The Student Loan Scheme 2012 – How did we get here?

Alan Roff

Appendix to *Student Finance in England from 2012 to 2020: From fiscal illusion to graduate contribution?* (HEPI Debate Paper 25)

About the author

For 37 years, Alan Roff lectured, researched and managed at the University of Kent, Kingston University and the University of Central Lancashire, where he was Deputy Vice-Chancellor from 1996 until his retirement in 2011. He therefore had first-hand experience of the arguments and outcomes underpinning the seismic changes in the volume and funding of undergraduate education in the years leading up to the 2012 changes.

He has a BA in Mathematics from the University of Oxford, an MA in Quantitative Social Science from the University of Kent and an Honorary Doctorate from the University of Central Lancashire. He has been a member of the Finance and Resources Committee of the University of Salford since 2015 and became a member of the University Council in 2019.

In recognition of the benefit he gained from his state-funded higher education in the early 1970s, he would be happy to pay a graduate contribution.

Executive summary

A series of reports from the Office for Budget Responsibility (OBR) and the Office for National Statistics (ONS) during 2018, 2019 and 2020 state that student finance in England (and the 2012 student loans scheme on which it rests) is based on a 'fiscal illusion' that the loans made to students would be almost entirely repaid. In fact, only 17 per cent of students are expected ever fully to repay their loans. The remaining 83 per cent of students will have all or part of their loans written off after 30 years. Of the total amount loaned, 62 per cent will have to be paid by the Exchequer. As a result, Public Sector Net Borrowing has been understated by £12 billion to £15 billion each year since 2012 and the cumulative effect will reach £128 billion by 2023/24.

The key recommendation of the 2010 Browne Review (which led to the introduction of the 2012 scheme) was to transfer almost the full cost of undergraduate education to students, thereby slashing the cost to the Exchequer. However, the implementation of the scheme was compromised by two significant estimation errors. Firstly, the Government underestimated the level of fees which the universities would adopt. Secondly, it overestimated the projected growth in graduate salaries. It was pointed out almost immediately by independent analysis in 2011 that this would lead to a huge and widening gap between the costs (in loans) and the revenue (in repayments). This has now been confirmed by the Office for Budget Responsibility.

This paper charts the way in which the decisions made by higher education providers, students and government interacted to produce an outcome wherein millions of graduates have been burdened with huge debts and, instead of producing the promised savings, the 2012 scheme has in fact increased the cost of higher education to the Exchequer. A further unintended consequence has been the collapse of part-time higher education in England. There is now an urgent need to replace the scheme with a more transparent and less damaging alternative.

Although this paper stands alone as an account of the 2012 scheme, it can also be read as an Appendix to a further paper by the same author, which has been published simultaneously by HEPI, setting out options for replacing the scheme (and its resultant student loan and debt) with a graduate contribution scheme.

Introduction

1.1 A series of reports from the Office for Budget Responsibility (OBR) and the Office for National Statistics (ONS) during 2018, 2019 and 2020 have revealed that the overwhelming majority of debt incurred by students under the 2012 student loan scheme will never be repaid.[1] The reports also spell out the effect of these findings on the national accounts.

1.2 The Office for Budget Responsibility reports state that the 2012 student loans scheme was – and always had been – based on the 'fiscal illusion' that the loans made to students from England to pay for the £9,000 a year fee and living expenses would be almost entirely repaid. In fact, the Office for Budget Responsibility now calculate that only 17 per cent of students will ever fully repay their loan. The scheme had always included the proviso that, after 30 years, any remaining loan owed by a graduate would be 'written off' (repaid) by the Treasury, leaving the ex-student debt free at last. It had never before been officially admitted that this government write-off would affect 83 per cent of students and would cover 62 per cent of the total amount loaned. The Office for Budget Responsibility also admitted that it would no longer be financially acceptable to describe the money 'lent' as 'loans' given that so little would actually ever be repaid. The Office for National Statistics has ruled that, in future, the majority of each so-called 'loan' needs to be recognised as a subsidy at inception and recorded in this way in the national accounts.

1.3 In terms of the overall economic effect, the obligation to write off such a large amount of student debt led the Office for Budget Responsibility to conclude that Public Sector Net Borrowing (PSNB) had been systematically understated by several billion pounds each year since 2012. By 2018/19, the annual impact on Public Sector Net Borrowing (associated with the cohort of students entering in September 2018) had reached £12 billion; while the cumulative understatement of the cost to the Exchequer caused by the 2012 Student Loan Scheme had reached £56 billion. By 2023/24, the annual addition to Public Sector Net Borrowing would reach £15 billion and the cumulative additional cost falling on the Exchequer would reach £128 billion. The additional annual and cumulative costs to the Exchequer would continue to rise for as long as the scheme remained in force.

1.4 This paper looks at both the origins and the implementation of the 2012 scheme and significant developments since it came into force. Although this paper stands alone as an account of the 2012 scheme, it can also be read as an Appendix to another paper, which has been published simultaneously by HEPI, setting out options for replacing the scheme (and its resultant student loan and debt) with a graduate contribution scheme.[2]

The origins of the 2012 student loan scheme

2.1 When one compares the outcomes in the Office for Budget Responsibility and Office for National Statistics reports with the claims made for the student loan scheme when it was introduced, it may now be difficult to understand how it could ever have been adopted. However, the scheme was very much a product of its time. The unrestrained and unregulated finance sector in the UK and elsewhere had allowed huge levels of private debt to be built up in the 10 years preceding the financial crash of 2008. The fear that this private debt could destroy the world banking sector led the governments of the UK and other major developed countries to intervene to rescue banks. This created unprecedented levels of public debt which framed the measures which those same governments adopted to deal with the recession that followed the crash. The UK General Election in May 2010 led to a Conservative / Liberal Democrat Coalition Government committed to the urgent reduction of public debt.

2.2 It was in this climate that the Browne review of higher education, which had been set up by the Labour Government in 2009, presented its report in October 2010.[3] Its central proposal was that higher education costs (excluding those for research) should in future be met mainly by the students who benefitted from the degrees they would receive. Almost all of the costs of higher education would be transferred from the public purse to the students themselves. This would be achieved by enabling undergraduate students to borrow the costs of their higher education while they were studying and to repay those loans over a 30-year period which commenced after graduation. As the national accounts treated these loans as deferred income for the government, the costs to the Exchequer disappeared. The effect on Public Sector Net Borrowing (PSNB) was extremely favourable and was inevitably seen as very welcome by the Government of the day. The Liberal Democrats had campaigned in the General Election earlier that year for complete abolition of fees (with a resultant surge in its vote among younger voters) but it nevertheless supported the proposals of its partners, which would see the student fee almost trebled from £3,290 per year to £9,000 per year (with consequent debt of £40,000 or more for each student after accounting for living costs). The Labour Opposition objected to the level of fees proposed but was constrained by the fact that Labour had been responsible for the establishment of the Browne review on which the new proposed system was based.[4] The recommendations were rushed through Parliament before the end of 2010 with very little scrutiny. The new student loan-based system would come into force for students commencing undergraduate courses in 2012.

