



Institute for
Fiscal Studies

The Distributional Impact of the 2012–13 Higher Education Funding Reforms in England

Haroon Chowdry, Institute for Fiscal Studies

Lorraine Dearden, Institute for Fiscal Studies & Institute of Education

Alissa Goodman, Institute for Fiscal Studies & University College London

Wenchao Jin, Institute for Fiscal Studies

29 June 2012

Background

- October 2010: Browne Review published on HE finance
 - Recommended removing cap on tuition fees alongside large cuts to direct public funding for universities
- November 2010: Government announced its proposals
 - Broadly accepted thrust of Browne Review
 - Proposed variable fees up to £9,000
 - Bursaries and fee waivers under National Scholarship Programme (matched by universities' own schemes)
- Both announcements highly controversial
 - Much debate around impact of reforms on young people's life chances and social mobility
 - Government stressed that proposals were 'progressive'

What we do in this paper

- Model the financial impact of the 2012–13 reforms relative to the current system
 - Use information from each university to calculate *actual* package of fees, loans, grants and bursaries available to students in 2012–13
 - Simulate students' future earnings and repayments over their career
 - Show how financial impact varies across students from different family backgrounds and graduates with different lifetime earnings
 - We focus on full-time home-domiciled students at English institutions
- Also look at:
 - Universities (in terms of fee income, funding and bursaries)
 - Taxpayers (in terms of net savings to the Exchequer)
 - Implications of different levels of economic growth

What will change under the new fee regime?

	Current system	New system
Fees	£3,375	Maximum of £9,000
	Deferred (via fee loan)	Deferred (via fee loan)
	Generally uniform across institutions	Variable between £6,000 and £9,000 across institutions
	No exemptions	Fee waivers based on income/academic merit

What will change under the new fee regime?

	Current system	New system
Fees	£3,375	Maximum of £9,000
	Deferred (via fee loan)	Deferred (via fee loan)
	Generally uniform across institutions	Variable between £6,000 and £9,000 across institutions
	No exemptions	Fee waivers based on income/academic merit
Grants	Up to £2,984	Up to £3,250 (but tighter means testing)

What will change under the new fee regime?

	Current system	New system
Fees	£3,375	Maximum of £9,000
	Deferred (via fee loan)	Deferred (via fee loan)
	Generally uniform across institutions	Variable between £6,000 and £9,000 across institutions
	No exemptions	Fee waivers based on income/academic merit
Grants	Up to £2,984	Up to £3,250 (but tighter means testing)
Loans	Up to £4,950 (outside London)	Up to £5,500 (outside London)

What will change under the new fee regime?

