

The Government's Higher Education Proposals Explained

*Free at the point of use and fair at
the point of repayment*

Contents

	Page
Why change?	2
The Government's proposals in brief	4
Is the Government breaking a manifesto commitment?	5
Financial support for students	6
Student debt	7
Graduate tax vs graduate contribution scheme	9
Variable fees	10
Access	11
Expansion	12
Research	13
The Tories "Go Home" policy	14
The Liberal Democrats "Stay at Home" policy	15
Current finance system vs graduate contribution system	16

Why change?

Opportunity for all with the potential

At the heart of Government education policies is the belief that people with aspiration and talent, irrespective of background, must have the opportunity to get on in life.

We should not put a cap on ambition. Opportunity must be open to all. That is why the Government believes we need to expand, not restrict the numbers that go to university.

High quality university education costs money

The Government faces tough choices. Universities need more funding but given the pressure on resources they compete with health, police and other public services. In education alone we invest an average of around:

- o £1,800 per year in the education/care of every three year old.
- o £3,200 per year for every primary age child.
- o £4,000 per year for every secondary age child.
- o £4,300 per year for every young person who goes to college after 16.
- o An average of £5,300 per year for every university student.
- o Very little for school leavers who never to return to education

Is it right to further fund higher education at the expense of putting money into under fives, where we can really break the cycle of deprivation?

Universities need more money

Despite funding per student increasing by 7% in 03-06 – it is still insufficient to plug the funding hole created by the 36% inherited cuts between 1989 and 1997.

The result of this is that the backlog in university infrastructure is estimated at around £8 billion and university salaries have increased by an average of only 20% since 1980 – against 60% for employees at large.

Knowledge and skills driving the economy

Our universities are world class, but in danger of decline. Knowledge drives the economy and makes the nation globally competitive.

Decisions must be taken now to provide the investment. Particularly as other countries such as China, India and the USA are making big strategic investments in their universities.

Who should pay?

The Government is already increasing contributions for universities from the tax payer by 2006 every tax payer will be contributing £400 a year. If more tax payers' money were available, other parts of education may have a greater claim.

The Tories answer is to cut the number of universities places. But many other countries are increasing their number of graduates – they know you need a highly skilled workforce to be competitive.

The answer must be to ask graduates to contribute more to the cost of their education in a fair and equitable way.

The Government's proposals in brief

Parents and students will not have to pay upfront fees before or during their university education

Higher education will be free at the point of use. The Government will continue to pay the largest proportion of the cost of a university education. But graduates will make a contribution when they are earning over £15,000, linked to their income, *and at a rate they can afford.*

Repayments will be linked to graduates wages

Contributions to the cost of tuition will be fair at the point of repayment, made through the tax system, like National Insurance and pension contributions.

The less you earn the less you pay, the more you earn the more you pay. If earnings reduce, payments reduce. If earnings dropped below £15,000 or cease altogether, payments would stop.

A graduate earning £20,000 would pay just £8.65 per week covering both fees and maintenance. That's 50% less than graduates currently pay back under the student loans system because we are raising the earnings threshold from £10,000 to £15,000.

No real interest rate is ever charged (inflation linked only), the Government pay the cost of borrowing so the graduate is never penalised for career breaks or taking longer to repay.

Support will be given to those who need it most

The UK, according to the latest OECD report, already spends more of its higher education budget on student support than most other OECD countries.

Students from low income families will get grants, in total up to £2125 per year, to help with fees and living costs.

The Office For Fair Access will ensure that any university that charges variable fees must use some of the extra income for bursaries for poorer students.

Grants for the first time for part-time students who have always had to pay unregulated variable fees.

Independent and secure funding for universities

Universities will be able to vary fees from £0 to £3000 (inflation linked, fixed for the whole of the next parliament) for any course. Variability will be between courses within universities not simply between universities.

All money raised through variable fees will go directly to the university, providing a secure source of income which is independent of the Government.

Is the Government breaking a manifesto commitment?

Simply doing nothing and continuing with the current regime will run down the overall quality of our universities, prevent many students from going to university and cause the English universities to lose their competitive edge.

