Higher education funding: a sustainable future?

9:00 – 13:15 | Wednesday 21st March 2018
Welcome

Alun Evans, Chief Executive, British Academy
Opening remarks

Natalie Perera, Executive Director, Education Policy Institute
Appraisal of the current system

David Robinson, Director, Post-16 & Skills, Education Policy Institute
Current system – system ending in 16 days

• Features of the current system

• Problems system was designed to solve

• How system has performed
Key sources:

- EPI modelling
- IFS BN211 Higher Education funding: Past, present and options for the future
- HEPI-HEA Student Academic Experience Survey
- OBR fiscal sustainability reports
- OECD skills matter
- Government statistics: DFE, UCAS, SLC
1. Features of the current system

- Universities set fees
- Cap set by the government
- Govt offers loans to pay fees and maintenance
- Grants paid only for high cost subjects

**Government (DfE/SLC)**

- Repayment
- Loans

**Student / graduate**

- University fees <= £9,250 p.a.
- Maintenance costs ≈ £6,000 p.a.¹

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¹ Source: SLC - 16/17 entrants: Average for those taking maintenance loans on post 16/17 system.
Loan terms: example

- Only on income over £21K
- Residual written off after 30 years
- 9% of that income
- Interest rate 0-3% real terms (RPI, dependent on income)

**Repayments over lifetime employment - illustrative graduate**

- **Repayment free**
- **Repayments eligible**
- **30 year write off**
- **21K repayment threshold**

Income

- £0
- £10,000
- £20,000
- £30,000
- £40,000

Years after graduation

- 1
- 11
- 21
- 31
- 41

Source: EPI modelling
Taxpayer subsidy through write-offs

Taxpayer subsidy – average graduate

£34,000
Graduate contribution

£17,700
Taxpayer subsidy

Write-offs are intentional taxpayer subsidy

Source: FES/WISERI Higher Education funding: Past, present and options for the future
More akin to a tax than a loan

Debt repayments - illustrative graduate

Only 24% of graduates (highest earners) due to pay off their debt before they are written off

Debt operates as time limited tax for other 76%

Only 40% of graduates (highest earners) expected to pay any real interest

Source: EPI modelling based on DfE student loans ready reckoner
30+ years to stable system

**Student loans: Government outlays and repayment forecasts**

Immediate loan outlay, but only gradual increase in repayment means stable government subsidy only from 2040s

Source: Office for Budget Responsibility, Fiscal Sustainability Report 2014
Treatment in Government Accounts

• Loans are classified as financial transactions that create future income

• Loans currently **do not** contribute to government spending (deficit), but **do** contribute to national debt

• Removes HE funding from direct competition with other part of government spending, such as health or benefit spending

• But taxpayer subsidy is the same in long run
Contribution to Government debt

Forecast impact on Public Sector Net Debt as a result of student loans

- Significant increase to debt as a result of loans
- If graduate earnings growth is 2 ppt lower than forecast, this taxpayer subsidy increases by 50%.

2. What problems was the current system designed to fix?

2010 Browne review of higher education funding & student finance:

**Participation**
- Insufficient number of student places
- Limited progress on fair access

**Quality**
- System not responsive to changing skills needs
- Limited improvements in the student experience

**Sustainability**
- No change in the balance of contributions
- No resilience against future reduction in public spending
Participation

- Insufficient number of student places
- Limited progress on fair access
Student places: Participation has increased despite increasing fees

- Full time
- £3K fees
- £9K fees

- 8% increase since 2010/11
- 32% drop in part time study since 10/11

Source: DfE – showing 17-30 English students in UK HE

18-30 participation rate

- 1999/00
- 2000/01
- 2001/02
- 2002/03
- 2003/04
- 2004/05
- 2005/06
- 2006/07
- 2007/08
- 2008/09
- 2009/10
- 2010/11
- 2011/12
- 2012/13
- 2013/14
- 2014/15
- 2015/16
Fair access: Gaps between disadvantaged and others not closing (fast)

Gaps driven by prior attainment

Source: UCAS – showing entry at age 18

Source: Family Background and University Success (Crawford, Dearden, Micklewright, Vignoles)
Quality

System not responsive to changing skills needs

Limited improvements in the student experience
System not responsive to changing skills needs

