

# Higher Education Funding Policy

## A guide to the election debate

**ELECTION BRIEFING 2005**

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# Higher education funding policy: a guide to the election debate\*

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## Summary

- A Labour government would abolish upfront fees and introduce variable fees of up to £3,000 a year, payable after graduation via income-contingent fee loans. Students would be entitled to a means-tested maintenance loan of between £3,305 and £4,405 a year, a grant of up to £2,700 a year, and a bursary of at least £300 a year if their university charged the full top-up fee.
- The Conservatives would scrap tuition fees and make a £5,000-a-year maintenance loan available to students from all family backgrounds. These loans would be offered by banks at market interest rates, with a nominal rate of 8% being the upper threshold for the lifetime of the next parliament. A means-tested grant of up to £1,500 a year would also be available.
- The Liberal Democrats would also abolish tuition fees. They would offer a means-tested maintenance loan of between approximately £3,000 and £4,405 a year, and a means-tested grant of up to £2,000 a year.
- Universities stand to gain from all three parties' proposals, allowing funding per student to rise by up to 30%. Students from low-income backgrounds would also gain from all three parties' proposals; taking grants and maintenance loans together, the poorest students would gain the most under Labour's scheme and the least under the Liberal Democrats.
- Graduates and taxpayers would share the bill for these gains under both the Conservatives and Labour. Under the Liberal Democrats, taxpayers would foot almost the entire bill. The cost to the taxpayer would be around £1.2 billion under Labour, £1.4 billion under the Conservatives and £2.4 billion under the Liberal Democrats.
- We estimate that total debt on graduation under Labour, the Conservatives and the Liberal Democrats would be £19,340, £16,230 and £10,335 respectively for students from the poorest backgrounds, and £18,670, £10,730 and £8,700 respectively for students from the richest backgrounds. These borrowing levels would allow students to achieve roughly the same standard of living under Labour and the Conservatives, but would leave students under the Liberal Democrats less well off, by up to £1,000 a year.
- Despite lower initial debt levels, the majority of graduates would be required to make bigger total lifetime debt repayments under the Conservatives than under Labour. This is due to the higher interest rate they would be charged, and highlights the fact that debt levels alone can be a poor indicator of the cost of HE.

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\* This Note summarises and updates work at IFS, in which we provided assessments of the three parties' plans for reforming HE funding (L. Dearden, E. Fitzsimons, A. Goodman and G. Kaplan, *Higher Education Funding Policy: Who Wins and Who Loses? A Comprehensive Guide to the Current Debate*, Commentary no. 98, IFS, London, 2005 (<http://www.ifs.org.uk/comms/comm98.pdf>)). Funding for the research, by the Nuffield Foundation, grant number OPD/00294/G, is gratefully acknowledged.

## 1. Introduction

This Election Briefing Note compares Labour's proposed reforms to the system of higher education (HE) finance in England<sup>1</sup> and the alternative proposals outlined by the Conservative Party in September 2004<sup>2</sup> and the Liberal Democrats in January and March 2005.<sup>3</sup>

At their root, all of the parties' proposals aim to increase the level of funding per university<sup>4</sup> student. But the ways in which this will be achieved are very different. This has implications for how well off students will be and how well off future graduates will be, and will also have implications for universities and the taxpayer. All of these issues are explored in this Note.

The structure of the Note is as follows: Section 2 sets out the key features of the three parties' HE funding policies; Section 3 describes how the numbers behind the different proposals add up, setting out the implications for taxpayers, universities, students and graduates; Section 4 sets out what the figures mean for university funding on a per-student basis, some distributional implications for universities and an international comparison; Section 5 provides an assessment of what the reforms would mean for the living standards of students whilst at university, and what levels of debt students are likely to graduate with under different funding systems; Section 6 gives an in-depth examination of the impact of different HE funding policies on graduates across the entire distribution of likely future graduate earnings paths; and Section 7 concludes.

## 2. What are the proposed reforms?

The main features of the proposed reforms to the higher education funding system are set out in Table 1. Column 1 shows the 2003–04 funding system, and columns 2–4 show the funding proposals under Labour, the Conservatives and the Liberal Democrats respectively. Before proceeding, note that throughout this Briefing Note, all figures are presented in 2006–07 prices unless otherwise stated.<sup>5</sup>

### 2.1 The 2003–04 HE funding system

The HE funding system that we use as the base against which to assess the proposed changes is the system that applies to students who enrolled in HE in 2003–04. This is because 2003–

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<sup>1</sup> Department for Education and Skills, *The Future of Higher Education*, Cm. 5735, 2003; *The Higher Education Bill*, Bill 35, 2004; DfES, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004; DfES, *Moving toward a Single Combined Grant for Higher Education*, 2004.

<sup>2</sup> Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004.

<sup>3</sup> Liberal Democrats, *The Key to Life-Long Learning*, Policy Briefing no. 4, 2005 (<http://www.libdems.org.uk/media/documents/policies/04higherandfurthereducation.pdf>); private correspondence between IFS researchers and the Liberal Democrats.

<sup>4</sup> In line with Department for Education and Skills (2003, *ibid.*) and for ease of reading, we use the word 'university' as a substitute for 'higher education institution'.

<sup>5</sup> This follows the government's own approach in its presentation of the key features of its reforms.

04 was the final year before any of the Labour proposals, first set out in the 2003 White Paper,<sup>6</sup> had begun to be implemented.<sup>7</sup>

Table 1. Details of the 2003–04 system, Labour’s proposals 2004, the Conservatives’ proposals 2004 and the Liberal Democrats’ proposals 2005 (2006–07 prices)\*

Measures	(1) 2003–04 system	(2) Labour’s proposals**	(3) Conservatives’ proposals	(4) Liberal Democrats’ proposals
<b>FEES</b>				
UPFRONT FEES	£1,200 p.a.	No upfront fee.	No fee.	No fee.
DEFERRED FEES	None.	Set by university. Initial cap of £3,000 p.a.	No fee.	No fee.
FEE EXEMPTIONS	Full exemption on fees up to £1,200 p.a. if family income <£22,560.  Partial exemption on fees up to £1,200 p.a. if family income between £22,560 and £33,560.	No fee exemptions.	N/A	N/A
<b>LOANS</b>				
LOANS FOR FEES	No loans for fees.	Equal to fees charged by university. Not means-tested.	N/A	N/A
LOANS FOR MAINTENANCE Students living away from home outside London	£4,300 (£3,735) <sup>a</sup> p.a. if family income <£33,560  Loan of £4,300 (£3,735) p.a. is tapered away between family income of £33,560 and £44,000 (£42,500), so that for family income above £44,000 (£42,500) the loan is £3,225 (£2,800) p.a.	£3,555 (£3,225) <sup>a</sup> p.a. if family income <£26,000  Loan of £3,555 (£3,225) p.a. is incrementally increased by up to £850 between family income of £26,000 and £33,560, so that for family income of £33,560 the loan is £4,405 (£4,070) p.a.  Loan of £4,405 (£4,070) p.a. is tapered away between family income of £33,560 and £44,000 (£42,500), so that for family income above £44,000 (£42,500) the loan is £3,305 (£3,055) p.a.	£5,000 p.a. Not means-tested. <sup>b</sup>	£3,555 (£3,225) <sup>a</sup> p.a. if family income <£15,970  Loan of £3,555 (£3,225) p.a. is incrementally increased by up to £850 between family income of £15,970 and £22,100, so that for family income of £22,100 the loan is £4,405 (£4,070) p.a.  Loan of £4,405 (£4,070) p.a. is tapered away between family income of £22,100 and £44,000 (£42,500) to a level yet to be determined. <sup>c</sup>

Table continues on next page

<sup>6</sup> Department for Education and Skills, *The Future of Higher Education*, Cm. 5735, 2003.

<sup>7</sup> This means that we include the reintroduction of the maintenance grant (2004–05) and the increase in the loan repayment threshold (2005–06) as elements of Labour’s reforms.