2.3 The perceived need to rush such a major change through Parliament in such a short period demonstrated the importance to the Government of the PSNB benefit at a time of austerity. However, the haste may also have allowed the fundamental nature of the change being made and the financial details of the repayment scheme each to escape the level of scrutiny they would have attracted in normal times. It is worth looking at each in turn (and we will do so in section 5 below) but, before doing so, it is necessary to recap the situation in which the Browne review took place.

The origin of student fees, 1997-2010

3.1 The Anderson report of 1960, which fed into the Education Act (1962), set the framework for the next 35 years in which full-time undergraduates received means-tested mandatory grants to cover tuition fees and living costs while studying at university level.[5] Although the means-tested element resulted in better-off parents making a significant contribution to overall costs, undergraduates themselves received a higher education and living costs free of charge while studying and without any payment after graduation (until 1990, when maintenance loans were introduced for part of those costs). Likewise, universities were funded by the state for full-time undergraduate teaching and research. Part-time undergraduate and all postgraduate education attracted a fee as a contribution to costs, the remainder of which were topped up by the state. As costs grew with the steady increase in the percentage of 18-year olds proceeding to higher education, the call for graduates to contribute was increasingly being made. A National Committee of Inquiry into Higher Education, chaired by Sir Ron (later Lord) Dearing, was commissioned by the Government in 1996 and produced the Dearing report in 1997.[6] This comprehensive 466-page report recommended a fee of £1,000 a year for an undergraduate as a way of injecting more funds into higher education institutions but also in recognition of the cost to the Exchequer of the increased number of students. At the time, this was seen as a significant change, even though the fee represented only around 25 per cent of the full cost of providing degree-level study. Dearing recommended that the £1,000 fees should be loaned to students with repayments made on an income-contingent basis after graduation, while living costs should continue to be covered by a mixture of grants and loans. These Dearing principles were eventually conceded in 2003 in a White Paper published by the Secretary of State for Education and Skills, Charles Clarke, but only after a period of a few years during which one of his predecessors, David Blunkett, had instead made the £1,000 tuition fee payable up-front (subject to means testing) and had abolished maintenance grants in favour of higher maintenance loans to be repaid income-contingently after graduation.

3.2 In 2003, by which time the percentage of the 18-year old cohort going to university had grown yet further, the Labour Government published a Bill which would raise the fee to £3,000 a year for undergraduates entering higher education from 2006. Universities would continue to receive a grant from the Higher Education Funding Council for England (HEFCE) on top of the fee received from the student so that the total amount received per student was more than twice the fee and would reach around £7,000 a year on average (more for Science students, less for Humanities students) by the time the Browne review reported. This fee increase could no longer be finessed using means tests. Instead, it would require larger loans to be made available to each undergraduate and raised more serious issues about the affordability of repayment. Initially, the sector and many Labour MPs were unconvinced by the proposals. Again, the Blair Government pursued the same diplomatic approach used by Ron Dearing but this time it was the Higher Education Minister, Alan Johnson, who helped the legislation scrape through the House of Commons. To achieve the necessary majority, a number of significant changes were conceded. These made it less likely that any 18-year olds would be deterred from entering higher education for financial reasons. They also significantly reduced the level of savings which the measures would deliver to the Treasury.

3.3 The changes introduced in 2006 lasted just six years. The Government had committed to reviewing the effect of the changes after they were implemented but, by the time they asked Lord

Browne to chair such a review, the financial crash of 2008 had very much changed the climate in which the review would take place.

3.4 The Dearing and Johnson reforms introduced by the Labour Governments left a legacy for the future by establishing individualised debts for each student to cover part of the costs of their studies. On graduation, these would render them liable to make income-contingent loan repayments determined by the income of the graduate and not the level of debt. The repayment was (and still is) 9 per cent of a graduate's income above a given salary threshold (set at £15,000 in 2005) regardless of the level of debt. Repayments would be collected through the HMRC Pay As You Earn scheme and would continue until the debt had been fully repaid (or until 25 years after graduation, whichever was the sooner). This made the repayment basis very different to that used for a mortgage where the level of repayment varies with the amount borrowed but also very different to income tax (in that income tax does not cease to be levied after a citizen has paid off their 'share' of government costs).

The Browne review 2009/10

4.1 The key recommendation of the Browne review was to transfer far more of the cost of undergraduate education onto the student, thereby slashing the cost to the Exchequer. It also made a progressive recommendation to lift the threshold salary at which graduates would start to make repayments from £15,000 to £21,000, thereby considerably deferring and reducing the initial repayments of graduates. It further recommended index-linking the salary threshold to continue to minimise the level of repayments for lower-paid graduates. It tried to balance the cost of reducing the level of annual graduate repayments by also recommending two measures which would extend the period of payment. It recommended, firstly, that loans should attract a real rate of interest during study and, for better-paid graduates, after graduation; and, secondly, that there should be an extension of the period before any remaining loan would be written off from 25 years to 30 years. All of these recommendations were accepted by the Government and approved by Parliament. However, on one very important detail of the scheme, its recommendation was not accepted by Government. This related to the fees charged by universities.

4.2 The Browne report recommended that no maximum fee level should be set. Instead, it believed that the market for students and the competition between universities would result in fees settling at different levels at different universities; and, indeed, for different courses at the same university. It proposed a mechanism whereby each university could set its own fee levels. Under this mechanism, the first £6,000 of any fee charged would go directly to the university. For any fees charged in excess of £6,000, a levy would be made on a sliding scale starting at 6 per cent of a total fee of £7,000; up to 27 per cent of a total fee of £12,000. This levy would be 'to cover the costs to government of providing students with the upfront finance'. Without an upper limit, it seemingly based its cost calculations on the assumption that the average fee would be around the average 'unit of resource' then being received by each university, from a combination of grants and fees under the 2006 scheme. Overall university income per student was therefore not expected to be much affected by the report's recommendations although Browne envisaged significant growth in student numbers.