Proportion of all workers under or over-qualified for their job: 2015

England
- Overqualified: 30%
- Underqualified: 12%

OECD
- Overqualified: 22%
- Underqualified: 13%

Source: OECD Skills Matter: Further results from the survey of adult skills
Deterioration in the student experience

Students’ views of course value for money

Students’ satisfaction with course quality

Fall in perception of value for money

Reduction in satisfaction

Source: HEPI-HEA Student Academic Experience Survey 2017, UK students
Sustainability

- No change in the balance of contributions
- No resilience against future reduction in public spending
Graduates now contribute the majority

Balance of contributions

2011
- Graduate: 39%
- Taxpayer: 61%

2012
- Graduate: 43%
- Taxpayer: 57%

2017
- Graduate: 65%
- Taxpayer: 35%

Source: IFS Higher Education funding: Past, present and options for the future
Wealthiest 50% of graduates pay 3 times as much as much as poorest 50%

Source: EPI modelling based on DfE student loans ready reckoner
New problem: Graduates want lower levels of debt

Rise in fees...

...and corresponding debt (though actual contribution smaller)

Source: IFS Higher Education funding: Past, present and options for the future
Resilience against future reduction in public spending?

• Move from direct grants to loans mean that, in theory, HEIs are less susceptible to pressures on government spending

• However, the fees system is still exposed to political pressures from students and graduates

• E.g. October 2017 announcement: the freezing of the fees at £9,250 will reduce HEI income in real terms.

• Plus the graduate repayment threshold was raised from £21,000 to £25,000 (see next slide)
New problem: Lack of accountability for impact on the future of public finances

Balance of contributions

- **2011**
  - Graduate: 39%
  - Taxpayer: 61%

- **2012**
  - Graduate: 43%
  - Taxpayer: 57%

- **2017**
  - Graduate: 57%
  - Taxpayer: 43%

- **2018**
  - Graduate: 53%
  - Taxpayer: 47%

- **£2.3bn annual increase in taxpayer contribution...**

...with cost and necessary compromises passed on to future governments.

Source: IFS Briefing note BN217 and EPI modelling
Problems post 2012 reforms

**Participation**
- Insufficient number of student places
- Limited progress on fair access

**Quality**
- System not responsive to changing skills needs
- Limited improvements in the student experience

**Sustainability**
- Change in the balance of contributions
- No resilience against future reduction in public spending
- **New:** Lack of accountability for impact on the future of public finances
Some challenges in the current higher education system

Dr. Jack Britton, Senior Research Economist, Institute for Fiscal Studies
Some challenges in the current Higher Education system

Jack Britton
Introduction

Higher education has lots of benefits
  - Wider than just the private benefits
Introduction

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- Wider than just the private benefits

  Strong case for a government subsidy
Introduction

Higher education has lots of benefits
  - Wider than just the private benefits
  
    Strong case for a government subsidy

Higher education has big implications for skill composition of the workforce
  - Affected by university and student incentives
Introduction

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Higher education has big implications for skill composition of the workforce

- Affected by university and student incentives
  
  Design of funding is important
Introduction

Higher education has lots of benefits
  – Wider than just the private benefits
    Strong case for a government subsidy

Higher education has big implications for skill composition of the workforce
  – Affected by university and student incentives
    Design of funding is important

There have been big changes to funding in recent years
  – Affected both the subsidy and incentives
2012 changes to funding

Concerns about preserving quality/world class reputation

- Some potential inhibitors of high quality:
  - Squeezed university finances
  - Limited competitive incentives
2012 changes to funding

Concerns about preserving quality/world class reputation

- Some potential inhibitors of high quality:
  - Squeezed university finances
  - Limited competitive incentives

Big increase in tuition fee cap (to £9,000) in 2012

- Increase university funding
- Make students hold universities more accountable
2012 changes to funding

Concerns about preserving quality/world class reputation
- Some potential inhibitors of high quality:
  - Squeezed university finances
  - Limited competitive incentives

Big increase in tuition fee cap (to £9,000) in 2012
- Increase university funding
- Make students hold universities more accountable

KEY: expected competition on fees but that didn’t happen
Major implications

1. University funding did go up by 25% – but big (unintended) changes in the incentives of universities to provide different courses.
1. Changes in university incentives

![Bar chart showing changes in funding for different subject cost groups.]

- Band A: 0%
- Band B: 5%
- Band C: 15%
- Band D: 30%
Major implications

1. University funding did go up by 25% – but big (unintended) changes in the incentives of universities to provide different courses.