Measures	(1) 2003–04 system	(2) Labour's proposals**	(3) Conservatives' proposals	(4) Liberal Democrats' proposals
REPAYMENT OF LOANS	9% of income above £9,285 <sup>d</sup> p.a.  Loans state- subsidised.  Zero real interest rate.  No debt forgiveness.	9% of income above £15,375 (from 2005–06). £15,375 to be fixed in nominal terms until 2010– 11. <sup>e</sup>  Loans to be state- subsidised.  Zero real interest rate.  Debt forgiveness after 25 years.	9% of income above £15,375. To be fixed in nominal terms until 2010– 11.  Loans to be provided by a not-for-profit corporation financed by commercial banks.  4.0%–5.5% real interest rate (6.5%–8% nominal).  Debt forgiveness after 25 years.	9% of income above £15,375. To be fixed in nominal terms until 2010– 11.  Loans to be state- subsidised.  Zero real interest rate.  Debt forgiveness after 25 years.
GRANT	No grant.	Means-tested maximum of £2,700 p.a. comprised of: (a) £1,200 if family income <£22,560. Tapered to zero at family income of £33,560. <i>plus</i> (b) £1,500 if family income <£15,970. Tapered to zero at family income of £22,100. <sup>f</sup>	Means-tested maximum of £1,500 p.a. if family income <£15,970. Tapered to zero at family income of £22,100.	Means-tested maximum of £2,000 p.a. if family income <£15,970. Tapered to zero at family income of £22,100.
BURSARIES	None.	Minimum of £300 p.a. if family income <£15,970 <i>and</i> university charges fees of £3,000 p.a. <sup>g</sup>	N/A	N/A

\* Apart from the 2003–04 system, and unless otherwise stated, all proposals relate to academic years from 2006–07. All figures have been converted to 2006–07 prices using an inflation rate of 2.5% per year.

\*\* Not all of the proposed Labour reforms would affect existing students. Top-up fees, bursaries, grants and debt write-off would apply to *new* students only from 2006–07. Fee loans and maintenance loans would apply to *new and existing* students from 2006–07. The fee loan entitlement for existing students would be equivalent to the fees they are liable for (i.e. up to £1,200 p.a.). It is unclear whether the reduction in the maintenance loan for new students that some would incur due to the increased grant of £2,700 would also apply to existing students, none of whom would be entitled to the increased grant (see, however, [http://www.dfes.gov.uk/studentssupport/students/200\\_2006\\_entry.shtml](http://www.dfes.gov.uk/studentssupport/students/200_2006_entry.shtml)). Note further that the repayment threshold of £15,000 (April 2005 prices) under the Labour system will apply to *all* borrowers from April 2005.

<sup>a</sup> Throughout this table, non-parenthesised figures refer to first- and second-year students and parenthesised figures refer to final-year students. For more details of loan amounts in the government's proposed system, see L. Dearden, E. Fitzsimons and A. Goodman, *An Analysis of the Higher Education Reforms*, IFS Briefing Note no. 45 (<http://www.ifs.org.uk/bns/bn45.pdf>).

<sup>b</sup> The Conservatives have not yet finalised the loan differentials for first- and second-year and final-year students. Furthermore, it is likely that the value of maintenance loans under the Conservatives' system would vary by London/non-London student status and by whether the student lives at or away from home. Details yet to be finalised by the Conservative Party.

<sup>c</sup> This level is likely to be below £3,305; for our analysis in Sections 5 and 6, we work on the basis of a minimum maintenance loan of £3,000. Details available from the authors.

<sup>d</sup> This is £10,000 uprated to 2006–07 prices.

<sup>e</sup> The threshold being fixed in nominal terms means that its real value would be eroded over time. Starting from a value of £15,375 in 2006–07 prices (£15,000 in 2005–06 prices), its value in 2009–10, based on an expected inflation rate of 2.5% per annum, is £13,925 in 2006–07 prices.

<sup>f</sup> The exact details of the thresholds and tapers relating to the combined grant and maintenance loan are yet to be determined, but some indicative figures are provided in Department for Education and Skills, *Moving toward a Single Combined Grant for Higher Education*, 2004.

<sup>g</sup> Any university charging fees of over £2,700 would be obliged to provide bursaries to cover the remaining fee due above that level, for students from the poorest backgrounds.

Source appears on next page.

### Sources to Table 1

Department for Education and Skills, *The Future of Higher Education*, Cm. 5735, 2003; The Higher Education Bill, Bill 35, 2004; *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004; *Moving toward a Single Combined Grant for Higher Education*, 2004. Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004. Liberal Democrats, *The Key to Life-Long Learning*, Policy Briefing no. 4, 2005 (<http://www.libdems.org.uk/media/documents/policies/04higherandfurthereducation.pdf>).

The 2003–04 system required upfront fees of £1,200 per annum. Students from low-income families (annual parental income below £33,560) were entitled to a full or partial fee exemption, means-tested against parental income. There were no student grants. Means-tested maintenance loans of up to £4,300 per year were available to all students, repayable at a rate of 9% of earnings above £10,000 (in 2003–04 prices) each year.<sup>8</sup> There was no provision for debt write-off.

## 2.2 Labour Party proposed reforms

The Labour funding system (see column 2 of Table 1) would see the abolition of upfront tuition fees for all students and the introduction of variable fees of up to £3,000 a year for new students from 2006–07.<sup>9</sup> Students would be entitled to a subsidised Graduate Contribution Scheme loan equal to the value of their fees. Graduates from 2009–10 would contribute 9% of earnings above £13,925<sup>10</sup> each year towards repaying the loan. The outstanding value of the loan would rise each year in line with inflation, and any sum remaining unpaid after 25 years would be written off.

Students from the poorest backgrounds would receive a bursary of at least £300 a year if the university charged full top-up fees.<sup>11</sup> Students would be entitled to a means-tested maintenance loan of up to £4,405<sup>12</sup> (for those living away from home and outside London). Repayment terms for maintenance loans would be the same as those for fee loans. Students from families with incomes of up to £33,560 would receive a means-tested grant of up to £2,700 a year.

## 2.3 Conservative Party proposed reforms

The Conservative reforms (see column 3 of Table 1) would see the complete removal of all tuition fees.

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<sup>8</sup> This is the threshold that would apply to new students in 2003–04, who would be due to graduate in 2006–07.

<sup>9</sup> The Labour Party's proposed reforms were set out in the White Paper (Department for Education and Skills, *The Future of Higher Education*, Cm. 5735, 2003) and the Higher Education Act 2004. All of the proposals are brought together in the Regulatory Impact Assessment (RIA) (Department for Education and Skills, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004). From here on, we use the term 'Higher Education Act' to denote the proposals as laid out in the RIA.

<sup>10</sup> This is the value of a £15,000 threshold in 2009–10, expressed in 2006–07 prices (see note e to Table 1).

<sup>11</sup> This means that any university charging fees of over £2,700 would have to provide bursaries equivalent to the fee cost above that level, to students from the poorest backgrounds.

<sup>12</sup> However, this amount would only be available to students with parental income of exactly £33,560. For students with parental income below £26,000 or above £44,000, the maintenance loan would be £3,555 or £3,305 respectively. From parental income of £26,000, it would gradually increase from £3,555 up to £4,405 at parental income of £33,560. It would then gradually decrease to £3,305 at parental income of £44,000. This quirk in the tapering has arisen as a means of maintaining cost neutrality after the conversion of the £1,200 fee exemption into an upfront grant (for those eligible for full or partial fee exemption).

Maintenance loans of £5,000 per year would be available to all students, regardless of family income. The loans would be available from a not-for-profit corporation financed by commercial banks at a market interest rate. The Conservatives estimate that the market loans would charge a nominal interest rate of between 6.5% and 8% (equivalent to around a 4% to 5.5% real interest rate), with 8% being the upper threshold for the lifetime of the next parliament.<sup>13</sup> Debt repayments would be scheduled at 9% of income above a threshold of £13,925 p.a.,<sup>14</sup> and outstanding debt would be written off after 25 years. Therefore monthly debt repayment amounts would be the same as under the Labour system, but the length of time to repay the same loan would be longer.<sup>15</sup>

The Conservative plans also include the introduction of a grant up to a maximum of £1,500 p.a. for students with annual parental income below £22,100.