4.3 The fee proposals in the Browne report came under fierce attack. Without any proposed maximum fee, opponents inevitably characterised the recommendations as involving 'unlimited fees'. The levy was particularly hated by Oxbridge but attracted little support elsewhere in the sector. It immediately became the focus of debate and may have distracted attention from other aspects. It did not come as much of a surprise when the Government decided to ignore this recommendation. In retrospect, the levy probably deserved more consideration.[7]

The Government response 2010/11

5.1 The Government warmly welcomed the Review and took very rapid steps to bring its recommendations into operation. It made only one significant change to the package which Browne recommended. This related to the level of fees which a university could charge.

5.2 The Government was concerned that without an upper limit (a 'cap') on fees, it would have no control of total costs (except through the 'levy' discussed in 4.2 above).[8] It decided to scrap the proposed levy and instead to set a cap of £9,000 on fees. It would rely on the market to ensure that a range of fees would emerge among universities and among courses. It further assumed a similar average fee would emerge to that assumed for cost calculations underpinning the Browne report. (See 4.2.)

The setting of fees by universities 2011/12

6.1 The review and the Government each had some confidence that 'the market' would not only keep fees at an average of around £7,000 but also would create a wide range of different fees for different courses at different universities. This confidence was not shared within the higher education sector because those who knew how the undergraduate market worked also knew that a fee cap would lead all universities to charge the maximum fee. So, in reality, the Government decision to cap the fee at £9,000 a year made it inevitable that £9,000 would become the standard university fee for all courses at all universities. The reason for this is explained partly by how the market for university places and courses actually works but also by how the fee level would affect both the income of institutions and the repayments required of graduates.

6.2 Each higher education institution reliant on full-time undergraduates knew that as soon as the new scheme was approved, there would only be a few weeks before it had to set the 2012 fee level for all of its courses, because prospectuses would need to go to print by spring 2011. Each therefore had two decisions to make. Each needed to decide whether to set a fee lower than the maximum and, if so, how much fee variation it would introduce between its courses. The first decision would affect both its income and its reputation. The second would affect both its income and the level of operational complexity it would create. These decisions needed to be taken very rapidly and, under a threat of legal consequences, without talking about this to other institutions, lest it was deemed to commit the offence of creating a 'cartel'.

6.3 Each institution therefore rapidly started to model the effects of the alternative decisions on its student numbers and income. Most also considered how to communicate each alternative decision and took quick surveys of existing undergraduates and sixth-form students in local colleges and schools. Universities had been acting in this way to deal with changes in funding parameters that had emerged from HEFCE over the previous 15 years and therefore had experience on which to build a response quickly. The experience of the 2006 changes was still relatively recent and also helped to shape conclusions.

6.4 As the Deputy Vice-Chancellor of one of the 10 universities which took the highest number of full-time undergraduates each year, I can recall clearly both the pressure to act quickly and the way in which, as the details of the new scheme emerged, the range of decisions rapidly narrowed to one inevitable conclusion. Unsurprisingly, the same conclusion emerged across the sector.

6.5 From the outset, it was clear that a fee increase of well over 100 per cent (to £7,500) would be needed to make up the loss of the grant which universities had been receiving from HEFCE. Even with the most extreme cost-cutting options and expansion of student numbers (if this were permitted by the authorities and if it could be achieved in terms of attracting the students and having the space, accommodation and staff to teach them), it was therefore obvious that, unless a university more than doubled its fees, it would not be financially viable.[9] The fee range available was therefore fairly narrow.

6.6 There was little doubt that to market a university and its courses in the new scheme, the only option would be to focus on the advantages of a university education and the relatively low cost of repayments in the initial years after graduation and thereafter. Any mention of the level of debt or real interest would be toxic. There was little doubt that the Government, other universities and sixth-form staff would also recognise this. It became obvious that the message to students would be framed around benefits received and affordable future payments.[10]

6.7 The income-contingent loan repayment scheme meant that, for the overwhelming majority of students, the level of payments would not actually depend on the fee charged. With a fee of £7,000, most would never pay off the full loan and would have the residue written off by the Government after 30 years. The same would happen with a £9,000 fee. Regardless of the fee level, the amount repaid by each graduate would be an annual charge of 9 per cent of income in excess of the £21,000 a year (index-linked) salary threshold. So, taking a £7,000 fee course would not, in reality, give the overwhelming majority of undergraduates any financial advantages compared to taking a £9,000 fee course. The only individuals who would gain from a ‘cheaper’ course would be those whose salary would rise to around £100,000 a year (at 2012 prices) and who would therefore clear their debt within the 30-year period and cease to be liable for repayments. For these fortunate graduates, a £9,000 fee would marginally lengthen their repayment period and therefore result in additional costs – usually around 20 years after graduation. And we knew from surveys that this would not serve as a deterrent. Any undergraduate told that they might pay a little extra tax when their salary reached £100,000 a year would not see this as a problem!

6.8 The fact that there was no benefit to students in having the lower fee was obviously very influential. However, marketing depends on perceptions as well as facts. The quick surveys were also helpful here. They suggested the perception of prospective students was that a cheaper course was an inferior course. Any university which charged a fee below £9,000 would be seen as not providing high-quality education and their courses would be deemed unlikely to lead to the income benefits or experience that prospective students seek. Far from making a university more attractive, a lower fee would make it less attractive.[11] (This had been demonstrated in 2006 when a small number of universities charged below the £3,000 fee in the hope that they would attract more students, only to find that application numbers dropped.)

6.9 In summary, then, charging a fee lower than £9,000 at a university would lead to a significant drop in university income and would deter students from applying to that institution. The £9,000 fee was therefore clearly the best option for the university. Moreover, as the Government had designed its scheme in a way which ensured there was no financial benefit whatsoever for the overwhelming majority of students in taking a lower-fee course, there was no rational reason to adopt a lower fee in the interests of its students either. There would be no need to talk to other universities or form cartels. The £9,000 fee was the only rational option.

6.10 While this decision was emerging, the option of differential fees within each university was also being explored. The operational difficulties of such an approach rapidly became evident. If one accepted that a lower fee for, say, a Humanities course relative to a Science course might be justified on cost grounds, how would one 'price' courses which combined both elements (for example Business and IT courses or Science courses that included Language options)? What about modules shared between higher and lower cost courses which might therefore have students sharing a class for which they would be charged differential fees? The survey evidence suggested that students would resent sitting alongside peers paying lower fees. Moreover, a university charging differential fees would be unattractive to students considering higher-cost courses because the extra cost seemed 'unfair', and unattractive to students considering lower-cost courses, as they felt that this made their course seem to be of inferior quality. Again, charging lower fees for some courses would reduce university income, make courses less attractive to students and not confer any financial benefits on the students.