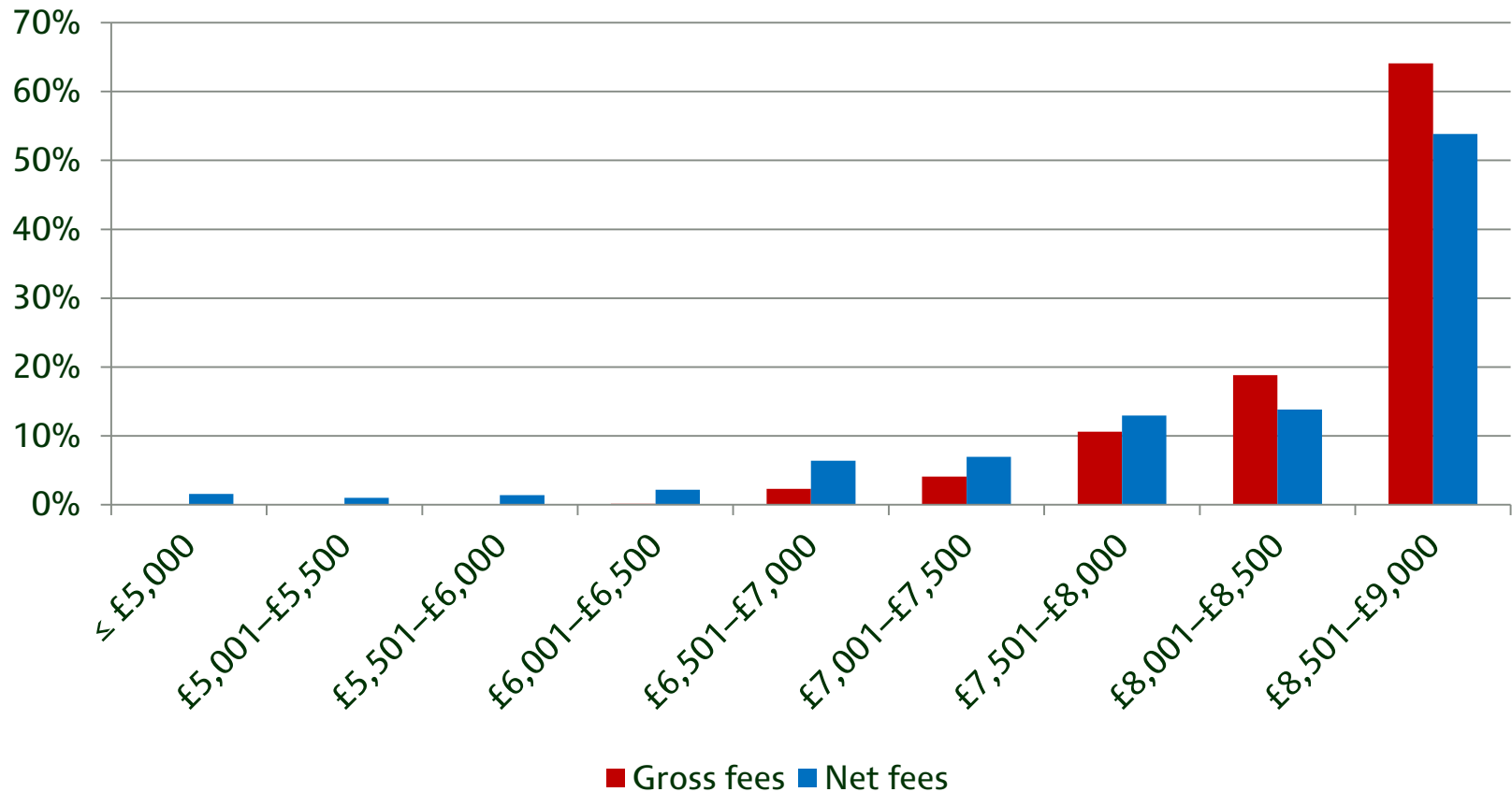
	Current system	New system
Fees	£3,375	Maximum of £9,000
	Deferred (via fee loan)	Deferred (via fee loan)
	Generally uniform across institutions	Variable between £6,000 and £9,000 across institutions
	No exemptions	Fee waivers based on income/academic merit
Grants	Up to £2,984	Up to £3,250 (but tighter means testing)
Loans	Up to £4,950 (outside London)	Up to £5,500 (outside London)
Bursaries	Minimum of £347 paid by university	National Scholarship Programme: £3,000 per award (matched by university's own scheme); split between bursary and fee waiver

What will change under the new fee regime?

