

Annex B: Tuition fees, inflation and public spending

1. Undergraduate tuition fees are included in the collection of goods and services used to calculate the Retail Price Index (RPI) and the Consumer Price Index (CPI) measures of inflation. A rise in tuition fees will therefore increase inflation, and this will increase public spending on welfare payments and public sector pensions which are linked to the CPI.

£2.2 billion pa estimate

2. Simon Ward estimated that the resulting increased public expenditure would be £2.2 billion pa (Ward, 2011). The calculation was as follows:-

2011 fees = £3375

2012 fees less waivers = £8200 (Estimate from Research Fortnight)

Fee rise = 143%

UG tuition fee CPI weight = 0.45% (Unpublished, supplied by ONS)

Inflation impact = 0.64% (Ward quotes 0.65%)

Spending impact = $(0.64 / 0.25) \times 0.9 = £2.3$ billion pa (2015-16 prices)
(Ward quotes £2.2 billion pa)

3. The final part of the calculation is based on an OBR estimate of the effect on public expenditure of an oil price rise.

4. The fee less waiver estimate is close to what we have concluded, and the UG tuition fee CPI weight is equal to what we have calculated using data that OBS have supplied to us. The difficulty with the inflation calculation is that the old fee levels will remain for continuing students, so that the fee rise will not take full effect for more than three years. This means that the percentage fee rise will decrease year on year. However, we are advised by ONS that the timing of the re-weighting of university fees used in the CPI calculation is soon enough to allow for this, so that, potentially, the full impact of the fees rises should eventually work through. There are, however, other reasons why the impact of fee increases may not have an impact after the rise in 2012.

5. Firstly, it has been suggested to us that the Monetary Policy Committee will take measures to counter the inflationary effects of the increase in tuition fees. This question was raised at a Quarterly Inflation Report question and answer session (Treasury, 2011). The response was unclear, but the comment from Mervyn King that 'I don't think this is the most important factor confronting monetary policy at present' suggests

they will not take specific measures. Secondly, there has been speculation that the planned further £10 billion savings in the welfare budget will include removing the link between levels of welfare payments and inflation. This, if implemented, would not affect the impact of the 2012 fee rises, but it would probably remove the impact for subsequent years.

6. The final part of the calculation, using the OBR estimates of the effect of oil inflation on public expenditure does not seem credible. The OBR report cited is not completely clear as to what the spending impact is. Whatever OBR intended, a £0.9 billion impact from 0.25 per cent inflation implies a total CPI linked expenditure of £360 billion pa which is much greater than the planned figures ¹ even if State Pensions are included. (State Pensions would only be included if inflation is higher than the increase in average earnings or 2.5 per cent, whichever is the largest.)

Revised estimate

7. We have taken the basic approach used by Simon Ward, using revised parameters. (NB all calculations made to full precision. Figures shown are rounded.)

Fee rise

2011 fees = £3375

2912 fees less waivers = £8234 (HEPI estimate)

Fee rise = 144%

Weight

University Tuition Fees - UK Student = 0.649 (code 440239, ONS reference table 'CPI weighting framework 2012)

UG fraction = 75% (ONS communication, NB includes part-time)

High fee domicile and country of institution combinations = 93% (Based on HESA first year FT UG 2010-11 numbers)

UG high fee weight Inflation impact = $0.649 \times 75\% \times 93\% = 0.45\%$

Inflation impact

Long term (3+ years) = $1.44 \times 0.45\% = 0.65\%$

¹ See OBR (2012a), tables 4.20, 4.21 and 4.22. Total expenditure (2016-17) 199.3 + 33.9 + 43.0 = £296 million pa, which includes State Pensions.

2012 only = 0.24% (Assumes 36.6 per cent starters, based HESA first year and total FT UG English HEI home student numbers)

This is higher than the OBR estimate of 0.2%² (OBR, 2011). They give no details but were probably using a lower fee assumption. A fee assumption of £7500, as assumed in the White Paper, would give a value of 0.20%.

Spending impact

Long term (3+ years) = $0.65 \times 1.75 = \text{£}1.14$ billion pa

2012 only = $0.24 \times 1.75 = \text{£}0.42$ billion pa.

The impact of £1.75 billion per 1 per cent of inflation is taken from the OBR Ready Reckoner³.

References

References cited here listed after the main section of the report

² Office of Budget Responsibility, 'Economic and fiscal outlook – November 2011', paragraph 3.106.

³ Office of Budget Responsibility, 'How we present uncertainty', OBR Briefing paper No. 4, page 39, table 3.2