## 2.4 Liberal Democrat Party proposed reforms

The Liberal Democrats also propose to remove all tuition fees. Students would be entitled to a means-tested maintenance loan of at most £4,405 (for those living away from home and outside London), though the exact details are yet to be determined.<sup>16</sup> Repayments would carry a zero real interest rate and would be fixed at 9% of earnings above a threshold of £13,925 p.a.<sup>17</sup> Outstanding debt would be written off after 25 years. Students with parental income below £22,100 would receive a means-tested grant of up to £2,000 a year.

## 3. What the reforms would cost, and who would pay

Based on the latest available official cost estimates, relative to the £6.1 billion cost to the taxpayer of the 2003–04 system, Labour's plans would cost an extra £1.2 billion, the Conservatives' plans would cost approximately an extra £1.4 billion, and the Liberal Democrats' around an extra £2.4 billion.

We first set out the composition of the taxpayer costs of the 2003–04 system for reference, before outlining the details of the public spending implications of each party's reforms. We then look more broadly at what the reforms would cost and who would pay for them.

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<sup>13</sup> The Conservatives plan to take out insurance in the financial markets to ensure that the interest rate charged to students would not rise above 8% during the lifetime of the next parliament, and they 'do not expect this to rise thereafter' (see Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004).

<sup>14</sup> See footnote 10.

<sup>15</sup> This assumes that graduates choose to repay no more than the minimum 9% repayment required. However, as the loan is not subsidised, there is more incentive for graduates to make voluntary repayments.

<sup>16</sup> Note, however, that maintenance loan amounts and means-testing of the loan under the Liberal Democrat proposals have been revised relative to those presented in L. Dearden, E. Fitzsimons, A. Goodman and G. Kaplan, *Higher Education Funding Policy: Who Wins and Who Loses? A Comprehensive Guide to the Current Debate*, Commentary no. 98, IFS, London, 2005 (<http://www.ifs.org.uk/comms/comm98.pdf>), upon correspondence between researchers at IFS and the party.

<sup>17</sup> See footnote 10.

### 3.1 How much does the taxpayer contribute to the 2003–04 (base) system?

The base system, if in place in 2006–07, would cost the taxpayer approximately £6.1 billion per year, based on the latest available official cost estimates, available since 23 March 2005. Our analysis is restricted to the costs of teaching and to higher education institutions in England only. These costs are made up of approximately:

- £4,800 million in subsidies for teaching;
- £450 million in fee remissions;
- £820 million in maintenance loan subsidies.

(See Table 2, and accompanying notes, for sources.)

### 3.2 Labour's proposals

The additional spending implied by Labour's plans compared with the 2003–04 system all arises from increases to student and graduate support, and none arises from giving more subsidies direct to universities (see Table 2):

- The most significant additional public spending contained in Labour's plans is the cost of new fee loan subsidies. The latest official government estimates of this cost are £830 million.<sup>18</sup>
- Approximately £440 million additional spending would be paid out in grants.<sup>19</sup>

Labour's plans also contain some less-well-publicised savings:

- An overall reduction in maintenance loans (combined with increases in the maximum amounts for some students; see Section 2) would bring £80 million savings each year from maintenance loan subsidies. The savings are being made to pay for some of the new grants and fee loan subsidies.<sup>20</sup>
- In total, Labour's plans imply additional public expenditure compared with the 2003–04 system of around £1.2 billion per year. The overall cost of the system to the taxpayer would rise to around £7.3 billion per year.

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<sup>18</sup> This is based on a projected take-up rate for fee loans of 80%. Both the Liberal Democrats and the Conservatives believe take-up will be higher, and that this estimate is therefore too low. The Liberal Democrats' figures build in a take-up rate of 90%, which would mean a £930 million annual exchequer cost of fee loan subsidies.

<sup>19</sup> The new grants are made up of the £1,500 grant introduced in 2004–05, and the additional £1,200 grant that would come into effect in 2006–07 when top-up fees become payable (the 'single combined HE grant'). This latter element has been designed to cost the same to the taxpayer as the fee remission already included in the 2003–04 system, and so only the first element incurs additional taxpayer cost.

<sup>20</sup> The maintenance loan is being reduced to pay for the extension of fee loan subsidies to students who would receive fee remissions in the current system, but instead will receive grants to the same value under Labour's proposed system.



Table 2. Taxpayer costs of Labour, Conservative and Liberal Democrat proposals (relative to 2003–04 baseline, in 2006–07 prices)

	Based on official cost estimates available from 23 March 2005
<b>2003–04 base system</b>	
Public funding for teaching at English universities	£4,820m <sup>a</sup>
Fee remission	£450m <sup>b</sup>
Maintenance loan subsidies	£820m <sup>c</sup>
<b>Total taxpayer cost of 2003–04 system in 2006–07</b>	<b>£6,090m</b>
<b>Costs of the Labour plans</b>	
New fee loan subsidies	£830m <sup>d</sup>
Introduction of £1,500 grant	£440m <sup>e</sup>
<b>Savings from the Labour plans</b>	
Reduced maintenance loan subsidies	–£80m <sup>f</sup>
<b>Net additional costs of the Labour plans</b>	<b>£1,190m</b>
<b>Total costs of Labour system in 2006–07</b>	<b>£7,280m</b>
<b>Costs of the Conservative plans</b>	
New taxpayer subsidy to universities	£1,350m <sup>g</sup>
Introduction of £1,500 grant	£440m <sup>e</sup>
Gifting the Student Loan Book	£380m <sup>h</sup>
<b>Savings from the Conservative plans</b>	
Scrapping maintenance loan subsidies	–£820m <sup>c</sup>
<b>Net additional costs of the Conservative plans</b>	<b>£1,350m</b>
<b>Total costs of Conservative system in 2006–07</b>	<b>£7,440m</b>
<b>Costs of the Liberal Democrat plans</b>	
New taxpayer subsidy to universities	£1,850m <sup>i</sup>
Introduction of £2,000 grant	£590m <sup>j</sup>
<b>Savings from the Liberal Democrat plans</b>	
Reduced maintenance loan subsidies	–£80m <sup>f</sup>
<b>Net additional costs of the Liberal Democrat plans</b>	<b>£2,360m</b>
<b>Total costs of Liberal Democrat system in 2006–07</b>	<b>£8,450m</b>

<sup>a</sup> Total taxpayer contribution in 2006–07 is based on Higher Education Funding Council for England (HEFCE) grant letter 2005 (Rt Hon. Charles Clarke MP, 'Higher education funding 2005–06 to 2007–08', letter to Mr David Young, Chairman of the Higher Education Funding Council for England, 13 December 2004 (<http://www.hefce.ac.uk/News/hefce/2004/grantletter/letter.asp>), which allocates £4,817 million to HEFCE and the Teacher Training Agency (TTA) in recurrent resources in 2006–07 (i.e. does not include research or capital funding).

<sup>b</sup> HEFCE grant letter 2005 shows expected public contribution to fees in 2005–06 was £434 million; we have uprated this to £450 million in 2006–07 prices (in line with inflation of 2.5%). This is consistent with cost estimates in *Hansard Written Ministerial Statements* for 23 March 2005, column 72WS (<http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm>).

<sup>c</sup> We have derived the base system cost of maintenance loan subsidies at £820 million as follows: £820 million = £740 million – £70 million + £150 million, where £740 million is the estimated cost of maintenance loan subsidies in 2006–07 in *Hansard* (2005) – see note b; £70 million is DfES estimated cost of increasing maintenance loans to meet the median cost of living – see DfES, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004; £150 million is the saving made from maintenance loan subsidies in order to extend fee loans to cover previous fee remissions. This latter is calculated at £450 million × 0.42 subsidy × 0.8 take-up.

<sup>d</sup> *Hansard* (2005) – see note b. Based on assumed take-up rate of 80% and 0.42 subsidy. Both the Conservatives and the Liberal Democrats question the 80% take-up rate assumption; the Liberal Democrats' own figures build in a 90% take-up rate assumption. Fee loan subsidies would cost £930 million under this assumption.

<sup>e</sup> *Hansard* (2005) – see note b – which estimates the cost of £1,500 grant at £440 million. Note that conversion of fee remission into single combined HE grant, maximum value £2,700, is revenue-neutral compared with the 2003–04 system, so is not included in the costs of new grant.