Despite the fact that spending on higher education in England will be almost £10 billion by 2005-06 (a 31% increase over 2002-03), the largest investment in universities for a decade – the funding gap remains. Universities urgently need money to invest and repair buildings, update equipment and ensure the best researchers and teachers stay in this country rather than go overseas.

This leaves the Government with difficult choices about how we spend our money. In education alone we have to look at where we spend our money. Today we invest an average of around:

- o £1,800 per year in the education/care of every three year old.
- o An average of £3,200 per year for every primary age child.
- o An average of £4,000 per year for every secondary age child.
- o An average of £4,300 per year for every person at college over 16.
- o An average of £5,300 per year for every university student.
- o Very little for school leavers who never to return to education

Whatever else is true of those comparisons they are not fair, we must make tough choices about where we spend our money.

We could have plumped for a quiet life and done nothing but that would have been a disaster for the country. Why? Because knowledge and innovation are the life blood of the economy and our universities are the driver for this knowledge. Our competitors are investing heavily in their universities with many charging variable or unlimited fees and we cannot afford to fall behind.

That is why we are putting forward our proposals now in this Parliament, whilst ensuring that they do not come into effect until the next Parliament.

If we delay the decision until after the next election, we will leave the future of our universities hanging until at least the end of the decade with all of the consequences that entails.

Government is about facing up to reality and tackling the difficult issues head on. The role of the Government is to be bold and address the problem, not hide away in the hope that it will go away – that would be the easy option.

Financial support for students

The UK, according to the latest OECD report, already spends more of its higher education budget on student support than most others. By

Paying all or part of the fees for students either on low incomes or from lower income families – benefiting around 60% of students.

Subsidising interest free maintenance loans so that the sums students borrow for their living costs are only uprated for inflation.

Providing extra help for students with disabilities, children or other particular needs worth nearly £250m, double the amount compared with 5 years ago.

The new proposals will

Introduce a new maintenance grant of £1,000 per year for poorer students from September 2004.

Raise the level at which graduates start to pay back from £10,000 to £15,000 in April 2005. Saving every student £450 per year.

Abolish the upfront fee so that students (or parents) will not pay a fee while they are studying. Students will pay their contribution to their fees AFTER they leave their course and are earning at least £15,000.

Introduce from September 2004 grants for part time students, worth up to £250 per year and a fee remission grant worth up to £575 per year.

This package means that

Full time students with a family income of £15,200 or less will be entitled to total grant support worth [at least] £2,125 per year from 2004, plus access to a loan.

Full time students with a family income between £15,201 and £21,185 will be entitled to total grant support worth between £1,175 and £2,124 per year from 2004.

Full time students with a family income between £21,186 and £31,230 will continue to be entitled to total financial support worth up to £1,175 per year from 2004.

All full time students – whatever their family income - will be entitled to cheap loans to help pay for living costs. And no full time student – whatever their family income - will have to pay anything towards the cost of their course while they are studying.

And from 2006 no university will be able to charge more than the current fee level without providing *bursaries for poorer students*

Student debt

Borrowing money is a commonplace feature of our way of life. Most people take out a mortgage when they buy a house. Or have a loan to buy a car or start a business. Or pay for a holiday with a credit card.

So the key tests are:

- Is it a good investment?
- Will I pay a reasonable rate of interest?
- Am I borrowing too much?
- Can I afford to make the repayments?

On all counts, investing in a university education makes sense.

A good investment?

On average graduates earn 50 per cent more than non graduates and, over a lifetime, £120,000 more than someone who goes out to work having got two A levels. *It pays to get a degree.* The latest OECD report proves that the financial benefit from getting a degree in the UK is among the best in the world.

A reasonable rate of interest?

When you borrow money from a bank, building society or credit card company you pay a much higher rate of interest than a student loan. But with the Government's Graduate contribution scheme a graduate will pay back only what they borrow – the only 'interest' will be an adjustment each year to take account of inflation. There is no real rate of interest – the Government will pay the cost of the borrowing. *A fair deal.*

Borrowing too much?

