HE Bill and Statement: Implications of the Government's Proposals

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The Government's proposals

1. The HEPI report “"Demand for HE until 2010: Some Political and Policy Implications" included some calculations of the implications of the policies of the main parties. It explained that these calculations were based on a number assumptions which might need to be revised, but that the method set out in that paper provided a basis for further calculations when further assumptions were possible. This paper revisits those calculations on the basis of the proposals set out in the Government Higher Education Bill and in its accompanying statement.

2. The proposals for student contributions and support made in the Higher Education Bill and the Government's statement are broadly consistent with the proposals made earlier, though with some helpful amendments. A number of important details remain unknown -- most importantly, how much of the additional income that universities receive will be used as bursaries for student support -- and any assessment of the implications of the bill needs to make assumptions about this.

3. The two most important changes proposed by the Government were both recommended by HEPI, and are to be welcomed -- the increased educational maintenance allowance, and the proposal to write off any repayment obligations that remain after 25 years. One further change that was recommended by HEPI and has been accepted in principle by the Government is that instead of the Government's original proposal to forgive the first £1200 of any fee obligation incurred by around 40 per cent of students from the poorest families (and some part of the first £1200 for

another 20 per cent), this should be converted into an up-front addition to the HE Grant. The logic of the Government' s arguments, as well as research evidence, suggests that this money would be better used in providing cash upfront to students in an enhanced Higher Education Grant. However, the use of public expenditure in this way is a matter of political judgement, and, ultimately, it is for the Government to judge whether a further downstream benefit will advance its policies better than upfront payments.

4. In calculating the effects of the Government's plans, assumptions need to be made about three things: the proportion of students who will pay the top up fee; the proportion of additional fee income received that will be used for student bursaries; and the cost to the Government of deferred repayments. When HEPI produced its report on "Demand for HE until 2010: Some Political and Policy Implications" calculations were based on 66 per cent of students being subject to the top up fee, 30 per cent of additional fee income being top sliced for bursaries and a net present value (NPV) cost to Government of 30 per cent (there called the RAB cost), arising from deferred repayments . For the purposes of this analysis the following revised assumptions are made.

Assumptions

<u>Proportion of students paying top up fees</u>

5. A number of surveys have been carried out in the last few months that make it clear that the previous assumption that two thirds of students would pay top up fees was unduly conservative. Most universities will charge top up fees for at least some of their courses, if not the majority. For the purpose of this analysis it has been assumed that 85 per cent of students on average will pay £3000 in fees, which allows for the fact that

some universities will charge the full fee for all of their courses, others for some courses and a small number for none at all.

Proportional of additional fee income top sliced for grant

6. In the previous analysis it was assumed that universities would be required to set aside one third of additional fee income to provide bursaries. Many universities made clear that they intended to use significant amounts of their fee income to provide bursary support, even without any Government requirement. Cambridge, for example, has said that it intends to provide bursaries of up to £4000, and Nottingham has said that it intends to provide significant bursaries from its fee income. However, the Government has said now that there will be no central requirement, but that this will be left for universities to agree with OFFA. Since the Government has also said that it will increase the higher education grant from £1000 to £1500, and in view of the softer requirement on universities to create bursaries than had been previously assumed, the calculation in this paper assumes that only 15 per cent of top up fee income on average will be used to provide bursaries .

Net present value cost to Government of deferred payments

7. Since the last HEPI report the Institute of Fiscal Studies has estimated that the net present value (NPV) cost to the Government of deferred repayments is around 50 per cent. This estimate is fraught with difficulties, since it relies on assumptions about the average earnings of graduates over the next 20 years, the level of interest rates (and therefore the interest rate subsidy provided by the Government) over the same period, the extent of default, etc. The Government has now produced its assessment of the regulatory impact of its proposals, and a NPV cost of 42 per cent is used here, consistent with that assessment.

8. Since the IFS produced its estimate and analysis, a number of commentators have misinterpreted that as indicating that the benefit to universities will be less than had previously been thought. That is not so. What the net present value discount does is to change the balance of the cost of the new arrangements between the Government and students. But the benefit to universities remains the same. They will receive the money upfront -- as will students receiving bursaries and the higher education grant. An increase in the net present value cost to Government means that the cost of the fee to the student is less than had previously been thought, and the cost to the Government will be greater.

The effects of the Government's proposals

9. The table at the Annex shows the implications of the Government's proposals in 2010, based on the assumptions set out above. After allowing for 15 per cent of their top up fee income to be top sliced for bursaries, universities together will raise about £1.44 billion from top up fees, to which is added the £1.33 billion they will continue to receive from the standard fee -- a total net income of £2.8 billion from fees[1]. In addition, taking top sliced bursaries and higher education grant together, it will be possible to provide 35 per cent of students -- nearly 400,000 students - with an upfront payment of £2000 per year, and they will also receive a fee waiver of £1200 in due course.

10. It will also be seen that if the Government were to decide to change the fee waiver to an upfront payment, then this would provide an additional £337 million per year for student support, and the total amount available for student support would then permit a much higher level of upfront support to be given to the poorest students -- for example 25 per cent of all students could receive £3000 per year and a further 20 per cent of

[1] This is more than the total funding for full time undergraduate teaching that HEIs receive from HEFCE grants currently.

