

**Conservative Proposals for  
HE Funding Reform  
An Analysis by the  
Higher Education Policy Institute**

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1. The new Conservative proposals represent a welcome advance from their previous policy. In particular it is good that:
  - a. They have accepted the principle that there needs to be a better balance between what is provided by the taxpayer and by the beneficiaries of HE.
  - b. Repayments of loans are to be deferred and income contingent.
  - c. Grants will be available to enable poor students more easily to benefit from HE.
  - d. The interest rate subsidy is to be removed. HEPI has argued in the past that the interest rate subsidy represents a general subsidy that does not discriminate between the rich and the poor. It would be far better to remove the subsidy and use the money saved to target support at those who need it most.
  - e. Outstanding debts will be written off after 25 years (though the cost of this has not apparently been accounted for in the proposals, and will be significant).
2. On the other hand by maintaining their rejection of fees, and by imposing commercial interest rates on maintenance loans as the only means of securing a greater contribution by students, their new policy will give rise to some serious anomalies:
  - a. The richer the student the smaller the loans they need, and the less they will therefore contribute to the cost of HE. Poorer students take larger loans, which will mean that they will contribute more to the cost of higher education. That is not an issue under the present arrangements where the loans are subsidised by the Government.
  - b. EU students (and perhaps Scottish and Welsh students too) will be subsidised by English students and taxpayers. Under the Government's proposals EU students will be liable for fees amounting to about £150 million per year, but they will pay nothing under these proposals.
  - c. Those who take the longest to repay (women taking career breaks and those in poorly paid professions) will pay the most in real terms<sup>1</sup>. Under the Government's proposals all students will repay the same amount in real terms - and those who take the longest to repay will in fact receive the largest subsidies.
  - d. The money saved by removal of the interest rate subsidy will not be used to provide targeted support. Instead it will be used to provide undifferentiated subsidy in the form of the national scholarships.
3. The financial effects need further explanation. There are only two sources for the money that universities need: students themselves and the taxpayer. If what universities will receive under the Conservative scheme is the same as under the Government's then the sum of the two contributions (from taxpayers and from students) must be the same. So if students are paying less then the taxpayer must

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<sup>1</sup> In some cases they will be liable to repay very much more: a woman taking just 10 years off will find her debt has doubled in the meantime.

be paying more; or if the taxpayer pays less then students must one way or another be paying more. It is not possible for students to pay less over the period of the debt and the taxpayer simultaneously to pay no more, as is suggested in the Conservative statement, and for universities nevertheless to receive the same amount.

4. On the other hand, it is, of course, possible for both students and taxpayers to pay less if universities are in fact to receive less. This aspect of the Conservatives' proposal is unclear. They state that they will provide £1.8 billion to compensate universities for their loss of fee income, whereas on the Government's figures that is the figure that would have been required had the new fee regime been operating in 2003-04<sup>2</sup>. What will in fact be available to universities from fees in 2009 will be between £2.3 billion and £2.7 billion (depending on the assumptions made) – between £0.5 billion and £0.7 billion more than the £1.8 billion discussed in Conservatives' proposals. On the other hand if an incoming Conservative Government took whatever commitment it inherited and devoted that to HE<sup>3</sup>, then the savings from the interest rate subsidy would be rather greater than the amount assumed in their calculations, and would be available to redress some of this balance.
5. One means of going some way towards squaring the circle would be to reduce the number of students that need to be provided for. The statement that the plans do not require a reduction in the current participation rate suggests that they preclude any expansion in the participation rate. At a time when the proportion of young people staying on in school and taking A levels is increasing, this implies abandonment of the Robbins principle that all those with the qualifications and the wish to do so should be able to enter HE, with the consequence that significant numbers<sup>4</sup> of aspiring and qualified entrants to HE will be denied places.
6. The proposal to transfer the loan book to universities is an ingenious way of guaranteeing a steady stream of income to universities to meet their capital needs. It is true that the Treasury will cream £0.4 billion per year of the loan book income, but this is unlikely to represent anything like the full value, and the Conservatives estimate that something like £3 billion will be available over the course of the next Parliament to provide for universities' teaching infrastructure needs. On the other hand, this is money that would otherwise have belonged to the taxpayer. If the Treasury had received it that would have provided more income with which it could have met the same level of expenditure, but this way of providing the funds takes the decision about its distribution – and indeed about the level of funding - out of the hands of the Government. This is welcome, but it needs to be taken into account in the calculations of the costs and benefits of the Conservative proposals. Money foregone by the taxpayer amounts to public expenditure.
7. Despite what is claimed, the policy is in many respects a centralizing one. On the one hand the effective abolition of HEFCE, and funding universities entirely through

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<sup>2</sup> In its Regulatory Impact Assessment of the effects of the HE Bill the Government estimated that universities would have raised £1.8 billion from its fee proposals in 2003-04, had they been in force in that year. The Conservatives' calculation seems to have taken this sum and used it as the amount that would be raised in 2009, by which time there will actually be significantly more students present – up to 200,000 more between 2002-03 and 2010-11, according to HEPI projections, though much of the projected growth will have taken place by 2006-07.

<sup>3</sup> The Conservative HE spokesman has made such a commitment in private conversation.

<sup>4</sup> The HEPI report "Higher Education Supply and Demand to 2010 – an Update" estimated that the growth in the number of students with A level qualifications could be as high as 100,000 between 2002-03 and 2010-11, though by 2006-07 a significant part of this growth will already have been achieved.

a student-based capitation fee, would reduce the level of interference and top-slicing by the centre. On the other hand, more functions would be taken into central government (deciding funding rates for different subjects for example, and the identification of priority subjects). And there is a clear and explicit statement that the Government will set the amount of funding that universities will receive through the national scholarships: there will be no discretion available to universities, as there will under variable fees.

8. Despite the undoubted progress in Conservative thinking in many respects, therefore, and some quite innovatory aspects of their proposals, in this crucial respect this looks like a short term solution to a long term issue. If in the future the Government were to decide it cannot afford to fund universities properly from taxation it could not keep putting up interest rates in order to increase the value of the loan book. Although politically difficult, it would be able to allow universities to put up fees.