2. Larger than expected government contribution (exacerbated by terrible earnings growth)
2. Larger than expected gov. contribution

Early estimates of were that long run taxpayer contributions was almost unchanged

- E.g. Crawford and Jin (2014) estimate a 5% reduction
2. Larger than expected gov. contribution

Early estimates of were that long run taxpayer contributions was almost unchanged
  – E.g. Crawford and Jin (2014) estimate a 5% reduction

Quite a lot of government squeezing:
  – Removal of maintenance grants for poorer students
  – Removal of bursaries
  – Freezing of tuition fees
  – Freezing of the repayment threshold
  – Reduction in the discount rate to 0.7%
How big is the government contribution?

Total upfront spending on HE

<table>
<thead>
<tr>
<th>Year</th>
<th>Graduate contribution</th>
<th>Government contribution</th>
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Note: Excludes spending by students who do not take out loans

£14.9bn
How big is the government contribution?

Total upfront spending on HE

£14.9bn £17.0bn

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How big is the government contribution?

Total upfront spending on HE

<table>
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<tr>
<th>Year</th>
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<th>Government Contribution</th>
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<tr>
<td>2011</td>
<td>£14.9bn</td>
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<tr>
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Note: Excludes spending by students who do not take out loans
How big is the government contribution?

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1. University funding did go up by 25% – but big (unintended) changes in the incentives of universities to provide different courses.

2. Larger than expected government contribution (exacerbated by terrible earnings growth)

3. Big changes in the distribution of that contribution
Distribution of the student contribution

Note: Excludes spending by students who do not take out loans
Distribution of the student contribution

Expected lifetime repayments (2017 prices non-discounted)

Decile of graduate income

- £0
- £10,000
- £20,000
- £30,000
- £40,000
- £50,000
- £60,000
- £70,000
- £80,000
- £90,000
- £100,000

Poorest 2 3 4 5 6 7 8 9 Richest Average

- 2011 system
- Current system
Distribution of the student contribution

Expected lifetime repayments (2017 prices non-discounted)

Decile of graduate income

- 2011 system
- Current system

IFS Higher Education research
© Institute for Fiscal Studies
Distribution of the student contribution

Note: Excludes spending by students who do not take out loans
Distribution of the student contribution

Note: Excludes spending by students who do not take out loans
Distribution of the government contribution

Note: Excludes spending by students who do not take out loans
Large differences in earnings by subject

Median annual earnings (£) by subject, five years after graduating

Source: DfE LEO dataset
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Large differences in repayments by subject
Distribution of the government contribution

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Current solutions

Teaching Excellence Framework

– Rating universities on teaching quality (including NSS & earnings)

Originally, proposed to directly affect tuition fees

Could have indirect impact if it affects student choice (however this channel is weakened if excess demand)
Current solutions

Teaching Excellence Framework
- Rating universities on teaching quality (including NSS & earnings)
  - Originally, proposed to directly affect tuition fees
  - Could have indirect impact if it affects student choice (however this channel is weakened if excess demand)

Expansion of university competition
- Removal of numbers caps and reducing barriers to entry
  - Could increase competition and drive down price
  - Limited evidence of this so far. And exposes government to other risks (failure of universities, quality)
Are variable fees the answer?

How does this help?

– Potentially reduces incentives to provide low earning courses
– Reduces government costs
– Subsidy targeted more accurately (particularly if money is put back into the system).
Are variable fees the answer?

How does this help?

- Potentially reduces incentives to provide low earning courses
- Reduces government costs
- Subsidy targeted more accurately (particularly if money is put back into the system).

BUT the demand and supply responses are really hard to predict

- *Students* could increase their demand for cheaper courses
- *Universities* may not reduce provision of cheaper courses
  - It is difficult for them respond quickly
  - Also could reduce STEM provision if cross subsidising

**KEY:** to know and understand costs of provision
Conclusion

Issues with ensuring quality in Higher Education

Big changes in recent years

– Resulted in a subsidy that is large and potentially poorly targeted
– And inadvertently generated perverse incentives for universities
Conclusion

Issues with ensuring quality in Higher Education

- Big changes in recent years
  - Resulted in a subsidy that is large and potentially poorly targeted
  - And inadvertently generated perverse incentives for universities

Current solutions are improved information and competition

- Possible these will help, but it potentially expecting a lot – and the latter exposes the government to risks
Conclusion

Issues with ensuring quality in Higher Education

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- And inadvertently generated perverse incentives for universities

Current solutions are improved information and competition

- Possible these will help, but it potentially expecting a lot – and the latter exposes the government to risks

Many have suggest variable fees are the solution

- This would potentially improve targeting
- BUT the demand and supply side responses are really unpredictable: more information is required
Thanks for listening
Q&A with David Robinson & Dr. Jack Britton

Chaired by: Natalie Perera, Executive Director, Education Policy Institute
Should we increase spending on higher education?