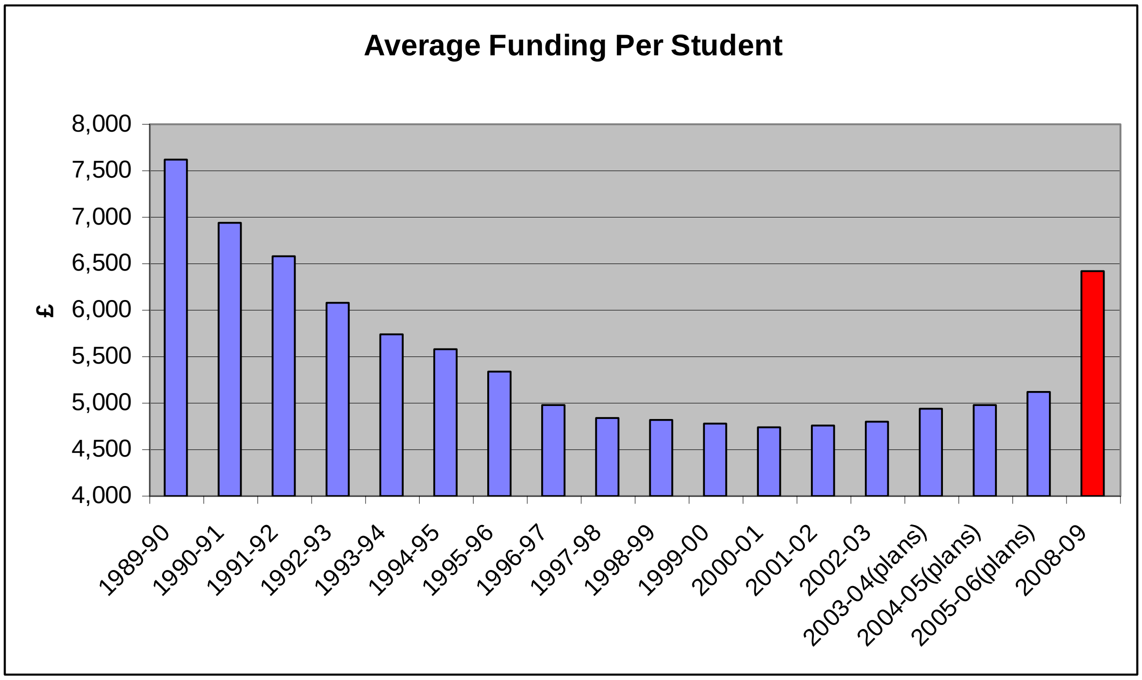
students £1000 per year; or the money could be spread to allow 25 per cent of all students to receive £2000 per year and a further 30 per cent to receive £1500 per year.

11. There are three other measures that will have cost implications for the Government:

    a. There will be an increase in the loan available for all students, which the Government has estimated will cost about £65 million to implement.
    b. There will be a cost associated with the Government's agreement that any liability outstanding after 25 years will be written off. The cost of this concession is estimated by the Government to be about £35 million.
    c. There is an unspecified cost that will arise from the Government's very welcome commitment to improve fee and grant support for part-time students. Although this is likely to be modest initially, it begins the process of addressing the disparity in treatment between full-time and part-time students.

12. The cost to the Government of these proposals will be around £1.5 billion, the majority of the cost arising from the net present value cost of deferred repayments. In addition, it needs to be borne in mind that if the growth in student demand projected to the end of the decade is met, as has been assumed here, this will add another £900 million or so to the public cost of higher education, because of the increased institutional grant through HEFCE to provide for the 250,000 additional students projected. So the total cost of the Government's proposals will be about £2.4 billion altogether. To provide the equivalent package entirely from taxation would cost about £4 billion.

13. As significant as anything else in the Government's statement is the commitment that it will maintain the level of public funding for teaching and research. As is shown in the chart below, this means that the average level of funding per student will, by 2008, have increased to the level of more than ten years ago. This is a commitment that the Government will no doubt be reminded of in years to come, and the policies of opposition parties will be judged against this benchmark too.



ANNEX

Assumptions

1,110,000	Number of students in 2010
1,200	Standard Fee
85%	of students paying top-up fee
15%	top-slice for bursaries under Government scheme

Institutions Gain from fees

Total Raised from standard fee	£1,332,000,000
Total Raised from top ups for HEIs	£1,443,555,000
Total Raised for HEIs	*£2,775,555,000*

Bursaries and HE Grant

	With Waivers	**Waiver converted to grant**	
Total top-sliced for bursaries	£254,745,000	£254,745,000	(assumed)
Value of fee waiver converted into fee charge with loan	£0	£336,872,093	(this is not yet Government policy, but is being cor
HE Grant (New Student Maintenance Allowance)	£450,000,000	£450,000,000	(announced by Government)
Total Available for student support	*£704,745,000*	*£1,041,617,093*	
Number of students that can be provided £2000 in bursary + HE Grant	352,373	520,809	

But if Fee waiver is made into an up-front grant

	25% of all students =	277,500	25%	can receive	£3,000
	and	209,117	19%	can receive	£1,000
OR	25% of all students =	277,500	25%	can receive	£2,000
	and 30% =	324,411	29%	can receive	£1,500

Marginal cost to Government of change from current arrangments

RAB cost of top ups	£713,286,000
RAB cost of standard fee currently paid up-front	£315,498,140
New maintenance	£450,000,000
Total	**£1,478,784,140**