6.11 The nature of the scheme therefore made it inevitable that all universities would charge the maximum fee for all courses and, with a few minor exceptions (which rapidly fell into line the following year), this was the outcome.

6.12 However, the maximum-fee decision did not eliminate all anxiety within the universities about the effect that the new arrangements would have in practice. Risks were duly mitigated. Most universities hatched their own scholarship schemes which could be mentioned without much detail (or commitment) in prospectuses and then could be used as last-minute boosts to recruitment, if required.[12] Most also rapidly stepped up plans to improve facilities for students, recognising that the quality of the student experience would become ever more crucial in the future. This led to a period of rapid capital investment in universities that has helped to produce significant improvements in the quality of the student experience. The quality of teaching and learning also received far more attention in those years but the £9,000 fee (which was raised to £9,250 in 2017) has become almost universal for all courses in English universities although further education colleges and some non-traditional providers – which operate in a very different market – are more likely to charge a lower rate.

The cost of the 2012 scheme – an emerging fiscal illusion

7.1 While universities were deliberating their fee levels, there were widespread concerns being expressed about the new scheme by those conducting research on or within the higher education sector. Some of these were ideological. Others were economic. But increasingly, as the figures shown in sections 4 to 6 came under independent analysis, more pragmatic reservations arose. Put simply, the Government was proposing to treble the fees of students and consequently their debts would more than double. The effect of the debts would then be worsened by attracting real interest above the rate of inflation for higher-earning graduates. It was nevertheless also planning to raise the threshold at which repayments would commence in order to reduce the burden of repayments on graduates. This begged an obvious question. Could a massively increased debt be serviced if the repayments were being significantly reduced compared to the scheme in place prior to 2012? A quick back-of-an-envelope analysis was all that was required to see that the answer to this question was 'no'.

7.2 Under the 2006 scheme, undergraduate students had been liable for a fee of up to £3,000 per year. (This was topped up by around £4,000 per student per year paid to universities by HEFCE to give a total average 'unit of resource' of around £7,000 per student per year at a university.) Grants payable to a student for living costs had also been available but, even for students ineligible for these, debts were rarely much in excess of £25,000 on graduation. The level of repayment instalments after graduation was set at 9 per cent of income in excess of a salary threshold set at £15,000 a year when the first graduates of the 2006 scheme began to make repayments. A graduate fortunate enough to receive a starting salary of £20,000 a year would repay £450 a year. With no real interest payable on the loan and very low inflation, most graduates found their debt reducing immediately after entering employment and could see it being paid off as their salary rose. Any remaining debt would be written-off by the Exchequer after 25 years but for the overwhelming majority of graduates, it was expected that the debt would be repaid well before the 25-year limit. This expectation was justified by future evidence. The percentage of loans which would be left unpaid by graduates and would therefore fall on the public purse (as the Resource, Accounting and Budgeting charge, or RAB, for short) for the 2006 scheme remains relatively low.

7.3 The new 2012 scheme trebled fees, doubled the average debt and added real interest to the loan for all but the lowest-paid graduates. To cope with this, it extended the repayment period from 25 to 30 years but then more than wiped out the additional funds this might have raised by increasing the salary threshold at which repayments were triggered, thereby significantly reducing the repayment rate. The inevitable consequence was that, for the majority of students, their debt would never be fully repaid. For a student taking a three-year undergraduate course with a £9,000 a year fee and with average living costs, the debt at the end of the three year course would rise to over £40,000 with real interest accruing while studying and, subject to salary, from when repayments started in the April after graduation. The salary threshold for repayment was, however, increased to £21,000, meaning many graduates paid nothing at all in their early years of employment. So our fortunate graduate with a starting salary of £20,000 a year would initially make no repayment at all. Even after a few years, when their salaries hit the median UK salary of £25,000 a year, they would only be repaying £360 a year (much less than they would have paid under the 2006 scheme). Their debt would continue to rise in line with inflation, thereby forcing up the consequent level of salary needed to pay-off any of the capital. As their salary rose, higher levels of interest would become payable on their debt, making it even more difficult to reduce the amount owed. It was clear that even for students whose peak salary reached £50,000 a year (twice the national median salary), the full debt would never be repaid, because, even at that level of salary, the repayments made each year barely covered the interest (chargeable at 3 per cent above the rate of inflation for that salary level) on the debt. Salaries needed to reach three or four times the median for the debt to start to reduce significantly and there were just not going to be enough graduates earning that level of salary for the scheme to hold the RAB below 50 per cent. Inflation might have rescued this scheme but by index linking the salary threshold, the Government had cut off its last escape route. Independent analyses concluded that the RAB could not be held below 50 per cent.[13]

7.4 The 2012 scheme eliminated almost all of the £4,000 per student a year payable by HEFCE to universities under the pre-2012 scheme. Accordingly, with a relatively low official estimate of the RAB, it appeared to make a significant contribution of around £7 billion for each student cohort to reducing Public Sector Net Borrowing. After the 2015 General Election, the Government substituted loans for the means-tested grants payable to students for living expenses, thereby enhancing the apparent saving. However, using the RAB estimate of 50 per cent (which was the level estimated in 2011 by the papers referenced in note 13) would have meant that the residual debt payable by the Treasury after 30 years would have wiped out all of this Public Sector Net Borrowing gain and actually left the scheme more costly than the one that preceded it.

Erroneous assumptions

8.1 Even on the basis of simple back-of-an-envelope calculations, it was clear that the apparent savings claimed by the 2012 scheme would never be realised. This was the 'fiscal illusion' belatedly recognised in the December 2019 Office for Budget Responsibility report. (In fact, the 62 per cent RAB estimated by the Office for

Budget Responsibility means that the 2012 scheme will actually cost far more than the scheme it replaced because a RAB below 50 per cent was required to break even.) How had his happened?

8.2 To its credit, in late 2010, the Browne review made available the spreadsheets and salary simulations it had used for its calculations. From these, it could be seen that the review had based its figures on extremely optimistic estimates of the salary lift that graduates would enjoy relative to non-graduates.