Luke Sibieta, Education Policy Institute and Institute for Fiscal Studies
Many justifications given for increasing spending on higher education

Browne Review 2012

• “Higher education matters because it transforms the lives of individuals”
• “Higher education matters because it drives innovation and economic transformation”

Dearing Report 1997

• “We are particularly concerned about planned further reductions in the unit of funding for higher education. If these are carried forward, it would have been halved in 25 years. We believe that this would damage both the quality and effectiveness of higher education.”
Drivers of higher education spending over time

Focus on upfront resources provided by government to higher education institutions

• Tuition fees plus teaching grants
• Best measure of resources available to students

Upfront spending in England has gone from just under £4bn in 1990 to about £10 bn in 2015

• Rising share of national income (0.3% to 0.5%)

Two Main Drivers

1. Increases in higher education participation
   • Up from around 15% in 1980s to around 50% today

2. Increases in spending per pupil
   • Down from £6,000 in 1990 to £4,500 by 1997, up to £9,000 by 2015 due to fee rises

What are the likely benefits of these different channels?
Should we increase spending on higher education?

1. Assessing the benefits of increases in HE participation

2. Assessing the benefit of increased spending per student
Rising share of cohorts with tertiary education
Smaller increases in UK, but from high a base
Earnings benefits of going to higher education

High causal effects on earnings seen across countries (Card, 1999)

- Stable / increasing returns up to 2000s despite higher supply
- Technological progress increased demand for skills faster than increase in supply of graduates (Goldin & Katz, 2009; Blundell et al, 2016)
- Some declines in returns since mid-2000s and lower returns in countries with higher participation (OECD, 2009)

Is HE best option for young people on the margins of going or not?

- Depends what they study (Britton et al, 2016)
- Evidence suggests HE better than most existing vocational qualifications (Dearden et al, 2004; Jenkins et al, 2007; McIntosh and Morris, 2016)
- Will T-levels change this?
- Historic apprenticeships good option, but will government target for 3 million new apprenticeships lower quality?
Wider benefits of going to higher education

Improved health,

Lower crime
  • See e.g. Machin et al, (2011), Lochner, (2011)

Improved innovation
  • See e.g. Jones (2005)

Potential to improve social mobility
  • Though big gaps remain in HE participation by SES, particularly at high-status institutions
Overall summary

Clear evidence suggesting benefits from increased higher education participation over time

Important to understand whether HE is genuinely best option for marginal learner

• How good are new apprenticeships and T-levels?
• What courses/institutions are marginal learners choosing?
Should we increase spending on higher education?

1. Assessing the benefits of increases in HE participation

2. Assessing the benefit of increased spending per student
Strong evidence on effectiveness of early years and school spending

Clear evidence on long-term benefits of good quality early years education
  • Perry pre-school (Heckman et al, 2013), Abecedarian project (Anderson, 2008), Head-start (Jackson and Johnson, 2017)

Increasing evidence higher school spending per pupil improves student outcomes later in life
  • Pupils benefiting from US school funding reforms in 1970s had higher earnings and lower incarceration rates later in life (Jackson et al, 2014)

Higher benefits for pupils from low-income families

Notion of ‘complementarity’
  • Higher early years spending increases return to school spending
  • High early years spending must be followed up too
Less evidence on effectiveness of increases to spending after school years

Little good quality evidence in UK or other countries on effects of 16-18 education or higher education spending per pupil

Weakens case for extra spending per pupil

But, should not interpret lack of evidence as evidence of no benefit

Principle of complementarity likely to apply here too:

• Benefits from higher school spending increased by later investments
• Surges in spending at later ages likely to offer poor value-for-money
Changes to spending per pupil over time

Periodic increases in HE spending per pupil with fee increases, correcting for squeezes or reductions over prolonged periods. Long-run squeeze to early years and school spending over time as it was in 1990.

