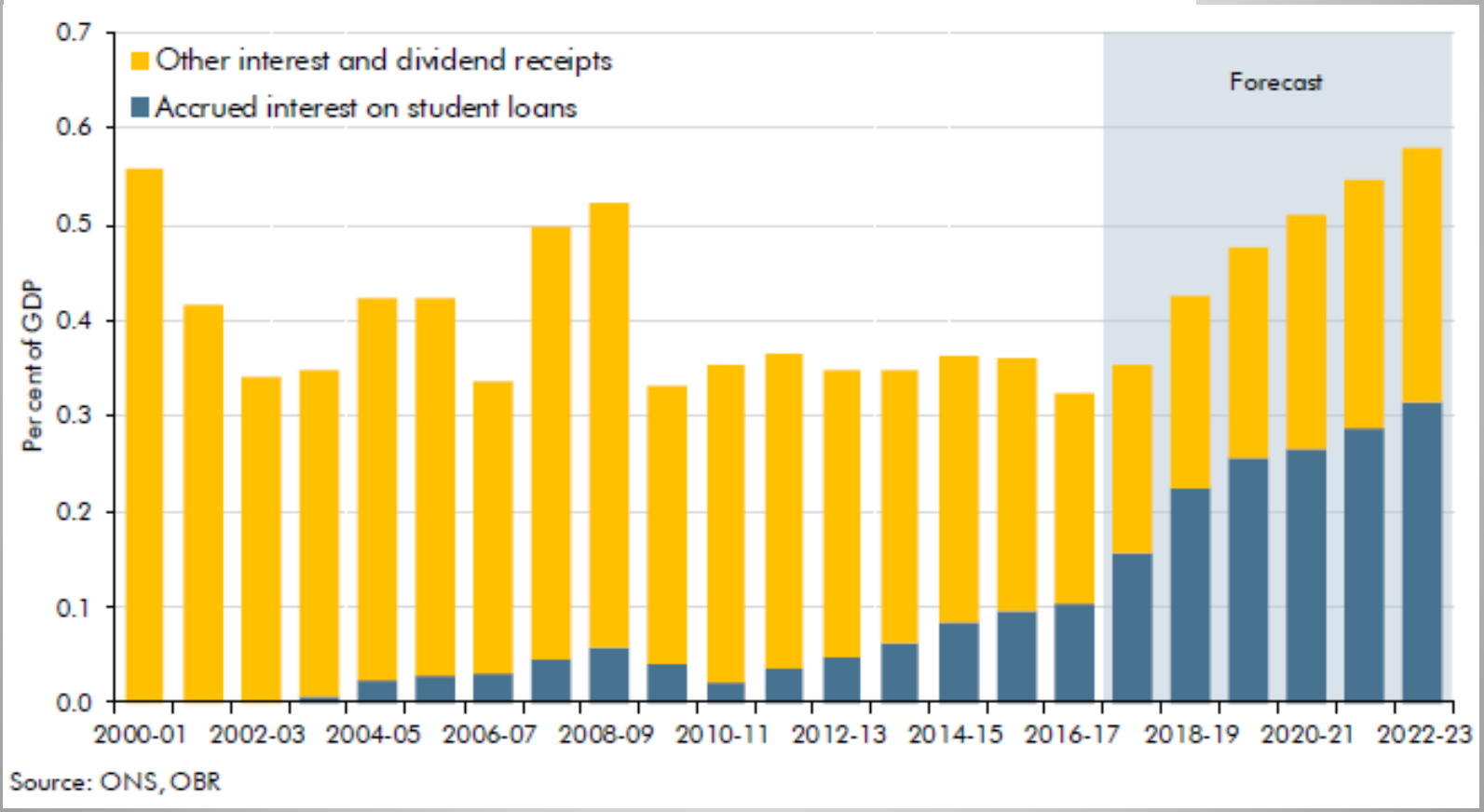
Decile of lifetime earnings	Total Repayments (Net Present Value)			Total Repayments as percentage of borrowing (NPV)		
	All	Women	Men	All	Women	Men
Poorest	£4,064	£3,920	£5,764	11.1%	10.7%	15.9%
2	£9,534	£9,155	£11,352	25.9%	24.9%	30.9%
3	£15,244	£14,481	£17,550	41.6%	39.4%	48.3%
4	£20,939	£19,994	£22,805	56.8%	54.2%	61.9%
5	£26,724	£25,833	£28,054	72.2%	69.9%	75.7%
6	£31,155	£30,418	£31,935	83.9%	82.0%	86.0%
7	£34,933	£34,978	£34,901	93.4%	92.9%	93.8%
8	£36,858	£37,166	£36,712	98.4%	98.9%	98.1%
9	£38,702	£38,815	£38,664	102.0%	102.3%	101.9%
Richest	£40,374	£40,560	£40,345	106.3%	106.5%	106.3%
All	£25,852	£20,032	£32,690	69.2%	53.8%	87.2%