<sup>f</sup> Saving estimated as £150 million – £70 million, see note c.

<sup>g</sup> Authors' calculation based on Conservative estimate; source below. This figure matches the £1.8 billion estimated revenue that would have been raised in 2003–04 if 75% of universities charged £3,000 and 25% charged just the basic fee, which was £1,125 in 2003–04, as set out in Department for Education and Skills, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004 (point 50), less approximately £450 million in fee remission which is already paid in the 2003–04 system (see note b).

<sup>h</sup> Conservative estimate; source below. We have not independently verified this costing. However, it appears within a plausible range, given the likely value of outstanding student loans by 2006 and the likely provisions against these loans.

<sup>i</sup> Authors' calculation of cost of *full fee replacement*, based on the £2.3 billion estimated revenue that would be raised in 2006–07 if 91% of universities charged £3,000 and 9% charged £2,000, as set out in *Hansard* (2005 – see note b), less approximately £450 million in fee remission which is already paid in the 2003–04 system (see note b).

<sup>j</sup> IFS calculation based on scaled-up cost of £1,500 grant (see note e): £590 million = 1.33333 × £440 million.

Sources:

Conservatives: Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004. Key figures set out in the Appendix.

Labour: DfES costings given to IFS in January 2004 and set out in the Appendix.

Liberal Democrats: Liberal Democrats, *Liberal Democrats unveil pre-manifesto costings*, 20 September 2004 (<http://www.libdems.org.uk/news/story.html?id=7530&navPage=news.html>) and private correspondence between IFS researchers and the Liberal Democrats. See the Appendix.

*Hansard Written Ministerial Statements* for 23 March 2005, column 72WS (<http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm>). See the Appendix.

### 3.3 The Conservatives' proposals

The Conservatives incur some extra public spending compared with the 2003–04 system, but also make some savings. In Table 2, we set out our estimates of the additional resources committed by the Conservatives:

- The majority of the new expenditure is incurred as a result of increasing the taxpayer subsidy to universities. The Conservatives have stated that they would commit an additional £1.35 billion on top of the existing £450 million public contribution to fee remissions. The intention would be for this to cover the revenue lost from the abolition of existing fees, as well as the revenue that universities would have gained if top-up fees had been introduced. However, since the Conservatives produced their public spending plans for HE, the official DfES estimate of likely future fee revenue has increased by £500 million, suggesting that if these estimates are correct, the Conservative allocation may fall short of full fee replacement by this amount.<sup>21</sup> (We assess the implications of this for university funding further below: see Table 3 and Section 4).
- The taxpayer would also provide new money to universities by gifting the outstanding value of the Student Loan Book to the university sector, a public asset estimated by the Conservatives to be worth £380 million per year if kept in public hands.<sup>22</sup> We include the

<sup>21</sup> *Hansard Written Ministerial Statements* for 23 March 2005, column 72WS (<http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm>) sets out the government's latest fee revenue estimates. Based on the assumption that 91% of all HE students pay a £3,000 tuition fee, and 9% pay £2,000, it is estimated that total university fee revenue would be £2.3 billion in 2006–07, based on likely student numbers in 2006–07. This is an increase of approximately £500 million compared with Department for Education and Skills, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004, which put total fee revenue at an estimated £1.78–1.82 billion. This earlier estimate was based on 2003–04 student numbers and the assumption that just 75% of HE students would pay the full top-up fee.

<sup>22</sup> We have not independently verified this costing. However, it appears within a plausible range, given the likely value of outstanding student loans by 2006 and the likely provisions against these loans.

total annual equivalent here, though some is likely to be tied to capital rather than teaching expenditure.<sup>23</sup>

- The Conservatives would also continue to pay out the £1,500 grant that was introduced by Labour in 2004–05, the estimated cost of which is £440 million.

Offsetting these costs are the following savings relative to the 2003–04 system:<sup>24</sup>

- The Conservatives would completely remove maintenance loan subsidies. The latest government estimates put these at around £820 million. (At the time that the Conservatives devised their plans, the best official estimates suggested that these would be worth around £1.03 billion per year.<sup>25</sup>)
- In total, the Conservatives' plans imply additional public expenditure compared with the 2003–04 system of around £1.4 billion per year. The overall cost of the system to the taxpayer would rise to around £7.4 billion per year.<sup>26</sup>

It is worth noting that when the Conservatives published their HE plans last autumn, their proposals implied the same taxpayer costs as Labour's and delivered the same in 'fee replacement' to universities. However, changes to official estimates of (i) estimated future fee revenues, (ii) the cost of maintenance loan subsidies and (iii) the cost of fee loan subsidies suggest that if the latest cost revisions are correct, their taxpayer costs may now be in the region of £200 million a year higher than Labour's.

### 3.4 The Liberal Democrats' proposals

The additional public expenditure implied by the Liberal Democrats' plans relative to the 2003–04 system amounts to:

- Fee replacement of £1.8 billion. This is more than in the Conservatives' plans, above, and is based on the assumption that the Liberal Democrats would cover the full fee revenues.
- Around £590 million in grant expenditure, to cover a £2,000 grant (assuming a cost 33.3% higher than the cost of a £1,500 grant).

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<sup>23</sup> See Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004.

<sup>24</sup> The Conservatives argue that they would make savings of £40 million in administrative costs from handing all student loans to the private sector. However, it is not clear to us that this is not already included in the £820 million loan subsidy outlined below, so we do not include it as an additional saving.

<sup>25</sup> *Hansard Written Ministerial Statements* for 23 March 2005, column 72WS (<http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm>) sets out an estimate of the cost of maintenance loan subsidies in 2006–07 of £740 million, based on a 29% taxpayer subsidy. This includes the £80 million savings made from reducing the overall value of the maintenance loan from 2006–07, meaning that the value of the subsidy under unchanged maintenance loans would be £820 million. This compares with DfES, *Departmental Report*, Cm. 6202, 2004 (<http://www.dfes.gov.uk/deptreport2004/uploads/DfES-Annual%20Report.pdf>), which estimated student loans Resource Account Budget (RAB) charge of £1,026 million in 2005–06 (page 26). The downward revision to taxpayer costs is the result of a change in methodology. According to the DfES, 'The Departmental Annual Report 2004 showed a higher figure of £1,026 million, because the provision included a historic technical adjustment of around £200 million as a result of the change from the discount rate from 6% to 3.5% on 1 April 2003: the adjustment was being still in process at the time the Annual Report was published'.

<sup>26</sup> In order to guarantee full fee replacement, these figures would rise to £1.9 billion and £7.9 billion respectively.

The Liberal Democrats would also make some savings relative to the 2003–04 system:

- The Liberal Democrats have said that they would match Labour’s £80 million savings from maintenance loan reductions, though the exact way in which they would implement this has yet to be fully worked out (see Section 2).
- In total, the Liberal Democrat plans imply additional public expenditure compared with the 2003–04 system of around £2.4 billion per year. The overall cost of the system to the taxpayer would rise to around £8.5 billion per year.<sup>27</sup>

Summarising the differences between the parties, this suggests that Labour’s and the Conservatives’ plans would cost a similar amount to the taxpayer, at around £1.2 billion per year under Labour and around £1.4 billion under the Conservatives, whilst the Liberal Democrats’ plans would cost about £1 billion more than this, at around £2.4 billion extra per year.

### 3.5 A circular flow of payments

Another way of understanding how the parties’ systems differ is to consider flows of payments from taxpayers and other parties to universities, students and graduates. Table 3 summarises the gainers and losers under each party’s proposed system, compared with the base 2003–04 system. More detail on how these figures were derived can be found in Dearden et al.<sup>28</sup>

- **Universities’** net position would improve under all three systems, by a very similar amount, rising by between £1.2 billion and £1.3 billion under the proposed reforms, from £5.8 billion under the base system to around £7–£7.1 billion under all three parties. For more on the implications for universities, see Section 4.
- In all three parties’ proposed systems, the overall **taxpayer** contribution to the costs of HE would rise compared with the base system. Compared with the taxpayer contribution of £6.1 billion under an unchanged 2003–04 system, the Conservatives’ proposals would require an additional £1.4 billion, or a total of around £7.4 billion of taxpayer funds, Labour’s an additional £1.2 billion, or around £7.3 billion, and the Liberal Democrats’ an additional £2.4 billion, or around £8.5 billion (this was also shown in Table 2).
- **Students** would also be better off under the proposed systems – by the most under Labour, where their net position would improve by almost £1.5 billion as a result of grants and fee deferral (additional voluntary bursaries from universities, likely to amount to £300 million in total, would improve students’ position further under Labour). The position of students would improve the least under the Conservatives. For more on the implications for students, see Section 5.