Sources and Notes: Belfield et al (2017); Higher education resources refers to all upfront spending (teaching grant and fees); Higher education subsidy refers to teaching grant plus expected long-run subsidy to fee loans.
Increases resources per student in higher education driven by fee rises

<table>
<thead>
<tr>
<th>Category</th>
<th>1990</th>
<th>2000</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Years</td>
<td>n/a</td>
<td>£1,287</td>
<td>£1,765</td>
</tr>
<tr>
<td>Primary School</td>
<td>£2,081</td>
<td>£2,943</td>
<td>£4,871</td>
</tr>
<tr>
<td>Secondary School</td>
<td>£3,458</td>
<td>£3,821</td>
<td>£6,318</td>
</tr>
<tr>
<td>Further Education (16-18) / School Sixth Form</td>
<td>£4,935</td>
<td>£4,371</td>
<td>£5,638</td>
</tr>
<tr>
<td>Higher Education</td>
<td>£5,912</td>
<td>£5,795</td>
<td>£9,250</td>
</tr>
<tr>
<td>Teaching Grant</td>
<td>£5,912</td>
<td>£4,338</td>
<td>£857</td>
</tr>
<tr>
<td>Fee income</td>
<td>£0</td>
<td>£1,457</td>
<td>£8,393</td>
</tr>
</tbody>
</table>
UK tertiary spending high compared with other countries, and high compared with school spending

Sources and Notes: OECD Education at a Glance 2017; Tertiary spending excludes R&D activities; Includes both private and public spending
Overall Summary

Good case for high levels of participation in HE
  • But is HE still best option for marginal learner?

Weaker case for higher levels of spend per student
  • Spend per student high in historical and relative terms
  • Little evidence on increasing spend per student

But, do need a system to keep resources stable

Important not to see overall education spending as fixed pie to be distributed across stages
  • Principle of complementarity suggests high early investments more productive if followed up
  • But gap in resources between FE and HE is significant
Benchmarking higher education system performance

Cláudia Sarrico, Policy Analyst, Higher Education Team, OECD
A report covering much of the material included in the OECD presentation can be found here –
Q&A with Luke Sibieta & Cláudia Sarrico

Chaired by: Natalie Perera, Executive Director, Education Policy Institute
Higher education funding: a sustainable future?

9:00 – 13:15 | Wednesday 21st March 2018
Rethinking higher education funding
Alternatives to the current model

Gerard Dominguez-Reig, Senior Researcher, Post-16 & Skills,
Education Policy Institute
@dominguezireig
Options

Outcomes

How to choose
Options

Outcomes

How to choose
### Options

<table>
<thead>
<tr>
<th>Funding system</th>
<th>Key features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018/19 system</strong></td>
<td>- Income contingent loan system (ICL) with £25K repayment threshold (up from £21K)</td>
</tr>
<tr>
<td><em>As announced at 2017 Conservative Conference</em></td>
<td>- Fee cap of £9,250 (now frozen)</td>
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<td></td>
<td>- Maintenance also funded via ICL</td>
</tr>
<tr>
<td></td>
<td>- Small number of courses attract teaching grants</td>
</tr>
<tr>
<td><strong>No Fees</strong></td>
<td>- Courses funded by teaching grants only</td>
</tr>
<tr>
<td><em>UK Labour model</em></td>
<td>- Maintenance costs covered by mix of ICL and means-tested grant</td>
</tr>
<tr>
<td><strong>Graduate tax</strong></td>
<td>- Courses funded by teaching grants only, maintenance loans replaced with grants</td>
</tr>
<tr>
<td><em>Potential Libdem model</em></td>
<td>- Graduates pay a tax for a number of years to contribute to the system’s funding</td>
</tr>
<tr>
<td></td>
<td>- No connection between course funding and graduate payments</td>
</tr>
</tbody>
</table>
Options

Outcomes

How to choose

Note: all modelling use system parameters as per current system with £25K repayment threshold as announced at the Conservative Conference unless otherwise stated
The notion of debt
There can be significant graduate contributions without debt, and also lower graduate contributions for similar levels of debt.