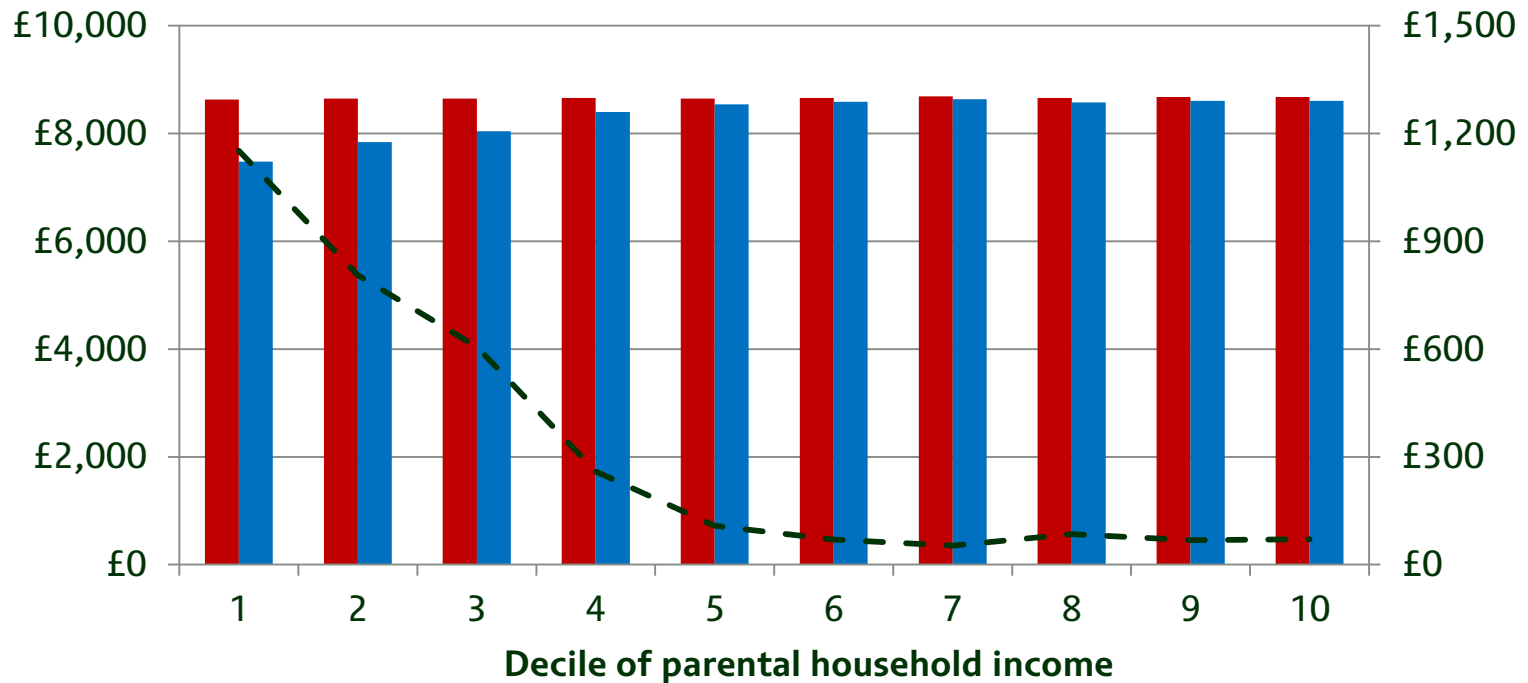
	Current system	New system
Fees	£3,375	Maximum of £9,000
	Deferred (via fee loan)	Deferred (via fee loan)
	Generally uniform across institutions	Variable between £6,000 and £9,000 across institutions
	No exemptions	Fee waivers based on income/academic merit
Grants	Up to £2,984	Up to £3,250 (but tighter means testing)
Loans	Up to £4,950 (outside London)	Up to £5,500 (outside London)
Bursaries	Minimum of £347 paid by university	National Scholarship Programme: £3,000 per award (matched by university's own scheme); split between bursary and fee waiver
Repayment	9% of earnings above £15,795	9% of earnings above £21,000 (in 2016)
	Interest rate = RPI inflation	Variable interest rate from RPI to RPI + 3%
	25-year debt write-off	30-year debt write-off