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<sup>27</sup> The Liberal Democrats also plan for an extra £200 million additional HE spending in Wales, Scotland and Northern Ireland, which would be required by the Barnett Formula rules. These dictate how additional public expenditure in England must be matched in the devolved authorities (sometimes referred to as the Barnett Consequential). However, we consider only the funding implications of changes to English universities and so do not include this cost here.

<sup>28</sup> The calculations in L. Dearden, E. Fitzsimons, A. Goodman and G. Kaplan, *Higher Education Funding Policy: Who Wins and Who Loses? A Comprehensive Guide to the Current Debate*, Commentary no. 98, IFS, London, 2005 (<http://www.ifs.org.uk/comms/comm98.pdf>), were based on pre-23/3/05 official estimates of fee revenues and costs of student support, which are now out-of-date.

- One major difference between the parties' proposals is the position of **graduates**. They would be asked to contribute more both under the Conservatives and under Labour (by around £800 million and £1.6 billion respectively), but barely under the Liberal Democrats. For more on the implications for graduates, see Section 6.

**Table 3. Net gainers and losers from the three parties' proposals, compared with the 2003–04 system**

	<b>Labour</b>	<b>Conservatives</b>	<b>Liberal Democrats</b>
Universities	£1,260m	£1,210m	£1,330m
Students	£1,480m	£960m	£1,110m
Taxpayers	–£1,190m	–£1,350m	–£2,360m
Graduates	–£1,550m	–£820m	–£80m
<i>Sums of gains and losses</i>	<i>£0</i>	<i>£0</i>	<i>£0</i>

Notes: For simplicity, student gains calculated here include gains from the introduction of maintenance grants compared with the 2003–04 system (transfers from taxpayers), but do not include changes to maintenance loans (which might be thought of as transfers from graduates to students). As we point out in Section 5, taking maintenance loans and grants together, students are able to achieve a higher standard of living under both Labour and the Conservatives than under the Liberal Democrats.

Source: Authors' calculations.

Table 3 also allows us to see who would pay for any gains within each party's proposed system. Reading down the columns, the table shows that under all three parties, both universities and students are set to gain from the proposals, by varying amounts. However, who pays for these gains differs across the parties:

- Under **Labour**, the gains would be paid for in part by graduates, through higher fees, and in part by the taxpayer, through increased loan subsidies. These loan subsidies benefit lower-earning graduates the most.
- Under the **Conservatives**, the gains would again be paid for in part by graduates – this time through reduced loan subsidies, with their removal affecting the lowest-paid graduates the most – and in part by taxpayers, through bigger payments direct to universities.
- Under the **Liberal Democrats**, almost all the gains would be paid for by taxpayers, with only a small additional contribution from graduates in the form of reduced maintenance loan subsidies compared with the 2003–04 system.

## 4. What the reforms mean for university funding

All three parties aim to increase university revenues and partially reverse the decline in funding per head, which has been a feature of HE funding since the early 1970s. As discussed in the previous section, each of the parties aims to secure a similar amount of resources for universities in 2006–07, though its mode of delivery would differ substantially between the Conservatives and the Liberal Democrats, who would abolish fees, and Labour, who would increase them.

## 4.1 Funding per head

Whichever party is in power, the planned level of resources would allow funding per head to rise in 2006–07 by up to 30% in real terms – bringing funding per head up to approximately £7,500 per year under Labour and the Conservatives and to around £7,600 per year under the Liberal Democrats.<sup>29</sup> This is similar to the value of funding per student seen in the early 1990s, but would fall considerably short of the unit funding of £10,000 per year or more seen in the early 1970s.<sup>30</sup>

The relatively small differences in likely funding per head in 2006–07 (see Figure 1) arise between the three parties due to:

- **Fee revenue/fee replacement:** Labour’s proposals are expected to provide additional fee revenue to universities, with the latest official assumption that 91% would charge the full top-up fee and 9% would charge £2,000. The Liberal Democrats would match this revenue, whilst the Conservatives would provide less than this (see Section 3).
- **Student Loan Book ‘gift’ to universities:** The Conservatives would provide universities with an additional funding stream, by transferring the outstanding public value of the Student Loan Book to the university sector.
- **Bursaries:** Under Labour, universities would be required to pay at least £300 to each student from a low-income background, if they charge the full top-up fee. In practice, it is likely that universities would pay bigger bursaries than this, with the Office for Fair Access’s (OFFA’s) latest estimate of a ‘typical’ bursary at £1,000.<sup>31</sup> This revenue would not therefore be available to spend on teaching. There would be no mandatory bursaries under the Conservatives or the Liberal Democrats.

Although all parties would increase funding per head by roughly the same amount, the mode of delivery of this increase would be different depending on which party is in power after the election. Figure 1 illustrates that additional funding per head would be raised through increased student contributions under Labour (though it should be remembered that these student contributions would also be heavily publicly subsidised through the loan and grant system; see Section 3). By contrast, the Conservatives and Liberal Democrats would instead increase public funding, abolishing all student contributions.

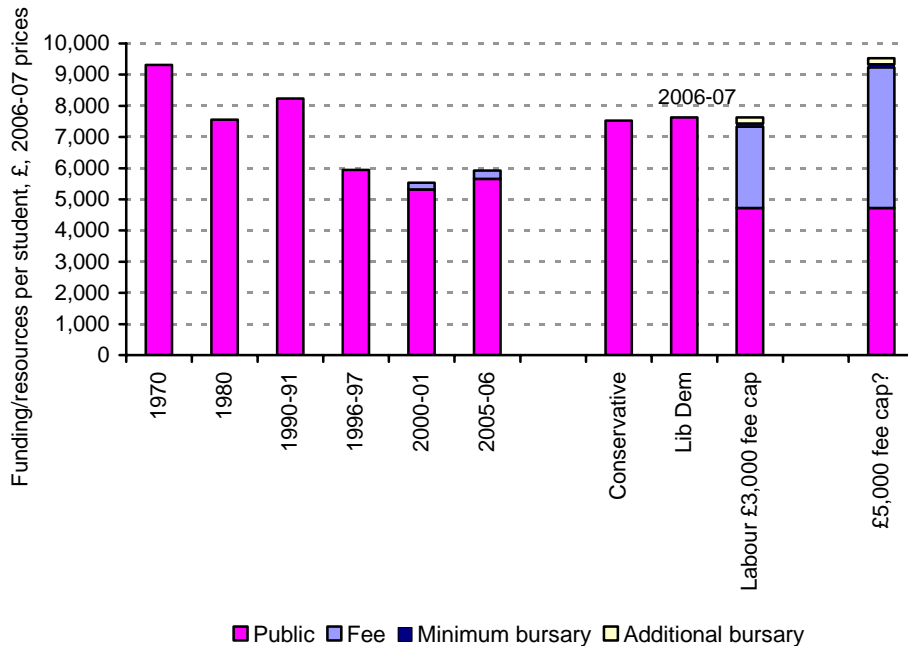
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<sup>29</sup> The figure under Labour is expressed net of the £300 minimum compulsory bursary payable to the poorest 30% of students (equivalent to around £100 per head across all students).

<sup>30</sup> The figures have been calculated on somewhat different bases pre- and post-1989, so these comparisons are illustrative. See Notes to Figure 1.

<sup>31</sup> The Office for Fair Access in a press release on 17 March 2005 has estimated that a ‘typical’ bursary would be around £1,000 ([http://www.offa.org.uk/news/2005/acc\\_agr.asp](http://www.offa.org.uk/news/2005/acc_agr.asp)). The Labour Party manifesto states that ‘A quarter of the income from the new student finance system will go to bursaries for students from poorer families’ (page 40 of <http://www.labour.org.uk/manifesto.html>). This would suggest a bursary of around £1,400 per head to the poorest students.

