

## Press Release

# Graduates and universities share burden of Browne recommendations

Under proposals released today by the Browne Review of higher education funding and student finance, graduates would expect to pay on average at least £5,300 more for their degree, according to analysis by IFS researchers. However, the lowest-earning graduates would be protected from the burden of increased debt and would actually pay less than under the current system.

Despite the proposed increase in tuition fees to £6,000 or above, universities would not be likely to see any benefit: they would need to charge fees of £7,000 or more in order to recoup their losses from proposed cuts in public funding. The real winner of the proposed reforms is the Exchequer, which would save up to £6,000 on the cost of a degree for each student.

### Details of the Browne Review proposals

Chief among the review's recommendations is the removal of the cap on tuition fees (currently £3,290), with universities able to charge up to £6,000 a year, covered by government-funded loans. Institutions wishing to charge more would be free to do so, but would only keep a diminishing portion of the excess fee; the rest would be returned to the Government in the form of a levy, to offset its cost of providing the additional loans.

Other recommendations relate to the provision of up-front cash to students, in the form of maintenance loans and grants, the sum total of which is more generous than under the current system. All students would be eligible for a flat-rate loan of £3,750 a year, with those on the lowest family incomes also receiving a grant of up to £3,250 a year. Over the course of a three-year degree, therefore, a student may expect to graduate with total debt in the region of £30,000.

The current system of graduate repayments would be retained under Lord Browne's proposals, but some of its features modified. Most important is the proposed interest rate of 2.2% above inflation, bringing the cost of borrowing that graduates face in line with the Government's. At the moment, the debt attracts interest only equal to inflation as measured by the Retail Prices Index (RPI). However, a cap on the interest liable would also operate during periods of low earnings. If a graduate's potential repayment is insufficient to service the full interest on the debt, then the real interest charged will be capped or even waived to prevent the outstanding debt from growing in real terms. The implication of this measure is that while all graduates earning above £21,000 would make a repayment, their debt would only accrue the full amount of interest once they earned above £28,500 (assuming an initial debt of £30,000).

Under Lord Browne's proposals, graduates would pay back their loans in instalments set at 9% of income above £21,000 (currently £15,000), and would continue to do so for at most 30 years (currently 25 years) until either

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their debt is cleared or the outstanding balance is written off. Whereas the threshold is currently fixed at £15,000, under the proposals set out today it would be indexed to growth in average earnings. This would serve to limit the proportion of graduates liable for repayments as well as ensuring that repayments go up only if a graduate experiences higher than average increases in earnings.

### **Implications for students**

Under the recommendations set out, students would – while at university – be slightly better off in cash terms than at present. The average student would receive around £700 more over their degree due to the increased generosity of maintenance grants; among students from the poorest families, the extra cash amounts to £1,200 over their degree (assuming that the minimum bursary is no longer received), comprised in equal parts of greater loans and grants. The universality of the maintenance loan, meanwhile, should reduce the complexity and logistics of the student support system, which is to be welcomed.

### **Implications for graduates**

Perhaps unsurprisingly, graduates provide a significantly higher contribution, on average, to the cost of their degree. Based on IFS models of graduate lifetime earnings, the total repayments over the working life of a typical graduate would amount to around £20,100 (including maintenance loans) under the assumption of a £6,000 annual fee. If all universities were to exceed this ‘soft cap’ and charge £7,000 a year, the average graduate would repay £22,100 in total; with a fee of £8,000, graduates would repay £23,300 on average. By way of comparison, under the current system the average graduate pays back £15,400 over their working life.

However, behind these average estimates is a large and important spread in the value of repayments between graduates on different incomes. Those in the bottom 30% of lifetime earnings would actually pay back *less* than under the current system, while only the highest-earning 30% of graduates would pay back the full amount of their loans. The resulting spread of repayments would be more progressive than under the current system, in the sense that lower-earning graduates would pay less and higher-earning graduates would pay more.

### **Implications for universities**

Universities would *lose* money under the benchmark scenario of a £6,000 fee. While their fee income would nearly double in this case, buried in the detail of the review’s recommendations are proposed cuts to the teaching budget that would see some courses become entirely self-funded. The loss of teaching grants – roughly £9,900 per student over the course of a degree – outweighs the increase in fee income, and universities would have to charge fees of £7,000 a year or more to make up for this reduction in funding. Universities that do not have the scope to raise fees above the fee cap would have to internalise the loss of income.

### **Implications for the Government**

The public purse would be the main beneficiary of the proposed reforms: compared with the current system, taxpayers would save £6,000 per student over the course of a degree. While the provision of more loans for fees and

maintenance increases the cost to the Government, this is vastly outweighed by the proposed cuts to teaching grants. Even if fees of £8,000 were adopted and the Government issued additional loans to cover them, it would still save £5,300 per graduate compared with the current system.

**Lorraine Dearden, a programme director at IFS, said:**

“The proposed reforms to student support and graduate repayments would be a welcome development if they were to be adopted. By continuing to provide up-front cash support for the full amount of fees and for living costs, the system should preserve access to higher education regardless of family background. Furthermore, the universality of the maintenance loan reduces the complexity and administrative burden involved in student loans, and may also increase take-up.

The proposed reforms to repayments are highly progressive and ensure that poorest 30% of graduates are better off than under the current system, whilst ensuring that the richest 30% of graduates pay off their loans in full.”

**Haroon Chowdry, a senior research economist at IFS, said:**

“The review’s recommendations might please any fiscally-conscious policymaker seeking to rein in the deficit during times of economic uncertainty, by offering a way of expanding higher education while reducing the burden on taxpayers. The other side of the coin, however, is that this announcement makes grim reading for university vice-chancellors: their fears of significant cuts to teaching grants, which would leave some courses entirely self-funded, do not seem to have been unduly pessimistic.”

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ENDS

Notes to Editors:

1. For further information, contact:  
Bonnie Brimstone at IFS: 020 7291 4800, [bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk).
2. The estimates presented above are based on the IFS’s models of graduate lifetime earnings, and apply to UK-domiciled students who take up their full entitlement to student support and then remain in the UK after graduation. All estimated financial amounts are expressed in 2012 prices.
3. An article in today’s Guardian (‘Rich graduates to fare better in Browne review’) cited estimates of the total repayments and attributed these to IFS. The Institute would like to clarify that it was not involved in the research quoted.