Implications for students

Annual tuition fees under new system

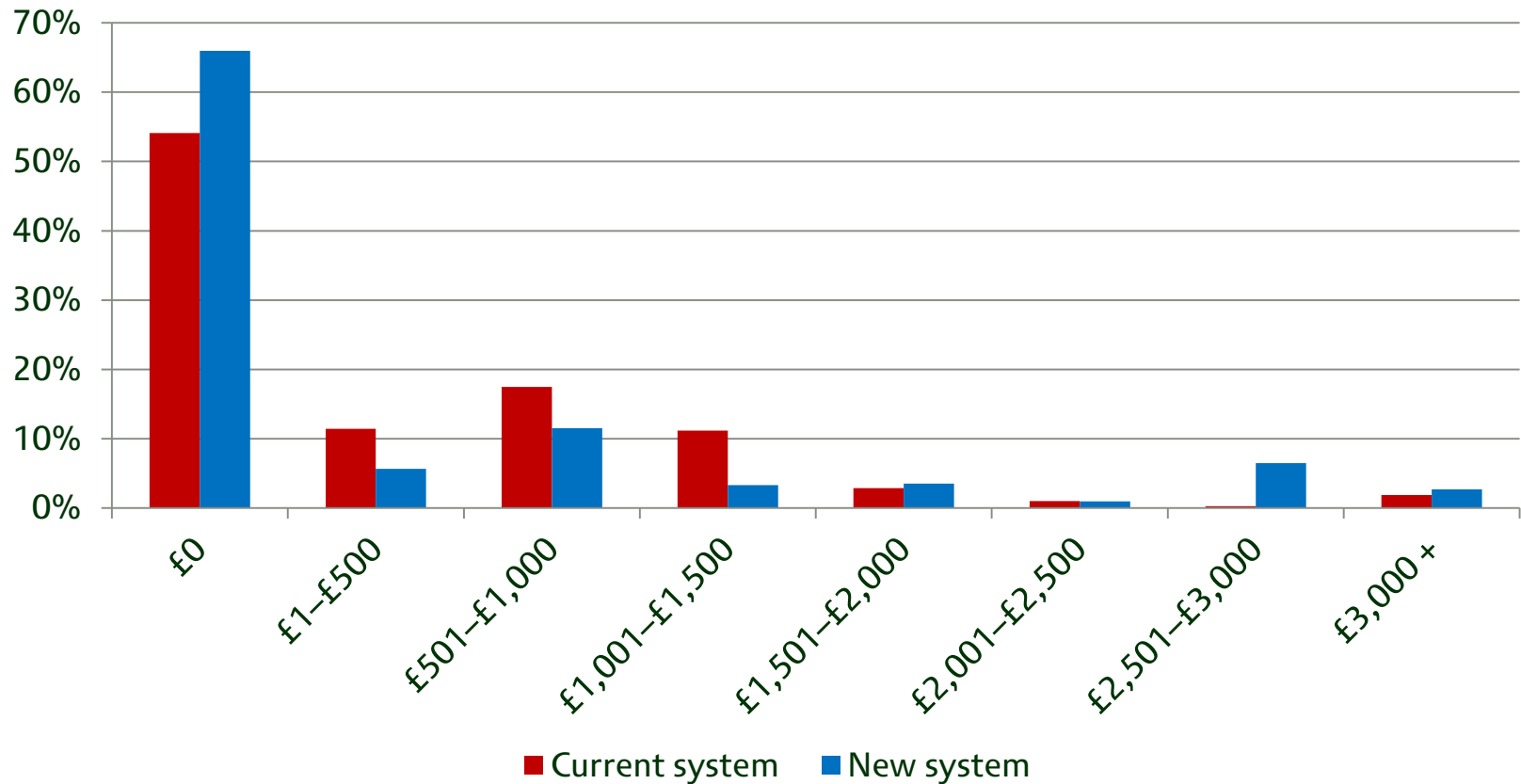


Average first-year fees by parental income