An independent survey says that current students are expecting to graduate with average loans of around £8,500. This will rise when the new system comes in, but not by much for poorer students, who will still get their existing fee subsidy (up to £1125), plus the new HE grant (up to £1000), and bursaries from universities. Even a debt of around £15,000, which may seem large initially, is small compared to the current size of mortgages. Most students can expect to pay off what they owe within 10-15 years.

A frequent criticism is that graduates won't be able to get mortgages as a result of student debt. But the Council of Mortgage Lenders dispute this claim and have said *"On the basis of the current repayment schedule for student loans, the existence of an outstanding student loan is unlikely to have any negative bearing on the graduate's ability to obtain a mortgage."*

Affordability of repayments?

The Government's Graduate contribution scheme is not like a typical loan – the terms are much better. *Linked to the tax system you only pay what you can afford to pay* - a payroll deduction like National Insurance. You pay nothing until you are earning at least £15,000 per year. Once you earn that amount you only pay back 9% of what you earn over £15,000. If you lose your job or take time out to have a family, your payments stop. And – unlike with a commercial loan – the debt does not go on mounting up because there is no real rate of interest. *A larger loan does not mean larger monthly payments.*

Repayments are completely linked to income so graduates can always tell what they have to repay. And because we are raising the earnings threshold from £10,000 to £15,000, every graduate would pay back £450 less per year under the new system than under the present system.

Graduate's Salary	Weekly Repayments NOW	Weekly Repayments FROM 2005
£15,000	£10.35	£0
£18,000	£13.85	£5.19
£20,000	£17.31	£8.65
£30,000	£35.62	£25.96

Graduate tax vs graduate contribution system

The Similarities

Pure graduate tax	Graduate contribution scheme
Graduates pay not students	Graduates pay not students - No upfront fees for anyone
Graduates pay through the tax system when they start work	Graduates pay through the tax system when earning over £15,000
Linked to earnings – the less you earn, the less you pay: the more you earn, the more you pay	% of earnings over £15,000 - the less you earn, the less you pay: the more you earn, the more you pay
Don't work so don't pay	Don't pay unless you earn over £15,000 <u>and</u> don't work so don't pay
No interest ever charged	No real interest rate ever charged (inflation only linked)

The Differences

Pure graduate tax	Graduate contribution scheme
Does not take into account how much has been spent on a graduate's university education	The graduate only pays back what they themselves have spent – it is an "individualised graduate loan"
Payable throughout a graduate's life	Once you have paid back your individual debt you stop paying
Government does not recover the money for at least 20 years	The Government recovers the money in around 15 years
Money goes straight to the Exchequer – so universities would still have to compete with other public services for fund	Money goes direct to the universities giving them an independent source of income - free from Government
Would have to run alongside the student loan system – with graduates having 2 kinds of university repayments	Fees and loans are in one package repayable on a no interest basis once the graduate earns over £15,000
No other OECD country has a graduate tax	Variable fees and income contingent repayments are operating successfully in many countries

Variable Fees

Why a standard fee increase is wrong

If we increased the £1,125 fee across the board then all students would pay more – whichever university they attended, whatever subject they studied and whatever the quality of the course. That would be unfair and wrong.

Depending on the level of the fixed fee, some institutions might find that there was insufficient demand for their courses. We need to give them the flexibility to set price to respond to demand.

The course you take and the university you attend can have a big impact on what you earn over your working life as a graduate – it is only reasonable for fees to reflect some of this difference.

Why variable fees are right

Universities should have the *freedom* to set their own fees – *as they already do with part-time, overseas and postgraduate students*

This will give them the *flexibility* to respond to changes in demand. Universities could for example reduce the price for a course such as physics which is very important but suffers from poor demand.

Variability will be an important driver of *quality*. The combination of differential fees and student surveys on the quality of course teaching, will allow students to make informed decisions about where and what they study.

Our *international competitors* have already accepted that the university system is diverse and that you cannot have the same price tag attached to every course and every institution. Canada charges between £1,800 and £6,900, Singapore between £1,067 and £3,031, and Australia between £1555 and £2600.