Figure 1. Public funding per head, plus fee contributions



Notes:

Pre-1990 public funding is total public funding excluding capital grants per full-time home student. Figures cover United Kingdom. Former polytechnics not included. Figures are converted to 2006–07 prices using GDP deflator. Source: Authors’ calculations based on V. Carpentier, *Historical Statistics on the Funding and Development of the UK University System, 1920–2002* [computer file], UK Data Archive [distributor], Colchester, 2004.

1990–91 to 2005–06 public funding based on DfES series on public funding per full-time-equivalent student in England, including HEFCE and TTA grants; includes the public contribution to fee remission from 1998–99 onwards. Source: DfES and Universities UK, <http://www.universitiesuk.ac.uk/statistics/funding/UnitFundingTrendsChart89-90To03-04.pdf>.

1990–91 to 2005–06 public funding + fee contribution based on DfES series on publicly planned funding per full-time-equivalent student in England. This includes block grants from HEFCE and TTA and public and private contributions to tuition fees. Source: Table 2.7 of Department for Education and Skills, *Departmental Report 2004*, Cm. 6202, 2004 (<http://www.dfes.gov.uk/deptreport2004/uploads/DfES-Annual%20Report.pdf>).

2006–07 onwards: Authors’ projections.

Public contribution under Labour assumed to remain constant in real terms, based on the 2004 Spending Review, *Stability, Security and Opportunity for All: Investing for Britain’s Long-Term Future*, 2004 ([http://www.hm-treasury.gov.uk/spending\\_review/spend\\_sr04/report/spend\\_sr04\\_repindex.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr04/report/spend_sr04_repindex.cfm)): ‘The Government will maintain per student spending levels in real terms over the 2004 Spending Review period’. We have assumed this remains the government position thereafter. We do, however, take into account the switch from fee remissions to grants, which reduces the public contribution to universities and increases the fee element; the switch also increases the public contribution to student support through grants.

Fee contribution under Labour assumes 91% of universities charge full top-up fees and 9% charge £2,000, but that a small proportion of top-up fee income is diverted towards bursaries rather than to funding per student – here we show the effect of the £300 minimum compulsory bursary, equivalent to around £100 per head across all students. This average bursary amount is assumed unchanged under either a £3,000 or £5,000 maximum fee.

Public contribution under Conservatives: fee replacement assumed at value of £1.8 billion; in addition, the extra £380 million per year diverted to universities through the gifting of the Student Loan Book is also included (although in part some of this is earmarked for capital spending, so our series may overstate the funding per head).

Fee replacement under the Liberal Democrats is based on the same assumptions as fee contribution under Labour, but with no diversion of funds to bursaries.

It should also be noted that should universities want to raise revenue over and above the amounts guaranteed by these plans – either to increase funding per head further, or to hold it constant if student numbers continued to rise – then under the Liberal Democrats and the Conservatives, the total amount would have to be funded by the taxpayer. Under Labour’s plans, additional revenues could also come from graduates, if parliament agreed to raise the

£3,000 fee cap.<sup>32,33</sup> Figure 1 illustrates that if parliament raised the fee cap to £5,000 in 2010–11, funding per head would rise to around £9,500 per year. This is perhaps one reason why many universities favour the retention and raising of fees in 2006–07, rather than reverting to a system in which the taxpayer is the sole funder for domestic students.<sup>34</sup>

## 4.2 Distributional implications for universities

As well as increasing funding levels to universities, the proposals of each of the parties could have implications for the *distribution* of funding going to different universities. For example:

- Labour’s policy to introduce variable fees could mean more funding going to universities and other institutions charging higher fees. It is now expected that almost all universities would charge the full fee, so the extent of variability is likely to be limited.<sup>35</sup>
- Labour’s policy requiring universities to pay bursaries to lower-income students if they charge a fee above £2,700 would cost more for universities that admit a larger number of entrants from low-income backgrounds. Universities with fewer poor students would also be able to afford to offer larger per-capita bursaries above the minimum, for a given proportion of their total fee income.
- The Conservatives’ policy to distribute the proceeds from the gifting of the Student Loan Book to universities only if they can raise matching funds would benefit universities that are well endowed or better able to attract matching funds.

## 4.3 International comparisons

Figure 2 sets out some international comparisons, showing how spending per head on higher education (both public and private) differed across a number of different OECD countries in 2001.<sup>36</sup> It shows that the UK was around the middle in terms of spending per head amongst the countries shown here, with higher spending than some European countries, such as Germany, Ireland, France and Italy, but lower spending than Japan, the Scandinavian countries, Australia and the USA. Figure 2 also shows the likely size of the increase in the UK in 2006–07, whichever party is in power. It shows that if all other countries’ spending

<sup>32</sup> The government has pledged that if it remains in power beyond the next election, the fee cap is guaranteed to remain at £3,000 at least until 2010. This is written into the Higher Education Act 2004, Chapter 8, Part 3, section 26, 2. b) ii) (<http://www.legislation.hmsso.gov.uk/acts/acts2004/20040008.htm>). It is also in Labour’s election manifesto, in which it is stated that ‘The maximum annual fee paid by students will not rise above £3,000 (uprated annually for inflation) during the next Parliament’ (<http://www.labour.org.uk/manifesto.html>, page 40).

<sup>33</sup> Raising the fee cap would also imply additional taxpayer contributions, in order to pay for additional fee loan subsidies.

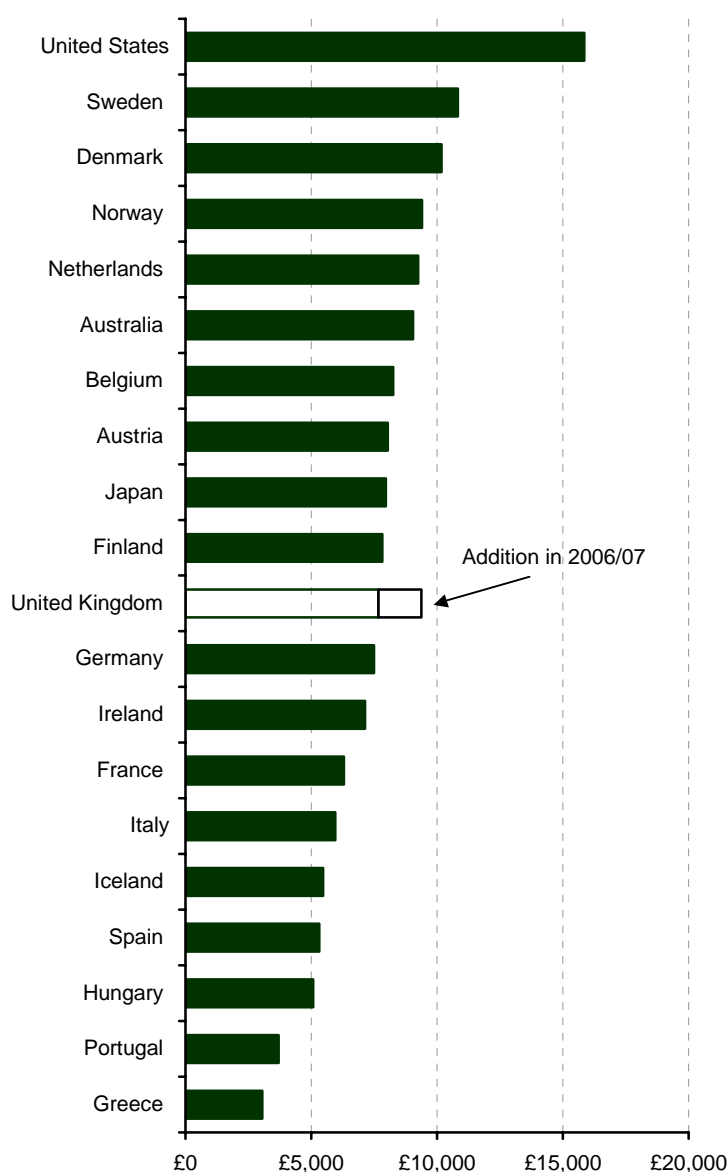
<sup>34</sup> See, for example, Universities UK, *Adjournment Debate: University Top-Up and Tuition Fees*, 25 January 2005 (<http://www.universitiesuk.ac.uk/parliament/showBriefing.asp?id=13>), in which support for the principle of variable fees is expressed.