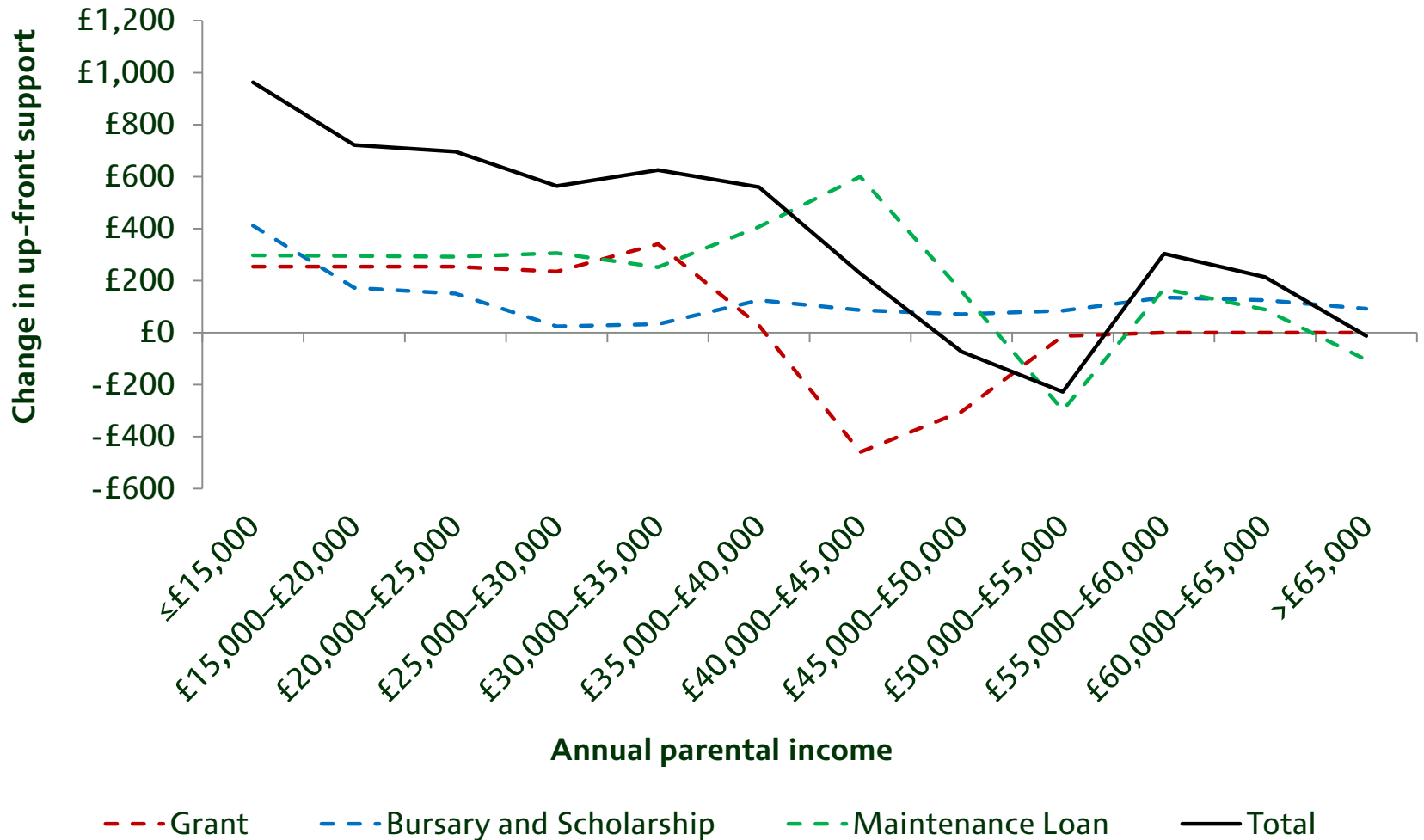


- Gross fees (left axis)
- Net fees (left axis)
- - Difference (right axis)