Encouraging diversity does not equal a two tier system

This policy is about promoting excellence and providing universities with the resources they need to expand and improve their facilities. It is not about creating a two tier system.

Universities will be able to vary fees from £0 to £3000 (inflation linked, fixed for the whole of the next parliament) for any course. Variability will be between courses within universities not simply between universities.

The student support package and universities bursaries will ensure that students from the poorest backgrounds will not be excluded or put off from applying for a course charging a higher fee.

Access

At the heart of all our education policy is the belief that people with aspiration and talent irrespective of background, must have the opportunity to get on in life.

1 in 4 working class young people who achieve 8 good GCSE passes don't end up in higher education.

9 out of 10 students (regardless of social class) who get two or more A levels go on to university BUT many people with the top A Levels are not applying to universities which are the best match for their talents.

What the Government is doing about it?

Raising *attainment* through our Sure Start, primary and secondary school strategies and Excellence in Cities programme. Over half of pupils are now achieving five good GCSEs but we are committed to improving that record further. That is why we need to invest in these areas.

Expanding the *Education Maintenance Allowance* nation wide from next year – ensuring that more young people stay in education post 16.

Raising *Aspirations and Applications* through a mixture of visiting schools, master classes for 6th formers and the Government's "Aimhigher" campaign, targeting those schools who do not have a record of sending pupils to university

Admissions – these are a matter for universities but we have asked an independent panel to develop a best practice guide to admissions.

The Office For Fair Access (OFFA)

Once OFFA has been established any university wishing to charge fees higher than the current level will need to have an Access Agreement with OFFA before they are allowed to do so.

As part of the Access Agreement, universities will have to show how they will use some of the extra money they get from higher fees to provide bursaries and other financial support for students from low income background. This will ensure that low income students don't choose courses just by looking at the price tag.

Government Support for Students from Poorer Backgrounds

Government support will ensure that students from low income backgrounds get financial assistance for fees and living costs.

This financial assistance provides in total up to £2125 per year, in addition to the loan the student is entitled to take out for living costs.

Expansion

The economy benefits

Independent economic analysis by Institute for Employment Research shows that by 2010, the number of jobs requiring the sorts of skills that can be acquired through higher education will grow by 1.7m – that's 80 per cent of new jobs created over the decade.

There is good evidence that increasing the proportion of the workforce with higher level qualifications increases productivity.

Graduates benefit

Recent OECD figures show that the personal rate of return from higher education for the average graduate is higher in the UK than any other OECD country.

Increasing numbers does not mean diluting standards. More does not mean worse - this is the age old elitist argument used by the right which denies access to many of those with potential.

Graduates are less likely to be unemployed than non-graduates and they benefit from what can be the educational and social experience of a lifetime.

Plumbers and graduates

That is not to say that we do not recognise the need for people with vocational skills too.

The Government's Skills Strategy and the drive to increase foundation degrees will together provide the economy with the graduates and skilled tradesmen and women that we need.

We need plumbers and graduates. The Government does not believe we have to choose one over the other we are acting on both fronts.

International comparisons

We are now a mid-ranking OECD country for young people entering higher education, with a rate of 43%. Finland and New Zealand both have a rate above 70% whereas Australia, Sweden, Norway, Iceland and Poland are all above 60%.

UK universities have one of the lowest drop-out rates in the world.

Research

University research is a major factor in the UK's success in creating jobs and prosperity. Research lays the foundations for innovation which is vital for improved growth, productivity and quality of life.

Increased Funding

The government is committed to high quality research. By 2005-06 we will have increased expenditure on science and research by £1.25bn a year compared with 2002-03 – a real terms increase of around 30%.

But there is unlikely ever to be enough public money to fund all the research that universities want to undertake.

International competition

Our international standing cannot rest on past glories. Even though we've produced 46 Nobel Laureates in science in the last 51 years, only 14 of those have been in the last 20 years.

The USA, Japan and Canada and other nations are significantly increasing their investment in research. And other countries such as China and India are making big strategic investments in their best universities to ensure that they become or stay competitive.

Despite big investment in university research by this Government our investment still lags behind many of our competitors.