Source: IFS, 2012

ACCOUNTING

Accrued Interest on Student Loans

Chart 4.5: Interest and dividend receipts: student loans versus other sources



OBR, *Economic & Fiscal Outlook* March 2018

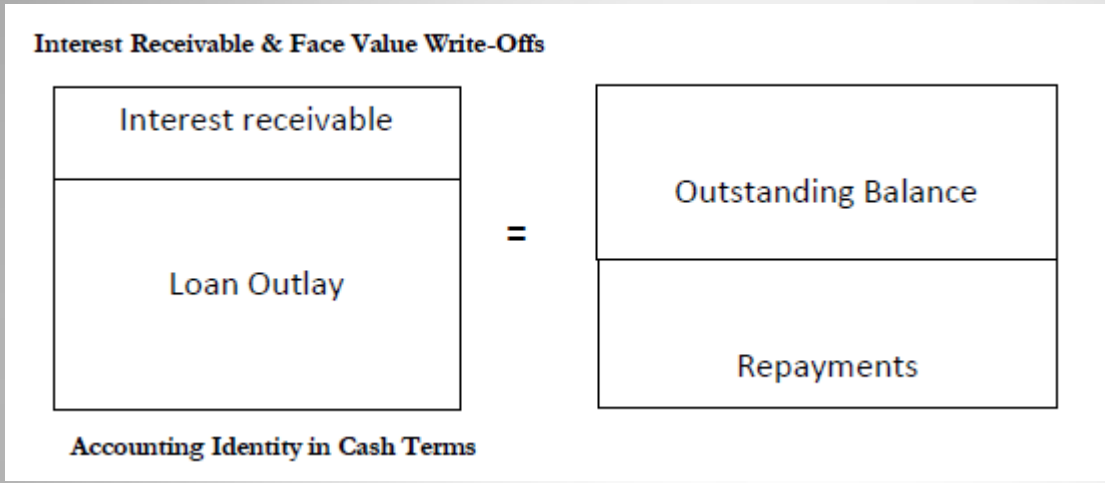
Fiscal Impacts of Student Loans

Reconciliation of PSNB and PSNCR

	£ billion					
	Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Public sector net borrowing	**45.2**	**37.1**	**33.9**	**28.7**	**26.0**	**21.4**
Loans and repayments	**21.2**	**24.1**	**23.3**	**24.0**	**25.4**	**25.8**
of which:						
Student loans	13.9	15.6	17.1	18.2	18.7	19.1
of which:						
Cash spending on new loans	16.7	18.2	19.6	20.7	21.4	22.0
Cash repayments	-2.7	-2.6	-2.5	-2.5	-2.7	-2.9
Transactions in financial assets	**-4.6**	**-5.6**	**-5.6**	**-5.7**	**-5.7**	**-3.0**
of which:						
Student loan book	-1.7	-2.4	-2.5	-2.6	-2.7	0.0
Bank of England schemes	**72.7**	**0.0**	**0.0**	**-53.5**	**-71.5**	**0.0**
UKAR asset sales and rundown	**-14.0**	**-11.9**	**-2.7**	**-1.8**	**0.0**	**0.0**
Accruals adjustments	**-0.1**	**-0.6**	**-4.9**	**5.4**	**0.2**	**9.5**
of which:						
Student loan interest[1,2]	3.2	4.7	5.6	5.9	6.7	7.5
Public sector net cash requirement	**120.6**	**43.4**	**44.4**	**-2.5**	**-25.3**	**54.0**

Adapted from OBR, *Economic & Fiscal Outlook,* Table 4.33 March 2018

Accounting Identities: for single cohort in cash terms



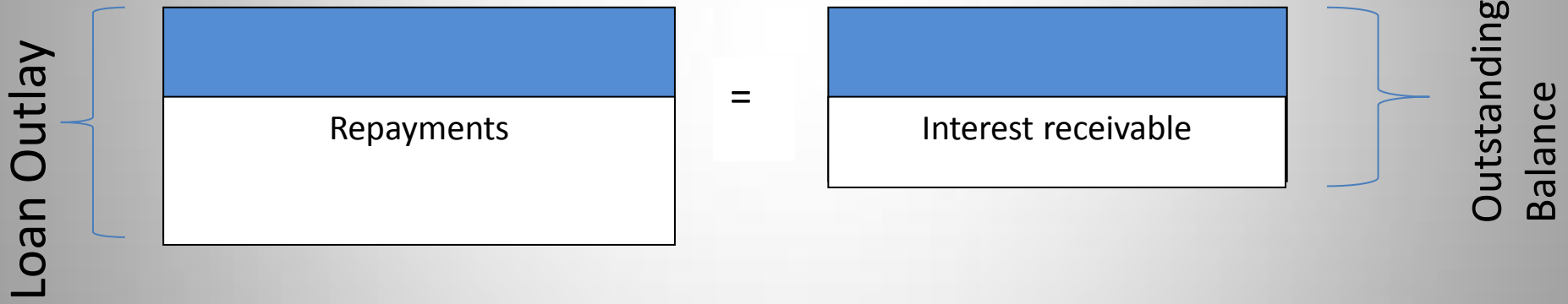
(1) Loan Outlay + Interest Receivable = Outstanding Balance + Repayments