Student debt vs graduate contributions

The chart shows the comparison between student debt and average graduate contributions under different systems:

- **Current system**
  - Student debt: £60,000
  - Average graduate contribution: £30,000

- **2018/19 system**
  - Student debt: £50,000
  - Average graduate contribution: £20,000

- **No fees**
  - Student debt: £40,000
  - Average graduate contribution: £10,000

- **Graduate tax**
  - Student debt: £30,000
  - Average graduate contribution: £20,000

The chart illustrates that the #Graduate Tax system results in a lower average graduate contribution compared to the Current system.
Graduates: winners and losers

Graduate contributions by income decile

Current system

2018/19 system

No Fees

Graduate tax

Maintenance loans repayments

Level of graduate contributions (£)

Income decile

Lowest earners

Highest earners

£- £20,000 £40,000 £60,000 £80,000 £100,000

Education Policy Institute
Who pays and when does the government pay?

**Current system**: all government contributions delayed. Taxpayer faces 1/3 of costs.

**18/19 system**: taxpayer contributions raise by 12pp

**Graduate tax**: all government contributions made upfront

**No fees**: Most government spending upfront, graduate contributions down significantly

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Financial impact to government

- **Taxpayer pays 100%**
  - No fees
  - Graduate tax

- **Graduate pays 100%**
  - Current system
  - 2018/19 system

- **Now (deficit + debt)**

- **Later (debt - write-offs)**
Impact on university funding

- **18/19 system**: freezing fees would reduce funding in real terms over time

- **No Fees**: may lead to reduction in university funding if no additional taxes raised or HE income ring-fenced

- **Graduate tax**: similar impact to No Fees scenario, unless until income from graduate tax cover a significant proportion of HE spending
Higher Education
- Fee loan: £9,250
- Maintenance loan: max £11,350 (average loan = £6K, students starting 2016/17)

Level 3 FE education and skills (aged 19+)
- Advanced learner loans averaging £2,400 (2016/17). Loan caps between £300-£11,350 for the whole of the qualification.
- No maintenance loans (some bursaries available)

Level 4+ apprenticeships (aged 19+)
- Students don’t pay. Funding bands between £2,500 and £27,000, paid for with apprenticeship levy
- Apprentice salary: from £3.5/hour (circa £7k/year, less than a maintenance loan for undergraduate students)

Level 4+ FE education and skills (aged 19+)
- Advanced learner loans averaging £2,400 (2016/17). Loan caps between £600-£8,600 for the whole of the qualification
- No maintenance loans (some bursaries available)

What deal for the other 50% who don’t go to university?

And many others joining the labour market or becoming NEETS with low level qualifications
What deal for the other 50% who don’t go to university?

What a **post-18 education and training voucher** could look like: a lifetime tertiary education entitlement, which could be drawn down as a loan in whatever instalments an individual pleases, whenever they wish, and used at any approved tertiary institution (EPI’s Wolf, A., Sellen, P., Domínguez-Reig, G. (2016) *Remaking Tertiary Education: can we create a system that is fair and fit for purpose?*)

Would this lead to fee escalation in the FE sector?  
There can be different caps across qualifications or caps on loans

Some technical education is already delivered at HEIs  
Non-HE provision could improve diversity of technical education – few high-level technical qualifications are delivered outside

Low repayment expectations may suggest that bringing higher technical education under the same system isn’t advisable  
RAB charge for advanced learner loans expected to be 10% higher than for HE (HL WA112640)

As HE spending is largely in the form of loans, it cannot easily be transferred to FE spending  
Only under the current form of government accounts, and a unified HE/FE loans system would address this within the current accounting framework
Options

Outcomes

How to choose
So, how to choose?

<table>
<thead>
<tr>
<th></th>
<th>If you want...</th>
<th>The trade off...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income contingent loans</strong></td>
<td>Main beneficiary to pay</td>
<td>Problems of concept of student debt</td>
</tr>
<tr>
<td></td>
<td>Less competition with other Govt spending</td>
<td>Little transparency of impact on public spending means inadequate Govt accountability</td>
</tr>
<tr>
<td><strong>Graduate tax</strong></td>
<td>Main beneficiary to pay</td>
<td>Direct competition with other Govt spending due to immediate impact on deficit</td>
</tr>
<tr>
<td></td>
<td>Move away from concept of debt</td>
<td></td>
</tr>
<tr>
<td><strong>No fees</strong></td>
<td>Principle of “free” education</td>
<td>Impact on combination of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Access</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- HE spending</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Govt finances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Tax increases</td>
</tr>
</tbody>
</table>

Policy design critical for full range of outcomes e.g. access, equity, efficiency
EPI priorities for the Post 18 Review

1. **Better value for money** - Avoid a large further expansion in the cost of HE
   - Inefficient funding for some courses
   - High ancillary spending
   - Principle of complementarity

2. **Government accounting** - Need to avoid current government accounting rules driving funding decisions
   - Current accounting system pushes towards status quo
   - Currently little political accountability for increased taxpayer costs and underselling loan book.