This doesn't mean concentrating research funding in just a few institutions

The government is channelling extra money towards the most highly rated research departments. But even allowing for this, next year more than 43 different institutions will get more than £5million each for research.

The £20 million the government has shifted from lower to more highly rated research departments is being more than compensated for by extra money for universities to support knowledge transfer.

The government will continue to fund new and emerging fields of research.

Encouraging collaboration goes with the grain of what universities already do

Research departments can achieve more through collaboration than they do alone. More universities are forming collaborations such as the White Rose consortium of Leeds, Sheffield and York universities. Manchester, Liverpool and UMIST have formed a network to develop research in genetic technologies through the international Genetic Innovation Network.

The Tories “Go Home” policy

‘The result [of the Tory higher education plans] would be that by 2010 over 460,000 eligible young students would be denied places at university or indeed any publicly funded institution of higher or further education.’ Professor Ivor Crewe, President of Universities UK, 8 .10.03

Under Tory plans around 100,000 university places would have to go immediately just to pay for the cost of abolishing tuition fees – that’s an average of around 600 fewer in each local education authority.

They would sacrifice another 200,000 - 250,000 places as a result of abandoning expansion plans for universities.

Thousands of lecturers would be sacked as courses closed up and down the country and the extra money for teaching students from disadvantaged backgrounds would be cut.

Tory proposals harm the poorest most

Under Tory proposals, students from more affluent backgrounds would be better off. Meanwhile, poorer families would help pay through their taxes for the richest students to attend university without fees.

The Tory proposals would make the rich richer and the poor poorer, according to an independent report. *A report by the Institute of Fiscal Studies in June 2003 said: ‘A move to the proposed Conservative system would mean a redistribution of income from poorer to richer households.’*

Unfair and elitist

By cutting the numbers of places the Tories would narrow the goal posts for the many in favour of an elite few.

Labour has introduced measures to ensure that all those who have the potential to benefit from higher education have the opportunity to do so.

But the Tories have pledged to abolish the Office for Fair Access in favour of elitism.

Resources – back to the bad old days

Under the last Tory government, funding for higher education was cut by a massive 36% per student – over £2,500 – between 1989 and 1997

Labour is expanding higher education and reversing the years of Tory under-investment that crippled Britain’s universities. A move to the Tory proposals would send universities back to the bad old days of elitism and cuts.

The Liberal Democrats "Stay at Home" policy

"Unlike the Government, we would not set a target of getting 50% of the population of student age into higher education ."

Charles Kennedy speech to Liberal Future 5.6.03

Restricting access to higher education

The Liberal Democrats have joined the Tories in putting forward old elitist policies that would limit access to Higher Education.

They would abandon Labour's 50% target and therefore put a cap on aspiration, closing the door to students with good grades and restricting their life ambitions.

And, like the Tories, the Liberal Democrats would abolish the Office For Fair Access and take away a massive opportunity to ensure all young people get a fair chance to attend university regardless of their background.

Forcing students to study at home

"Students would normally attend a college or university near to where they lived and worked." Charles Kennedy, speech to Liberal Future, 5.6.03

The Liberal Democrats would force students to study at home rather than get the chance to go to the university best for them.

Under the Liberal Democrats, going away from home to study would not be an option for the majority of students.

For the many, the chance to study at the best universities would become a lottery based on the location of their parental home.

The Liberal Democrats sums don't add up

The Liberal Democrats have pledged to raise the top rate of income tax to 50% for high earners to pay for the cost of scrapping all university fees. But, just like their penny on income tax pledge at the last general election, the revenue from this 'magic tax' would be spent many times over.

The list is endless, in education alone they propose to cut class sizes, fund more teachers, build new schools by 2010, increase funding for nurseries, provide funding for employers to form Guilds, give tax incentives for SMEs to improve training and free higher education for all.

On top of which they talk about tax cuts for the low paid, funding free personal care for the elderly, increasing the basic state pension, cutting council tax by £100 for all – the list goes on and on and on.