8.3 It had based these estimates on past data on the differential growth rates of UK graduate and non-graduate salaries. However, these past data covered an era in which only 10 per cent of the population attained a degree. The differential enjoyed by those 10 per cent over the 90 per cent of non-graduates amounted to an average salary growth for graduates of 4.5 per cent a year more than that enjoyed by non-graduates. Applying a 4.5 per cent a year level of growth differential to graduate salaries for 30 years would result in opening up a huge chasm between the career-peak average salaries of graduates and non-graduates. Such a chasm had indeed existed when only a small elite went to university. However, it could not conceivably continue into the future when 50 per cent of the population cohort took a degree. By using this differential, the Browne review had projected the average salary for a graduate 30 years after graduation to £100,000 a year (at 2016 prices), whereas, at the time, only 1 per cent of the population earned a salary of that level. Clearly, there were no circumstances in which anything like this average level of salary could have been achieved.

8.4 Moreover, the Browne review and the subsequent White Paper had based their projections on an average fee well below the actual £9,000 fee adopted by almost all universities.[14] This added £5,000 to the estimated average loan of a student on a 3-year degree.[15] Accordingly, the way the Government chose to implement the Browne recommendations led to two separate sources of significant estimation errors. The effect of underestimating the fee level and overestimating graduate salary growth, when compounded, was to make the scheme appear far more financially sound than it could ever have been in reality. This was the 'fiscal illusion' accepted by the Office for Budget Responsibility in 2019. As was pointed out by independent analyses in 2011 (see note 13), plugging realistic figures into the Browne review model back in 2011 showed that the repayment level would be around 50 per cent at best, leaving the residual 50 per cent (the RAB level) of debt to fall on the public purse when it was written off by the Exchequer after 30 years. (The Government claimed the worst case scenario would be a 70 per cent average repayment. Meanwhile, the national accounts reflected 100 per cent repayment.) At a 50 per cent repayment level, the primary justification for the introduction of the scheme collapsed because the cost to the Exchequer – after taking account of the cost of paying off the huge level of unpaid debt after 30 years – would then exceed that being paid under the scheme it had replaced.

8.5 In summary, then, the 2012 scheme appeared to have transferred the cost of higher education from the public purse onto the students themselves in the form of repayable debt. However, as the repayment rules meant that the majority of the debt would never be repaid, this was a fiscal illusion. In reality, the 2012 scheme would prove to be more costly for the public purse than the scheme it replaced. The effect on Public Sector Net Borrowing set out in the 2019 Office for Budget Responsibility reports implicitly recognises this.

Improving the scheme?

9.1 One of the curious footnotes associated with this scheme might be the way that the different political parties attempted to improve it. The policy reaction of the Labour Opposition in 2011 was to propose a limit on fees of £6,000 a year (with government paying more to universities to make up the fee income lost). This was possibly the most regressive policy that the Party could have adopted. For all but the highest-paid graduates, a system with £6,000 fees would, in reality, be exactly the same as a system with £9,000 fees. It would have had no effect whatsoever on the repayments of graduates on low or mid-level salaries because they would still have continued to pay 9 per cent of their income over the threshold for the full 30 years whether their debt started at £40,000 (under the £9,000 fee) or £31,000 (under the £6,000 fee). Either way, they would pay the 9 per cent for the full 30 years because their incomes would never be high enough to pay off either debt in full. The only beneficiaries would have been graduates on salaries over £100,000 a year whose repayments would have ended earlier.

9.2 As the estimates of the level of unpaid debt crept ever upwards year-on-year, the Conservative / Liberal Democrat Coalition Government retained the formula for interest rates set in 2012 even though, for several years, this had the effect of charging an interest rate on debts of between 3.9 per cent and 6.3 per cent (depending on the salary of the graduate) when the cost of government borrowing was below 1 per cent. Opposition figures denounced the interest rates charged on loans as being unfair to middle-income and lower-paid graduates while the Government defended the high interest rates as being necessary to protect the Exchequer. Both arguments were, of course, spurious. In reality, this high level of interest had absolutely no effect on the repayments of the vast majority of graduates whose incomes were not sufficient to repay their debt in full even at the lower rate of interest. All that the additional interest achieved for those graduates was to increase the level of final debt that would be written off by the Exchequer after 30 years. Likewise, although a minority of very well-paid graduates would find their repayment obligation extended by a few years, the additional amount brought in by the high interest rates had very little effect on the overall cost to the Exchequer.

9.3 By 2019, the Liberal Democrat Party was flirting with the 2012 Labour proposal of a £6,000 cap on fees while the Labour Party had adopted the 2010 Liberal Democrat Party policy of ending tuition fees altogether. Neither addressed the fiscal illusion. Neither addressed what would happen to the debts run up since 2012.

9.4 Having listened to (and talked to) many politicians from all parties over the years, very few seemed to have grasped that student loan repayments do not work like most loans or mortgages, where the repayment level is linked to the debt level. For student loans, graduates pay 9 per cent of their salary above the threshold (regardless of the actual debt level) until the debt is fully repaid. As for most students (83 per cent at current Office for Budget Responsibility estimates) this will never happen, changing the fee level or interest rate has no effect for the overwhelming majority of graduates and therefore no significant effect on the cost to the public purse either because, after 30 years, it will have to pay off whatever debt is remaining anyway. Likewise, modest fee reductions would have no effect on most graduates.

9.5 Meanwhile, the universities have understandably been reticent about pointing out the fiscal illusion on which the scheme is based. To do so would invite an attack on their funding source and encourage the development of much harsher repayment terms for future students and / or reductions in student places. Instead, they increasingly described the scheme as a graduate tax in all but name, even if it did not feel like that to graduates receiving their annual statements from the Student Loans Company.

The Augar review

10.1 Many people had hoped that the Augar *Review of Post-18 Education and Funding*, which was commissioned in February 2018 and reported in May 2019, might address some of the issues identified in this paper. The Augar report has many interesting features covering higher and further education and makes a large number of wide-ranging recommendations.[16] Its main recommendations on higher education funding include:

a) reducing the fee for all undergraduates (regardless of type of degree studied) from £9,250 to £7,500 in 2021/22 but from 2023/24 allowing the fee to rise with inflation (recommendation 3.2);
b) fully replacing the income lost by universities through the fee cut by increasing the grant paid to higher education institutions in cash terms for 2021/22 and 2022/23 and in real terms thereafter (recommendation 3.3);
c) allowing growth in full-time undergraduate numbers to match the demographic increase in the 18-year old population which would mean a 10 per cent increase in student numbers by 2025;[17]
d) redistributing expenditure within the overall funding envelope so that the unit of resource received by a higher education institution for the provision of Science and Engineering degrees would be increased at the expense of Humanities, Business and Creative Arts degrees (recommendation 3.5);
e) lowering the salary threshold at which graduates begin to make repayments (from the current level of £25,000 a year to £23,000 (which was the median salary of non-graduates in 2018) (recommendation 6.2);
f) extending the maximum period of repayment for graduates from 30 to 40 years (recommendation 6.3);
g) abolishing the current practice of charging interest on loans while a student is still studying by not levying interest until after graduation (recommendations 6.4 and 6.5); and
h) capping total repayments for each graduate at 1.2 times the original loan in real terms (recommendation 6.6).