First-year cash bursaries

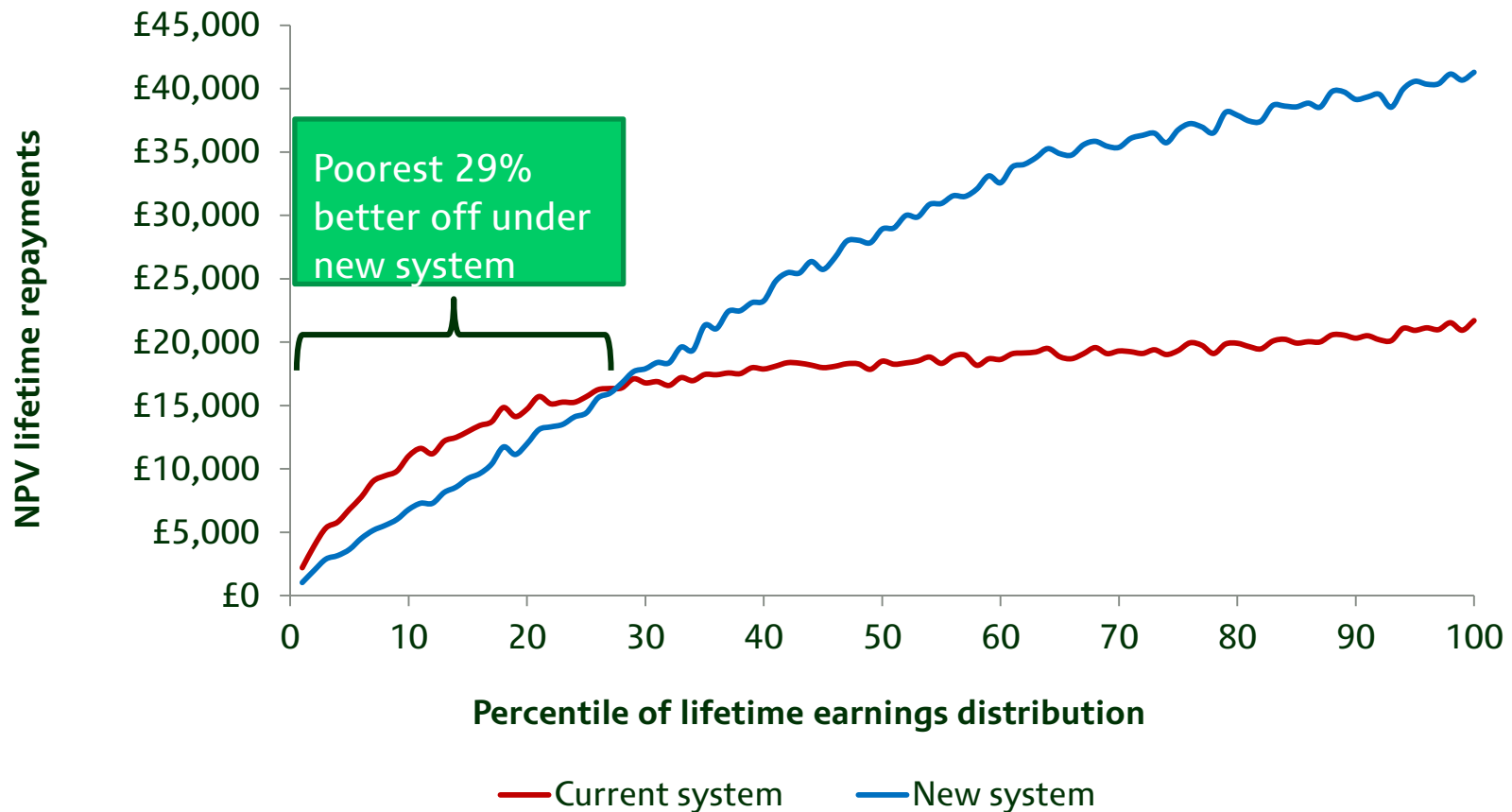


Average change in first-year financial support

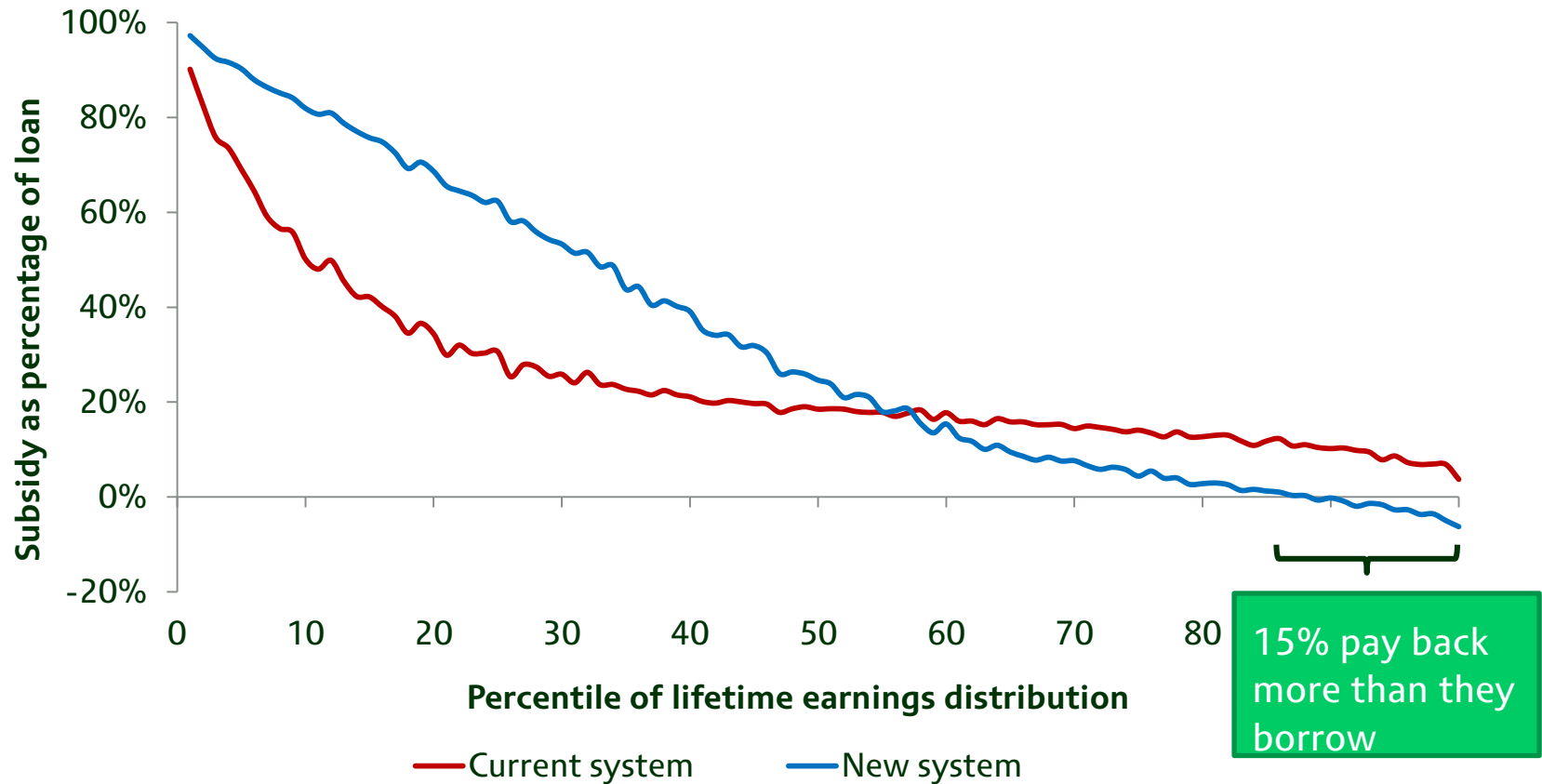


Implications for graduates

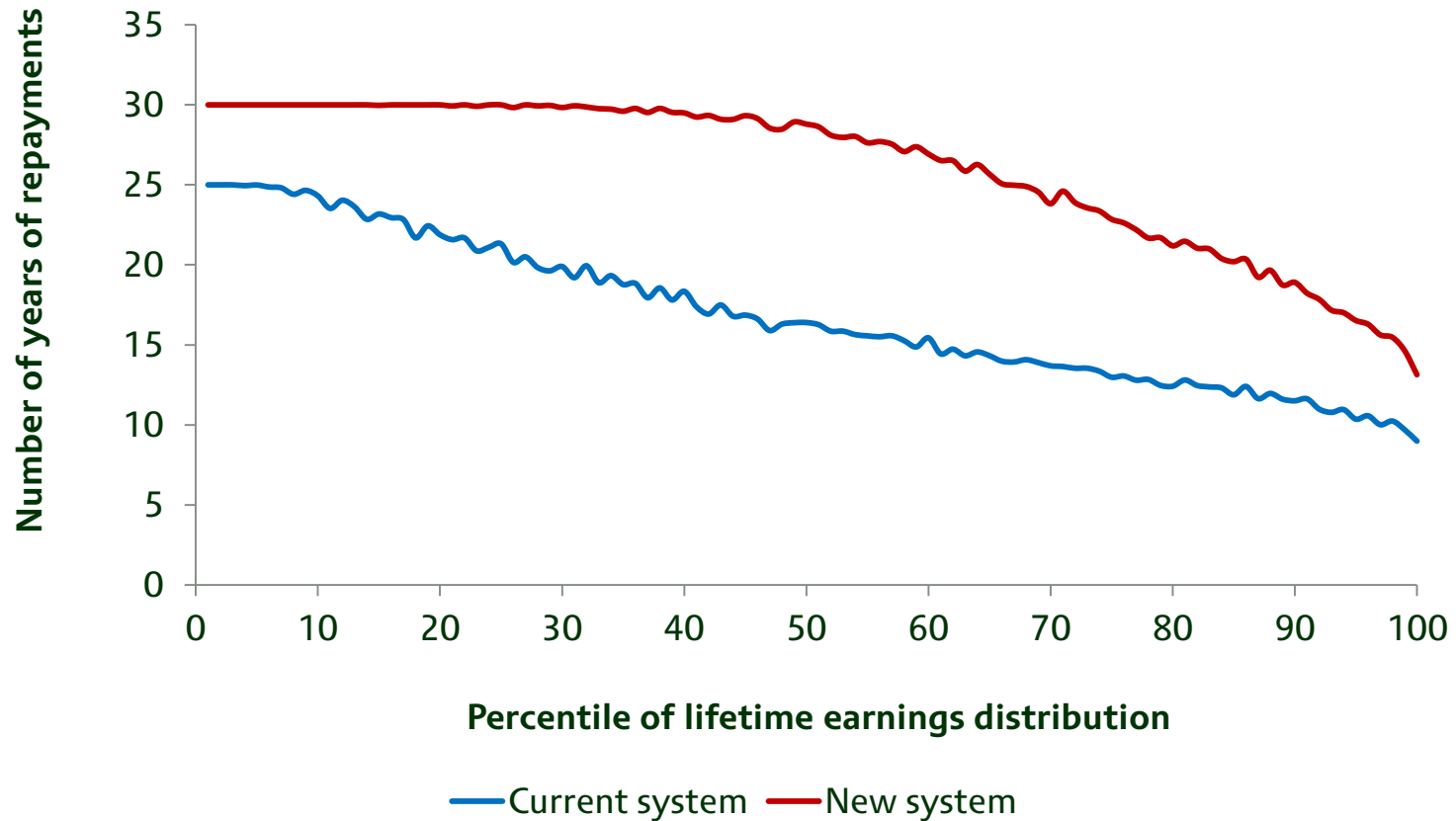
Value of lifetime graduate repayments



Loan subsidy as percentage of amount borrowed



Number of years of repayments



Implications for balance of contributions to HE funding

Circular flow of funding in HE system

	Current system
SOURCE OF FUNDING	
Taxpayer	£20,690

Circular flow of funding in HE system

	Current system
SOURCE OF FUNDING	
Taxpayer	£20,690
HEFCE funding	£10,990
National Scholarship Programme	£0
Maintenance grants	£4,020
£ Loan subsidy	£5,690
% Loan subsidy (RAB)	25%

Circular flow of funding in HE system

	Current system
SOURCE OF FUNDING	
Taxpayer	£20,690
HEFCE funding	£10,990
National Scholarship Programme	£0
Maintenance grants	£4,020
£ Loan subsidy	£5,690
% Loan subsidy (RAB)	25%
Graduates	£16,990

Circular flow of funding in HE system

	Current system
SOURCE OF FUNDING	
Taxpayer	£20,690
HEFCE funding	£10,990
National Scholarship Programme	£0
Maintenance grants	£4,020
£ Loan subsidy	£5,690
% Loan subsidy (RAB)	25%
Graduates	£16,990
DESTINATION OF FUNDING	
Universities	£20,160