(2) Loan Outlay = Outstanding Balance + Repayments - Interest Receivable
(subtracting Interest Receivable from both sides)

(3)Loan Outlay - Repayments = Outstanding Balance - Interest Receivable
(subtracting Repayments from both sides)

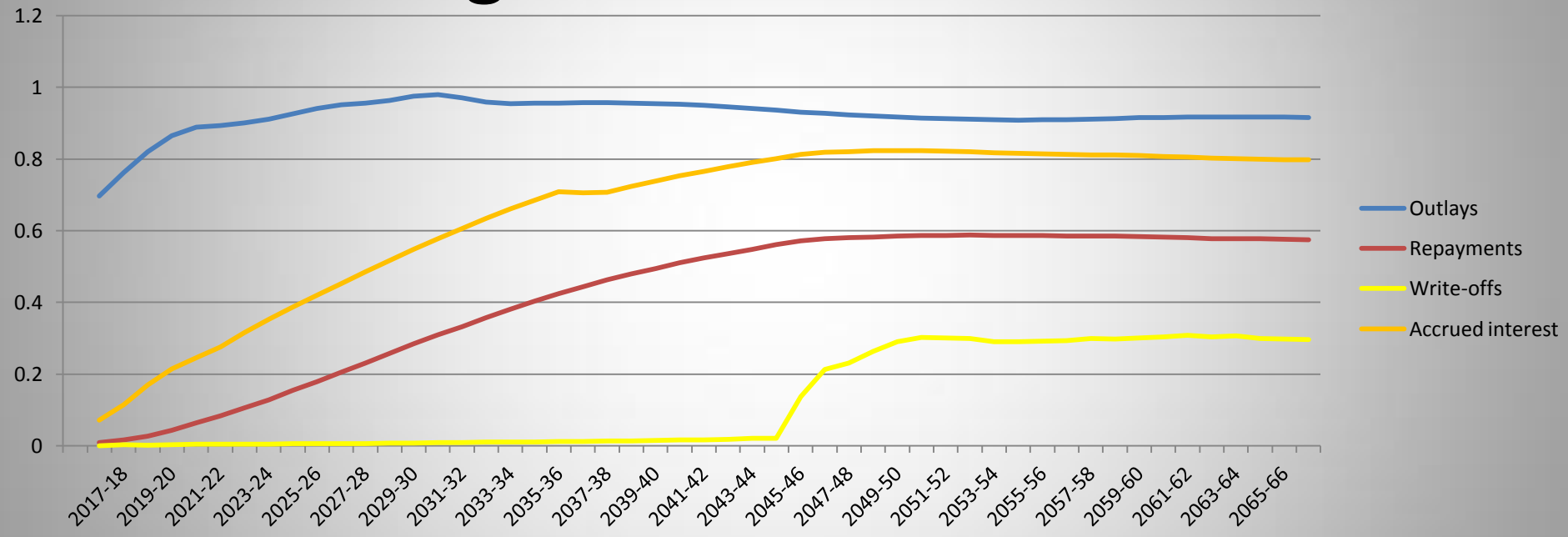
Cash Loss can be captured two ways

Placing repayments over Loan Outlay
& Interest receivable over Outstanding Balance
Shows difference (shaded in blue) is equal



Loss or Gain is difference between
Loan Outlay and Repayments
Or
Outstanding Balance and Interest receivable

Fiscal impacts - % of GDP
For deficit, loan scheme appears to generate income!



OBR, Fiscal Sustainability supplementary data (January 2017)
Current UK GDP is c. £2 000 billion
Policy Write-offs: single cohort annually
Annual Accrued Interest: All Balances!

“University” Fee for million plus

- access agreements (a statutory requirement for all universities charging fees in excess of the lower fee cap);
- academic, professional, technical and support staff costs directly associated with teaching activity;
- wider costs of administrative and corporate functions;
- recruitment and admissions activities;
- quality assurance;
- compliance with regulatory and data regimes required by professional and higher education sector bodies;
- course development and validation;
- student welfare such as mental health services;
- and support services including hardship funds and partnership work with employers, schools, colleges and other stakeholders.

- As well as tuition …