10.2 If all these changes were implemented, the income of higher education institutions would be primarily affected by a) to c). Their total funding would fall slightly in real terms in 2021/22 and 2022/23 as a result of a) but would then increase faster than the rate of inflation as a result of inflation-proofing of fees and grants under a) and b) plus volume growth under c). There would also be some redistribution of funds between institutions (and, to a lesser extent, within institutions) as a result of changes in relative funding of subjects under d). Prior to COVID-19, for most higher education institutions, these would have been challenging but manageable income effects. They would still have been sufficient to threaten the viability of those with the most fragile finances, those with relatively little Science and Engineering provision and those least able to achieve student number growth. Post COVID-19, the changes may need to be evaluated in the context of any potential reduction in income from student recruitment (at least in the short-to-medium term) although current analyses of enrolments in 2020 and applications for 2021 are not showing reductions.

10.3 We can also look at how implementing Augar's recommendations would affect students. Firstly, we can look at the overall effect on the percentage of cost borne by students / graduates as a whole compared to those incurred by the state. Augar uses the 2019 Treasury estimate of a RAB of 47 per cent as its starting point, so that students on the 2012 scheme are assumed to pay 53 per cent of the total cost of undergraduate higher education with 47 per cent paid by the state. The report concludes (page 178) that with all its proposals implemented, 'this would represent a 50 per cent student contribution to the total costs of higher education. This is a similar balance to the current system'. So, the conclusion of the Augar report is that its proposals would not significantly affect the cost to the state. (It actually argues that these would increase from 47 per cent to 50 per cent but it would be unwise to see this as a real change given the broad range of assumptions used.) Combining the conclusions of the Augar report and the Office for Budget Responsibility reports would lead us to conclude that implementing the Augar proposals would not significantly affect the revised Office for Budget Responsibility estimated RAB of 62 per cent. On the basis of the Office for Budget Responsibility calculations in December 2019, students as a whole under an Augar regime would pay just under 40 per cent of the costs and the state would be responsible for just over 60 per cent.[18]

10.4 Secondly, we can look at how this effect will be individually felt by students / graduates depending on the income levels they go on to earn. Students who go on to have high earnings (in the top two deciles) would benefit very significantly from the Augar proposals in that, as they would go on to repay in full whatever debt they incurred, they would benefit directly from the reduction in fees which would reduce their debt. Moreover, even though the small reduction in the salary threshold – at e) above – would raise their initial payments, this would merely have the effect of enabling them to clear their debts even more quickly, thereby lowering the interest they would otherwise have paid. They would either have cleared their debts or reached the payment cap well before the end of the 30-year repayment period after graduation and so would be unaffected by the lengthening of the term of repayment (introduced at f) above). The remaining 80 per cent of students who are not among the top 20 per cent of earners, would all be worse-off. A small proportion of these (who will go on to have earnings in the third and possibly fourth decile) would clear their debts or reach the repayment cap before 40 years have elapsed after graduation but this would still leave them worse-off than under the current system because they would have to make higher monthly payments (as a result of the reduced salary threshold above which they would be liable for the 9 per cent levy) and may also have to continue paying beyond the previous 30-year limit. For those whose earnings are in the middle of the earnings curve or below the median, lifetime repayments would increase considerably. The effect of the proposals on graduates is therefore regressive, shifting the burden of repayment from higher earners onto the backs of middle and low earners. (Figure 6.11 in the Augar report clearly demonstrates this.) Augar argues that this is a fair outcome but it may not fit with the current popular mood in light of the contribution made by lower-paid people (especially those in the health and social care sector) during the COVID-19 pandemic.

10.5 Finally, we can summarise that the overall effect of implementing the Augar proposals would be:

- to reduce the total funding of higher education institutions in real terms for 2021/22 and 2022/23;
- to maintain real funding per student thereafter, while also allowing growth in student numbers in line with demographic trends for 18-year olds;
- to maintain the current RAB of 62 per cent, thereby not affecting the average split of costs between the student and the state – the

total cost to the state would initially decrease as a result of the freeze before increasing in real terms (to beyond the current cost) as the unit of resource rises with inflation and student numbers rise;[19]

- to redistribute the costs per student so that highly paid graduates pay less and all other graduates pay more than under the 2012 scheme;[20] and
- to redistribute expenditure within and between universities so that Science and Engineering courses are better funded at the expense of Humanities and Creative Arts courses.

10.6 The Augar report demonstrates the problems which arise when one seeks to retain the basic principle of the 2012 scheme, which is that the cost of higher education should be fully individualised into a debt to be repaid by each individual student after graduation. This principle leads Augar to a range of fiscally regressive measures which require graduates on lower or middle-range incomes to make larger repayments (primarily by extending the payment period and lowering the income threshold at which repayment commences) while ensuring that high-paid graduates do not pay more than the real cost of their education. However, although the changes generate some additional contribution from the less well paid, the restrictions of affordability make it impossible to generate sufficient additional revenue to make a significant difference to the RAB. Moreover, the protection of higher-paid graduates from additional payments make it impossible to gain additional revenue from the graduates who would be most able to afford to pay more. This conclusion is of course not restricted to the specific proposals of Augar. It will be the outcome of any attempt to modify the 2012 scheme while remaining true to the principle of individualised debt on which the 2012 scheme is founded.[21]

10.7 Augar remains a very significant document. If implemented, it will materially affect the funding of individual students and universities. However, it makes no difference to the fiscal illusion identified by the Office for Budget Responsibility. Nor does it affect the split of costs as a whole between students and the state.