3. **Incentives** – Reduce institutional perverse incentives towards particular courses and pathways and ensure students have more information and more balanced incentives
   - Perverse incentives created by current funding system
   - Unintended consequences of variable fees
   - Maintenance loans pay more than many apprenticeships
EPI priorities for the Post 18 Review

4. **Wider tertiary offer** - Case for developing a stronger and more coherent funding offer for non-HE post 18 funding
   - Funding gap between FE and HE
   - Lack of provision for high level technical skills

5. **Progressivity** - What can be done to maintain the balance?
   - Lowering fees and interest rates will favour the highest earners
   - Maintenance grants?
Q&A with Gerard Dominguez-Reig & David Robinson

Chaired by: Natalie Perera, Executive Director, Education Policy Institute
The options for changing the funding of higher education

Lord David Willetts, Executive Chair, Resolution Foundation
DAVID WILLETTS

A UNIVERSITY EDUCATION

March 2018
# Challenging the Edusceptics: the benefits from higher education

<table>
<thead>
<tr>
<th>Individual non-economic benefits</th>
<th>Individual economic benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>• less likely to smoke, to drink excessively, to be obese;</td>
<td>• higher earnings;</td>
</tr>
<tr>
<td>• better general health;</td>
<td>• less exposure to unemployment;</td>
</tr>
<tr>
<td>• longer life expectancy;</td>
<td>• increased employability and skills development.</td>
</tr>
<tr>
<td>• more likely to engage in preventative care;</td>
<td></td>
</tr>
<tr>
<td>• better mental health;</td>
<td>• more tax receipts;</td>
</tr>
<tr>
<td>• greater life satisfaction.</td>
<td>• increased exporting;</td>
</tr>
<tr>
<td></td>
<td>• improved productivity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wider non-economic benefits</th>
<th>Wider economic benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>• lower propensity to commit non-violent crime;</td>
<td></td>
</tr>
<tr>
<td>• greater propensity to vote;</td>
<td></td>
</tr>
<tr>
<td>• to volunteer;</td>
<td></td>
</tr>
<tr>
<td>• to trust and tolerate others;</td>
<td></td>
</tr>
<tr>
<td>• more dynamic cities.</td>
<td></td>
</tr>
</tbody>
</table>
Trends in staff student ratios

<table>
<thead>
<tr>
<th>Year</th>
<th>University SSR</th>
<th>School PTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>9.1</td>
<td>18.2</td>
</tr>
<tr>
<td>1990/91</td>
<td>11.4</td>
<td>17.3</td>
</tr>
<tr>
<td>2000/2001</td>
<td>18.1</td>
<td>17.9</td>
</tr>
<tr>
<td>2010/2001</td>
<td>17.4</td>
<td>15.6</td>
</tr>
<tr>
<td>2013/2014</td>
<td>16.2</td>
<td>15.4</td>
</tr>
<tr>
<td>2014/15</td>
<td>15.4</td>
<td>15.5</td>
</tr>
</tbody>
</table>
Higher education is never a priority for public spending

HEFCE teaching grant funding vs total apprenticeships budget, 2011-12 to 2015-16

Source: House of Commons Library
Median Wages: post-graduates, graduates, and non-graduates 2016

<table>
<thead>
<tr>
<th>Aged 16-64</th>
<th>Median salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-graduates</td>
<td>£22,500</td>
</tr>
<tr>
<td>Graduates</td>
<td>£32,000</td>
</tr>
<tr>
<td>Postgraduates</td>
<td>£38,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aged 21-30</th>
<th>Median salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-graduates</td>
<td>£19,000</td>
</tr>
<tr>
<td>Graduates</td>
<td>£25,000</td>
</tr>
<tr>
<td>Postgraduates</td>
<td>£29,000</td>
</tr>
</tbody>
</table>
Marx was right.