<sup>35</sup> However, fees may be more variable amongst the relatively small proportion of HE students (approximately 10%) studying for HE courses in Further Education Colleges (FECs), some of whom are not covered by universities’ agreements with OFFA to raise fees.

<sup>36</sup> The figures are calculated on a different basis from the ones shown in Figure 1, and include a number of items, such as research and other funding, and private spending other than through fees, that are not included in Figure 1. See Notes to Figure 2.



Figure 2. Total (public and private) expenditure on higher education per student in selected OECD countries, 2001



Notes: Covers both public and private spending on educational institutions, including teaching, research and other education services. Figures converted from US\$PPP to £ using 2001 UK/US\$PPP rate of 0.624, and uprated to 2006–07 prices using the GDP deflator. Addition in 2006–07 assumes that under Labour 91% of universities charge full top-up fees and 9% charge £2,000, and that Wales, Scotland and Northern Ireland see similar increases to England.

Sources: Table B1.1 of OECD, *Education at a Glance 2004*, Paris; authors' calculations.

remained constant from 2001, the UK would move above Australia and Japan in the international rankings, but would still remain below most of the Scandinavian countries and the USA.

It is also of interest to take account of differences in overall national incomes in order to get a sense of the relative priority given to higher education spending. Dearden et al.<sup>37</sup> showed

<sup>37</sup> L. Dearden, E. Fitzsimons and A. Goodman, *An Analysis of the Higher Education Reforms*, IFS Briefing Note no. 45, 2004 (<http://www.ifs.org.uk/bns/bn45.pdf>).

spending per student relative to the UK, both in pounds per head (as in Figure 2) and once differences in national income per head are controlled for. Although the ranking is altered somewhat after considering differences in national income (with Japan and Norway now on an equal footing with the UK), the USA, Sweden, Australia and Denmark all currently spend a higher proportion of GDP per capita on each student than the UK.

## 5. What the reforms mean for students from 2006–07

### 5.1 How much support would be available to students?

The maintenance support that is available for students upfront comprises maintenance loans and grants.<sup>38</sup> Grants are means-tested under all three systems, and are most generous under Labour's proposed scheme. Furthermore, entitlement covers a higher proportion of students than under the Conservative or Liberal Democrat proposals, as they are tapered to zero at parental income of £33,560 rather than at £22,100 as under the other two systems. Maintenance loan amounts also vary between the systems. Both Labour and the Liberal Democrats propose to retain means-testing of the amount, up to an annual maximum of £4,405.<sup>39</sup> The means-testing of the Labour maintenance loan, however, is complex. In reality, relatively few students – only those whose parents earn £33,560 p.a. – would be able to obtain this maximum.<sup>40</sup> The Conservatives propose to scrap means-testing and to make maintenance loans of £5,000 per annum available to all students.

At the time of writing, the Liberal Democrats have determined the overall cost of their maintenance loan system, but have yet to work out the exact way in which the loans would be means-tested. Figure 3 presents our interpretation of their system.<sup>41</sup> The maximum loan amount would be £3,555 per annum for students with parental income below £15,970; it would then rise incrementally up to a maximum of £4,405 per annum at parental income of £22,100 before tapering down at a rate, and to a level, both to be determined. Our best estimate of the fully tapered amount for those with parental incomes above £44,000 is £3,000 per annum.

Figure 4 shows the shortfalls by parental income under all three systems, assuming maximum take-up of debt. These shortfalls are calculated using the National Union of Students (NUS) estimate of the basic cost of living for a student living away from home outside of London.<sup>42</sup>

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<sup>38</sup> Figures 6.1, 6.2 and 6.3 in L. Dearden, E. Fitzsimons, A. Goodman and G. Kaplan, *Higher Education Funding Policy: Who Wins and Who Loses? A Comprehensive Guide to the Current Debate*, Commentary no. 98, IFS, London, 2005 (<http://www.ifs.org.uk/comms/comm98.pdf>), show how the amounts and composition of support available for maintenance vary by parental income under the Labour, Conservative and Liberal Democrat proposals respectively. However, figure 6.3 has been revised in the light of correspondence with the Liberal Democrat Party since the above analysis. We present the revised figure here as Figure 3.

<sup>39</sup> These figures are for a first- or second-year student living away from home outside London.

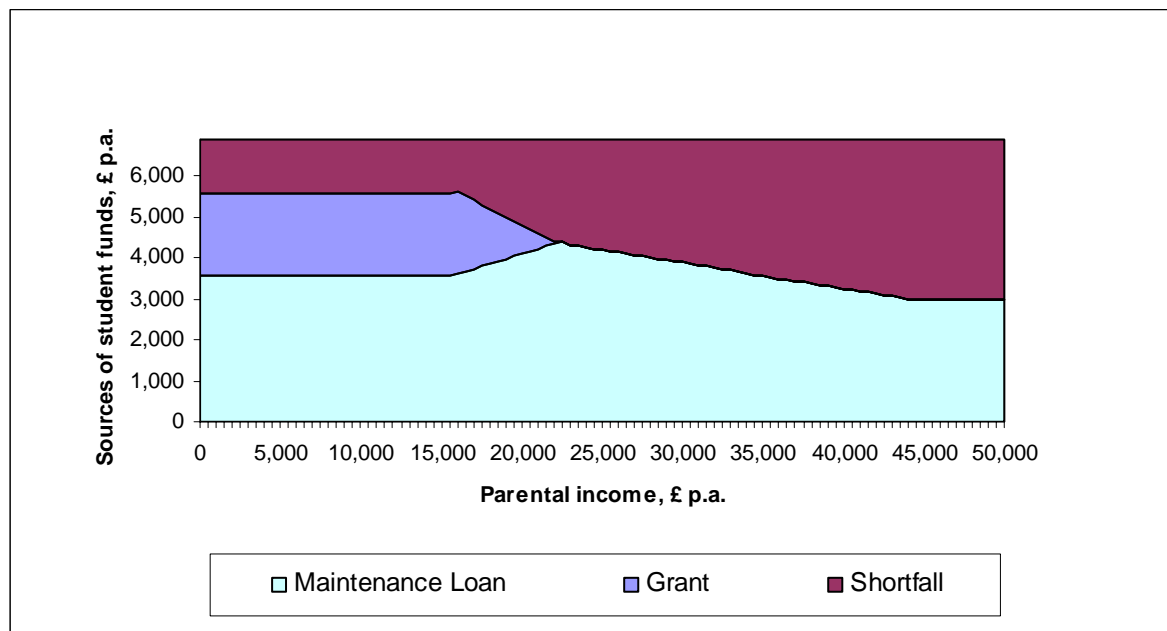
<sup>40</sup> L. Dearden, E. Fitzsimons and A. Goodman, 'Fine-tuning the HE reforms', Institute for Fiscal Studies, mimeo, 2004 ([http://www.ifs.org.uk/publications.php?publication\\_id=3320](http://www.ifs.org.uk/publications.php?publication_id=3320)), analyse ways of reducing the complexity of the means-testing under Labour's proposals.

<sup>41</sup> This graph updates figure 6.3 in L. Dearden, E. Fitzsimons, A. Goodman and G. Kaplan, *Higher Education Funding Policy: Who Wins and Who Loses? A Comprehensive Guide to the Current Debate*, Commentary no. 98, IFS, London, 2005 (<http://www.ifs.org.uk/comms/comm98.pdf>).

<sup>42</sup> This estimate is £6,890 p.a. in 2006–07 prices. See National Union of Students, *NUS Press Pack 2003–2004: Higher Education Student Finance*, London, 2003. Note that this figure excludes any fee costs.