Final reflections

11.1 The 2012 scheme has had one final effect on English universities beyond the academic and financial outcomes described above. The scheme has led to a reduction in the provision of part-time higher education by over 50 per cent. This was certainly not an effect which Lord Browne and his colleagues wanted or expected. Indeed, they made it clear that they wanted to avoid this outcome. However, prior to 2012, the Higher Education Funding Council for England had provided a higher rate of resource (a 'premium') for part-time students (when calculated over the length of their course) relative to full-time students. This premium reflected the fact that logistical issues meant that it costs more to provide a full undergraduate degree programme to a part-time student studying for, say, nine years than to provide the same degree to a full-time student studying for three years. It also was designed to incentivise higher education providers to offer part-time courses. Many providers had responded by offering part-time courses at a much lower fee per module than that charged to full-time students. Transferring to a full-cost fee-based system took away this incentive. From 2012 onwards (sometimes after a phasing-in period) part-time fees tended to be increased pro-rata to the full-time fees and the fees for many part-time courses fees trebled. Moreover, a RAB of 62 per cent meant that full-time students would, on average, only repay 38 per cent of the fees that they were charged. In practice, therefore, the true average fee paid by a full-time student was only £3,500 (38 per cent of £9,000). Although the student loan scheme was extended to make some part-time students eligible to take out loans, few actually did so. Without the benefit of loans that would be largely written off after 30 years, part-time students would instead pay the full £9,000 fee (pro rata). Overnight they would go from from paying less than their full-time equivalent per module to paying almost 200 per cent more. The change was so sudden that part-time student numbers collapsed and many part-time courses ceased to run as they were no longer economically viable. The number of part-time higher education students was 243,355 in 2010/11 but had fallen by 56 per cent to 107,325 in 2015/16 as had been predicted in 2011 (see note 13).[22]

Conclusion

12.1 In summary, the 2012 student loan scheme for funding undergraduate higher education in England was adopted in haste by the UK Government in order to make considerable savings to Public Sector Net Borrowing (PSNB) as part of a more general austerity programme. From the outset, it was clear that the scheme and the PSNB savings were based on the fiscal illusion that the repayments made by graduates would be sufficient to cover the loans being incurred by the scheme. In fact, it has now been accepted by the

Office for Budget Responsibility (OBR) that the repayments will cover only 38 per cent of the loans (and of the costs of the scheme). The remaining 62 per cent will fall on the public purse, meaning that the scheme will cost considerably more than the one which it replaced. Given that it has left millions of graduates burdened with huge debts and has also led to the collapse of part-time higher education in England, there is now an urgent need to replace the scheme with a more transparent and less damaging alternative.[23] Any replacement should retain the strengths of the 2012 scheme – avoiding up-front fees and retaining a progressive income-contingent approach to the collection of any financial contribution to be made by graduates – while addressing the flaws identified in this paper. This is explored in more detail in a separate paper from HEPI.[24]

Endnotes

[1] Office for Budget Responsibility (OBR) *Economic and Fiscal Outlook,* March 2019 Annex B, pp.183-194 https://cdn.obr.uk/March-2019_EFO_Web-Accessible.pdf; OBR *Restated March 2019 Forecast* (published December 2019) https://obr.uk/docs/dlm_uploads/Restated_March_2019_forecast.pdf; Office for National Statistics, *New Treatment of Student Loans in the Public Sector Finances and National Accounts,* 17 December 2018 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/newtreatmentofstudentloansinthepublicsectorfinancesandnationalaccounts/2018-12-17; ONS *Student Loans in the Public Sector Finance; a Methodological Approach,* January 2020 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/methodologies/studentloansinthepublicsectorfinancesamethodologicalguide

[2] Alan Roff*, Student Finance in England 2012 – 2020: From Fiscal Illusion to Graduate Contribution?*, HEPI, January 2021

[3] John Browne et al., *Securing a Sustainable Future for Higher Education,* 2010 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/422565/bis-10-1208-securing-sustainable-higher-education-browne-report.pdf

[4] It was also responsible for the Higher Education Act (2004) which had created the legal framework for most of the proposals of Browne and the consequent 2012 scheme. Remaining elements were included in part 9 the Education Act of 2011.

[5] For more detail of developments in this era, see Nicholas Hillman, 'From Grants for All to Loans for All: Undergraduate Finance from the Implementation of the Anderson Report (1962) to the Implementation of the Browne Report (2012)', *Contemporary British History*, 2013, Vol.27, No.3, pp.249-270.

[6] The National Committee of Inquiry into Higher Education, *Higher Education in the learning society*, 1997 http://www.educationengland.org.uk/documents/dearing1997/dearing1997.html

[7] It is impossible to know how the levy recommended by Browne would have affected the decisions of universities in terms of setting fees but it was carefully constructed to make it unattractive to charge high fees in that the higher the fee, the greater the levy. So a university setting a £6,000 fee would be able to keep all of it. Out of a fee of £8,000, it would only keep £7,120. Out of a fee of £10,000, it would only keep £8,100. To retain £9,000, it would need to set a fee of over £12,000. This partly explains the opposition of the university sector but the proposal would have made it far harder for a university to opt for the £9,000 option, which became the default under the £9,000 fee-cap model introduced by the Government. In retrospect, all that can be said is that the Browne levy might have enabled a 'market' involving differential fees to have emerged. As section 6 shows, the fee-cap model stopped that from happening.

[8] The figures for the levy are in section 5.3 of the report and only extend up to fees of £12,000 a year. However, it is possible to extrapolate from the table provided by Browne to conclude that there would have been no advantage to a university charging a fee of more than £15,000 because, beyond that level, 100 per cent of the excess above £15,000 would have been taken by the levy.

[9] It was far from clear that this would be permitted and so the low-cost / high-volume option was not available for a university even if internal constraints could have been overcome.

[10] The raising of the salary threshold to £21,000 was helpful to those trying to sell the new system to prospective students, as the initial repayment level for new graduates earning between £15,000 and £21,000, which had been up to £540 a year under the 2006 scheme, became zero under the new scheme. Graduates earning up to £27,000 would pay less than half that paid under the old scheme. This looked good on the charts each university produced but was less good for the cost to the Exchequer.

[11] The same experience was well known to universities in terms of setting 'A-Level points' for applicants. Low offers deterred students by implying the course was designed for students with lower abilities. For fees and entry level qualifications, this was a 'Stella Artois' market. Stella had used the slogan 'reassuringly expensive' in 1992 with such success that it retained it well into the new century.

[12] In a 'Stella Artois' market (see note 11), a university could market a course with a £9,000 fee with a £1,000 scholarship so that the student would only have to pay £8,000 but would be reassured that the course was 'worth' £9,000. In practice, the advantages to a university of this option (rather than just charging £8,000) were, firstly, that the university's reputation for quality would be protected and, secondly, that the availability of scholarships could be determined right up to the point when the course was about to commence (whereas the fee level had to be set up front). In practice, the cashback option – as this was known in the sector – proved generally neither to be necessary nor effective but it was reassuring to have in place in the run up to the 2012 entry cycle. Thereafter cashback offers became less common.