HEFCE funding	£10,990
National Scholarship Programme spending	£0
Fees	£10,420
<i>Less</i> Fee waivers	£0
Net fees	£10,420
Bursaries and scholarships	-£1,250

Circular flow of funding in HE system

	Current system
SOURCE OF FUNDING	
Taxpayer	£20,690
HEFCE funding	£10,990
National Scholarship Programme	£0
Maintenance grants	£4,020
£ Loan subsidy	£5,690
% Loan subsidy (RAB)	25%
Graduates	£16,990
DESTINATION OF FUNDING	
Universities	£20,160
HEFCE funding	£10,990
National Scholarship Programme spending	£0
Fees	£10,420
<i>Less</i> Fee waivers	£0
Net fees	£10,420
Bursaries and scholarships	-£1,250
Students	£17,520

Circular flow of funding in HE system

	Current system	New system	Change
SOURCE OF FUNDING			
Taxpayer	£20,690	£18,210	-£2,480
HEFCE funding	£10,990	£460	-£10,530
National Scholarship Programme	£0	£130	£130
Maintenance grants	£4,020	£4,520	£510
£ Loan subsidy	£5,690	£13,100	£7,410
% Loan subsidy (RAB)	25%	33%	8%
Graduates	£16,990	£25,830	£8,850
DESTINATION OF FUNDING			
Universities	£20,160	£24,460	£4,300
HEFCE funding	£10,990	£460	-£10,530
National Scholarship Programme spending	£0	£130	£130
Fees	£10,420	£25,760	£15,340
Less Fee waivers	£0	-£600	-£600
Net fees	£10,420	£25,160	£14,740
Bursaries and scholarships	-£1,250	-£1,290	-£40
Students	£17,520	£19,580	£2,060

Summary

- On average, total gross tuition fees will increase by over £15,000
 - Most direct public funding for degree courses removed
- During university, students will be better off due to increased up-front support
- After university, graduates will be worse off
 - Average graduate will repay additional £8,900 over their lifetime
 - **BUT** poorest 29% will be better off than under current system
 - New system is more progressive for graduates than current one
- Universities on average better off
 - Higher fees more than offset loss of public funding
- Overall, substantial shift in incidence of the cost of HE, away from public sector towards private sector

Implications for social mobility and policy

- In theory, *well-informed* students (especially from poor backgrounds) should not be dissuaded by higher fees/debt
- Problem: new system is complex and less transparent
 - More variability in fees
 - University-specific and course-specific support packages
- Will the reforms affect social mobility? Depends on
 - Degree of debt aversion among students from poorest backgrounds
 - Ability to provide clear information about the actual costs and benefits of going to each institution