“If...higher education institutions are also “free”, that only means in fact defraying the cost of education of the bourgeoisie from the general tax receipts.”

Karl Marx, Critique of the Gotha Programme 1875.
“Spending” is not the same as “Public spending”

• You can’t bring your personal definition of public spending to the debate – and can’t bring your own tax to finance it either.

• Treatment in the National Accounts on international standards – not public spending nor borrowing but do add to national debt and eventual write-offs add to PSBR.

• Government Accounts are for Treasury to monitor departmental spending – that is why we have the RAB charge
“Too many people are going”
High v Low participation areas

Source: UCAS; figures indicate HE entry rates for 18 year-olds by parliamentary constituency, 2017
‘Too much money is being spent’?
What the £9k fees cover

<table>
<thead>
<tr>
<th>Band A-C Grant</th>
<th>£4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old fee loan</td>
<td>£3,250</td>
</tr>
<tr>
<td>Access Spend</td>
<td>£1,000</td>
</tr>
<tr>
<td>From capital grant to commercial loans</td>
<td>£250</td>
</tr>
<tr>
<td>Other HEFCE grants for disabled students, opportunities fund, etc.</td>
<td>£500</td>
</tr>
</tbody>
</table>
Four reasons for the reformed English system

• The Principle – it is progressive

• The Economics – investing in human capital

• The Fiscal Challenge – tackled under-funding of higher education whilst cutting public spending

• The Opportunity – End of number controls
The ‘academic’ and ‘technical’ divide has gone

This arbitrary distinction bears little relevance to the educational experience.

42% of students enrolled at universities (all levels) are on courses designed to offer a pathway into a specific profession. At FE colleges, that figure is 54%
“Good universities should charge more.”

But what makes a university “good”?
Graduates earn more because of
• Social background of parents
• Prior attainment of students
• Geographical location
Move up rankings also because of
• Research Excellence
Competition for students is real

Pct change in share of undergraduate students (all modes & domiciles), 2011-12 to 2015-16

Source: Higher Education Statistics Agency, figures exclude Open University, which lost 5% of its share of undergraduate students
Some bad ideas to change this system

• Cut fees and cut resource

• Differential fees – on what basis?

• A graduate tax – back to public spending

• Raise repayment threshold - unnecessary

• Shift the “spending” to non-HE – but there is no alchemy to change it into public spending to re-allocate
Reverse decline in part-time student enrolments in HE, 2005-06 to 2015-16

Source: Higher Education Statistics Agency
Reverse decline in sub-degree students

Enrolments in sub-degree HE courses, all modes of study, 2011-12 to 2015-16

Source: Higher Education Statistics Agency
What: A broader education

Percentages of girls and boys with GCSE A* doing that subject at A Level

<table>
<thead>
<tr>
<th>Subject</th>
<th>Girls</th>
<th>Boys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physics</td>
<td>25%</td>
<td>52%</td>
</tr>
<tr>
<td>Biology</td>
<td>56%</td>
<td>41%</td>
</tr>
<tr>
<td>Maths</td>
<td>67%</td>
<td>80%</td>
</tr>
</tbody>
</table>
Some better ideas to improve the system

• A regular five year review of the parameters of the system. (The interest rate could go. Reverse increase in repayment threshold)
• Maintenance grant - more cash for students
• More support for disadvantaged, sub-honours and part-time students
• More funding for high cost courses – STEM
• Sell stock of graduate debt to the university
The policy challenge

• Do not damage the interests of students in higher education

• Focus on doing more for the other 50%

• There is no single model: different types of post 18 education and training need to be funded in different ways

• English education is early, specialised and quick. It should be later, broader and slower.
DAVID WILLETTS

A UNIVERSITY
EDUCATION

March 2018
Review of post-18 education and funding

Philip Augar, Chair, Post-18 education and funding review
Panel discussion

Dr. Jack Britton
Senior Research Economist
IFS

Prof. Andy Green
Professor
UCL, Institute of Education

Prof. Chris Husbands
Vice-Chancellor
Sheffield Hallam University

Dame Minouche Shafik
Director
LSE

Chaired by: Rt Hon. David Laws, Executive Chairman, Education Policy Institute
Closing remarks

Rt Hon. David Laws, Executive Chairman, Education Policy Institute
Higher education funding: a sustainable future?

9:00 – 13:15 | Wednesday 21st March 2018