[13] For an example of the analysis available before the Student Loan scheme came into force in 2012, see John Thompson and Bahram Bekhradnia, *'Higher Education: Students at the Heart of the System' – an Analysis of the Higher Education White Paper* published by HEPI in November 2010 and updated in August 2011. This paper, which set out in detail the reasons the RAB was certain to be higher than the Government estimate, contains this prescient comment: 'Unless the Government RAB estimates are challenged by the Office for Budget Responsibility or the Office for National Statistics, they will be used in National Accounts and the deficit reduction will occur "on paper" whether or not the expected repayments are eventually made. If the RAB estimates are too low it will be the taxpayer who will have to make up the difference in the end, but that may not become clear for some time.' In fact, 'some time' turned out to be many years later: the Office for Budget Responsibility reports were published in December 2019 https://www.hepi.ac.uk/wp-content/uploads/2014/02/White_paper_response_08_15c.pdf. Bahram Bekhradnia (President and founder of HEPI) also gave evidence to the Business, Innovation and Skills Committee in 2011 and pointed out the flawed estimate of the RAB. His arguments were endorsed by the Institute of Fiscal Studies at the Committee. The report of the Committee's deliberations and the response of the Government are set out in the parliamentary record: Business, Innovation and Skills Committee, Twelfth Report, *Government reform of Higher Education 2011* https://publications.parliament.uk/pa/cm201012/cmselect/cmbis/885/88502.htm. See also Alan Roff, *Student and University Finance;*

Briefing and Implications (November 2011), which was presented at a Labour Finance and Industry Group (LFIG – since renamed 'Labour Business') seminar and discussed with each of the Labour Shadow ministers responsible for education and higher education – Chuka Umunna, Shabana Mahmood and Stephen Twigg – in early 2012. It outlined the scale of the 'fiscal illusion' and predicted that part-time student numbers would collapse. See note 22.

[14] Department for Business, Innovation and Skills, *Higher Education: Students at the Heart of the System*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31384/11-944-higher-education-students-at-heart-of-system.pdf

[15] For a discussion of the implications of various estimates of fee levels used by the Browne review and, subsequently, the government, see John Thompson and Bahram Bekhradnia, *The cost of the Government's reforms of the financing of higher education*, HEPI, 2012*.*

[16] Philip Augar et al., *Independent panel report to the Review of Post-18 Education and Funding*, 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/805127/Review_of_post_18_education_and_funding.pdf

[17] The student growth assumptions in the Augar report are summarised (on page 92): 'Following a decline in the total number of 18-year olds in the UK from a peak of 830,000 in 2009 to 766,000 in 2017 the number will start to increase again in 2020 and surpass 2009 levels by 2025. At current levels of participation and resource per student, these numbers will bring in approximately £500 million of annual extra income for universities by 2025 over current levels.'

[18] The difference between RAB figures varies between different sources. Partly, this is a result of the volatility in estimates of outcomes, which will not fully take place for 30 years. However, there is also more than one way to define the scope of the RAB. Using the average for all cohorts entering since 2012 gives a different result from an average for cohorts from 1998. The most valuable long-term estimate will be derived from estimating the RAB for the latest cohort for which data is fully available, as this ensures that the average is based on the current regulations and not earlier versions which have been superseded. This is the approach used by the Office for Budget Responsibility to obtain the 62 per cent figure used in this paper. It is likely the economic effects of COVID-19 will push the Office for Budget Responsibility figure of 62 per cent up, but the extent of that change is currently impossible to predict. The latest RAB estimate published by the Department for Education is 53 per cent. See https://explore-education-statistics.service.gov.uk/find-statistics/student-loan-forecasts-for-england/2019-20.

[19] In Chapter 6 of the Augar report, there is an analysis of the financial impact of its recommendations, which concludes that – by reducing fees paid by students and raising the grant paid to universities – the percentage of student debt (made lower by the reduced fee) paid back would increase but the share of the total cost met by the state would not change significantly. The Augar estimate on page 178 of the report is for a 3 per cent increase in the state share but we have treated this as approximately equal to the pre-Augar scheme for the purposes of this paper.

[20] Augar goes beyond merely protecting higher paid graduates and significantly reduces their contribution, thereby wiping out the reduction in state funding

which would otherwise have accrued from raising the contributions of low and middle-earning graduates.

[21] For any given number of undergraduates being educated at any given cost per undergraduate, the total cost of provision is not altered by the way in which graduate contribution is calculated or collected. Paying part of the unit cost to the host university (by a government grant), while leaving only the remainder as the fee to feed into the undergraduate loan, will reduce the level of the loan made compared to that which would have been generated by the 2012 scheme. Those graduates, who would otherwise have paid off their full loan under the 2012 scheme, will do so more quickly as a result of this reduced level of the loan. They will therefore find their total contributions reduced because of the reduced period during which they are making repayments. Likewise, there will be some graduates who would not have been able to repay the full loan under the 2012 scheme but who will be able to do so under the 'part-fee' system. They will thereafter cease to make repayments so will also find their total repayments reduced. Graduates whose repayments are inadequate to fully repay even their reduced loans will be unaffected by the change. However, the reductions in payments from the first two groups will still reduce the overall revenue collected by repayments. As a result, whenever a proportion of the total cost is met by grant, the revenue previously collectable under the 2012 scheme is reduced and, consequently, the state contribution inevitably rises.

[22] Anna Fazackerley, 'Part-time student numbers collapse by 56 per cent in five years', *Guardian*, 2 May 2017 https://www.theguardian.com/education/2017/may/02/part-time-student-numbers-collapse-universities

[23] On a more positive note, universities found the new funding scheme made them more attractive when it came to borrowing from banks to develop their estates. Instead of being dependent on grants from government (which banks evaluated as having an element of risk), universities became dependent on recruiting 18-year olds for which numbers could reliably be predicted and for which years of successful recruitment promised continuing reliable income. With a recognition that universities could invest in excellent facilities at low interest rates, the level of investment in the sector grew, with visible effects. English universities are far more attractive in terms of facilities than was the case in 2010. Moreover, universities were able to have a significant impact on the economies of which they were a part. Their capital investment created local jobs and the availability of highly skilled graduates made university towns attractive to employers seeking to develop high value-added products and services. During austerity, some universities came to look like cases of accidental Keynesianism where the additional (if unintended) income from the subsidised fees of undergraduate students boosted the local economies in cities with big universities or more than one university. Whether intended or not, this was certainly a welcome outcome.

[24] Alan Roff*, Student Finance in England 2012 – 2020: From Fiscal Illusion to Graduate Contribution?,* HEPI, 2021