Current finance system vs graduate contribution system

Issue	System now	New system	Effect
Paying Fees	Parents or students forced to pay an upfront fee of £1,125 each year before they start university.	No parent or student will have to pay anything upfront or during university	<p>A middle class family will <u>no longer</u> have to find £3375 to pay for their kids 3 year course.</p> <p>Every family benefits but particularly middle class parents who struggle to fund this amount out of their own pockets.</p> <p>Working graduates earning over £15,000 pay NOT parents or students.</p>
Government money to help with fees? FEE REMISSION	<p>The upfront £1,125 fee is means assessed on parental income and works as follows:</p> <p>£31,231+: Parent or student PAY UPFRONT £1,125 (around 40% of all full-time students)</p> <p>£20,971- £31,230: Government gives up to £1100 towards course cost (around 20% full time students benefit)</p> <p>Under £20,970: Government pays full fee (around 40% full time students benefit)</p>	<p>Students will get help with the first £1,125 worth of fees on the same basis as current system</p> <p>Therefore around 40% will get the first £1,125 paid for them and a further 20% will get some of the first £1,125 paid for them</p>	<p>Around 60% of full-time students will continue to get the same levels of fee support. The poorest will also get a new grant of up to £1000 (see below)</p> <p>The rest will not have to find any money upfront.</p>

<p>Government money to help with living costs</p> <p>GRANT</p>	<p>No maintenance grant available</p>	<p>From September 2004:</p> <p>All those with family income less than £15,200 will get £1000 grants (around 30% of full time students)</p> <p>All those with family income between £15,201 and £21,185 will get a partial grant (around another 10% will benefit)</p>	<p>Poorest students get up to £1000 per year to help with living costs or with fee repayment</p>
<p>University help with fees and living costs</p> <p>BURSARIES</p>	<p>Some bursaries exist but only on a very ad hoc basis</p>	<p>From 2006 no university will be able to charge more than the current fee level without providing bursaries for poorer students</p>	<p>Our objective is to ensure that students from the poorest families will have enough in fee remission, grant and bursaries to cover tuition fees entirely.</p>
<p>Student loans - what do they cover?</p>	<p>The current student loan covers maintenance and living costs.</p>	<p>The new student loan will bundle together the loan for maintenance/living costs AND the loan for fees.</p>	<p>All graduates repay all their costs in one repayment scheme linked to income and ability to repay.</p>
<p>Student loans – interest charged</p>	<p>The only interest charged is linked to inflation.</p> <p>Government pays the cost of borrowing for the individual – it doesn't matter how long it takes the individual to pay back</p> <p>No individual is penalised for career breaks or choosing a lower paid job.</p>	<p>The only interest charged is linked to inflation.</p> <p>Government pays the cost of borrowing for the individual – it doesn't matter how long it takes the individual to pay back</p> <p>No individual is penalised for career breaks or a lower paid job.</p>	<p>This means all graduates will continue to have their loans heavily subsidised by the Government and will only repay in real terms the amount they originally borrowed</p>

<p>Graduate Repayment</p>	<p>Start contributing when you earn £10,000</p> <p>At a rate of 9% on every pound earned over £10,000.</p> <p>Payments directly linked to income like national insurance or pensions – the less you earn, the less you pay.</p> <p>Don't work don't pay</p> <p>Don't ever earn £10,000 then don't pay</p>	<p>From April 2005 start contributing when you earn £15,000</p> <p>At a rate of 9% on every pound earned over £15,000.</p> <p>Payments directly linked to income like national insurance or pensions – the less you earn, the less you pay.</p> <p>Don't work don't pay</p> <p>Don't ever earn £15,000 then don't pay</p>	<p>Higher sums owed DO NOT translate into higher monthly payments.</p> <p>The higher threshold means every graduate will repay £450 less per year than under the current system (see table below).</p>
----------------------------------	---	---	--

Graduate's Salary	Weekly Income(Gross)	Weekly Payments NOW	Weekly Payments 2005
£12,000	£231	£3.46	£0
£15,000	£288	£8.65	£0
£18,000	£346	£13.85	£5.19
£20,000	£385	£17.31	£8.65
£30,000	£577	£34.62	£25.96

0203/dfes/higher education/k05 higher education