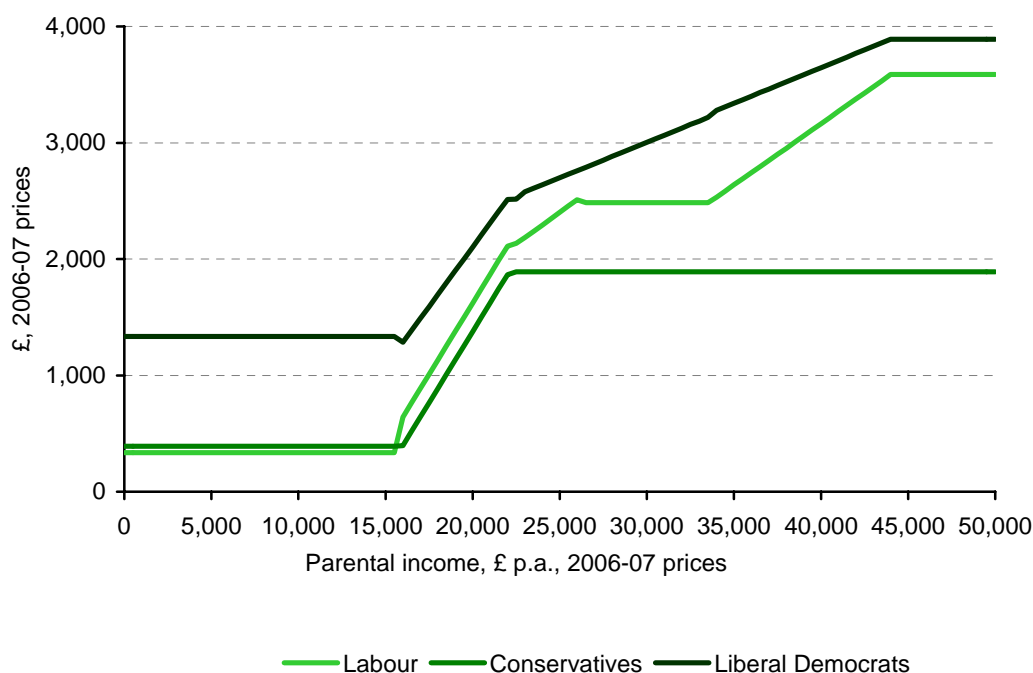
Furthermore, they are based on the assumption that students would not need to spend any of the grant or maintenance loan on fees under the Labour system. This is because *all* students would be entitled to a loan to cover the full cost of tuition.

Figure 3. Non-London student finances under the Liberal Democrat proposals



Note: Shortfall is calculated using the National Union of Students (NUS) estimate of the basic cost of living for a student living away from home outside of London. For more details, see the text.

Figure 4. Estimated annual shortfalls under all three proposals



Students with parental income of less than £15,970 face the lowest shortfalls, at £355 p.a., under the Labour system, and the highest shortfalls, at £1,335 p.a., under the Liberal Democrat system. Indeed, students would *always* be worse off under a Liberal Democrat system, but particularly the poorest students. Students with parental income above £15,970 face the lowest shortfalls under the Conservative system. The differences between the systems emerge most clearly above parental income of £22,100. Under the Conservative system, all students with parental income above £22,100 would face shortfalls of £1,890 p.a. Under the Labour and Liberal Democrat systems, the shortfalls gradually increase<sup>43</sup> up to parental income of £44,000, after which point they are £3,585 p.a. and (an estimated) £3,890 p.a. respectively at all levels of parental income.

## 5.2 How much would students borrow?

### *Maintenance loans*

Under the Labour and Liberal Democrat systems, the loan subsidy makes it sensible for students to borrow the maximum amount they are entitled to, regardless of the standard of living they seek to reach. However, because the Conservatives' loans would not be subsidised, it would not always make sense to borrow the maximum. In order to make debt comparisons between the systems meaningful, we assume that under the Conservative system, students borrow the amount required to achieve (as far as possible) the same standard of living as a student under the Labour system.<sup>44</sup> Given that each system offers a different level of grant, this means that the amounts needed to be raised through borrowing will differ. These amounts are such that:

- Students from the *poorest backgrounds* (parental income below £15,970 p.a.) would need to take out the maximum maintenance loans of £5,000 p.a. under the Conservative system, and this would still leave them £55 short per year compared with the Labour system. This is despite the fact that they would borrow less for maintenance under the Labour system, at £3,555 p.a. The higher borrowing requirement under the Conservative system would come about through having to make up for lower grants and zero bursaries. Under the Liberal Democrat system, students from the poorest backgrounds borrowing the maximum amount would be £1,000 per year worse off than under Labour due to lower grants and zero bursaries.
- Students from *low-income backgrounds* (parental income between £15,970 and £22,100) would need to take out higher maintenance loans under the Conservative system than under the Labour one, in order to enjoy the same upfront support for living. Again, this is due to the availability of a higher grant under the Labour system. The extra amount that students would have to borrow for maintenance under the Conservative system would be equivalent to the difference between the Labour grant and the Conservative grant. Under

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<sup>43</sup> It should be noted that between annual parental income of £26,000 and £33,560, the annual shortfall remains constant at £2,485 p.a. under the Labour system. This is a consequence of the conversion of the £1,200 fee exemption into an upfront grant: maintenance loan amounts were adjusted (non-uniformly) so as to ensure cost neutrality.

<sup>44</sup> Maximum borrowing under Labour and the Liberal Democrats, together with grants, would mean that students would be less well off under the Liberal Democrat system than under the Labour one, at all points of the parental income distribution. The difference would be largest for the poorest students, i.e. those with parental income below £15,970, who would have £1,000 p.a. less to live on under a Liberal Democrat than under a Labour system.

the Liberal Democrats, students from these backgrounds borrowing the maximum amount would be worse off than under Labour by between £350 and £700 per year, depending on exact parental income.

- Students from *middle-income backgrounds* (parental income between £22,100 and £33,560) would be entitled to a grant (of up to £1,200 p.a.) under the Labour system only. They would need to take out the equivalent amount in a maintenance loan under the Conservative system, in order to enjoy the same upfront support for living. Under the Liberal Democrat system, it is not clear how much such students would be entitled to borrow, but we estimate that they would be likely to be between £225 and £735 worse off per year than under Labour, depending on exact parental income.
- Students from *high-income backgrounds* (parental income above £33,560) would not receive a grant under any system. Borrowing the same amount for maintenance under both the Labour and Conservative systems would endow them with the same upfront living support. Under the Liberal Democrat system, it is again not clear how much such students would be entitled to borrow, but we estimate that maximum borrowing would leave them between £305 and £735 worse off than under Labour, depending on exact parental income.

### Total debt on graduation

Figure 5 shows total debt on graduation across all levels of parental income, and Table 4 presents debt levels on graduation for four parental income levels. The debt levels are calculated on the basis of the borrowing for maintenance set out above, and on the assumption of full take-up of fee loans under Labour's proposed system.<sup>45</sup> Total debt levels on graduation

Table 4. Expected\* levels of debt on graduation

Year of HE entry:	2003–04	2006–07	2006–07	2006–07
Funding system:	As in 2003–04	Labour	Conservative	Liberal Democrat
<b>Student's parental income</b>				
Low (up to £15,970 p.a.)	£12,340	£19,340	£16,230	£10,335
Middle (around £25,000 p.a.)	£12,340	£19,340	£14,580	£12,250 <sup>a</sup>
Upper middle (around £35,000 p.a.)	£11,910	£21,440	£13,810	£10,340 <sup>a</sup>
High (above £44,000 p.a.)	£9,250	£18,670	£10,730	£8,700 <sup>a</sup>

\* Expected debt levels are equal to maximum debt levels under the 2003–04, Labour and Liberal Democrat systems. Expected debt levels under the Conservative system are calculated so as to equate the amount of upfront living funds in university to that under the Labour system.

<sup>a</sup> As maintenance loan amounts above parental income of £22,100 p.a. have yet to be fully worked out by the Liberal Democrats, these figures represent our best interpretation of what the amounts are likely to be.

Notes: The figures relate to students living away from home outside London on a three-year course for which the maximum top-up fee is charged. All amounts are expressed in 2006–07 prices. Total debt comprises fee and maintenance loans under the Labour system. It comprises maintenance loans only under all other systems.

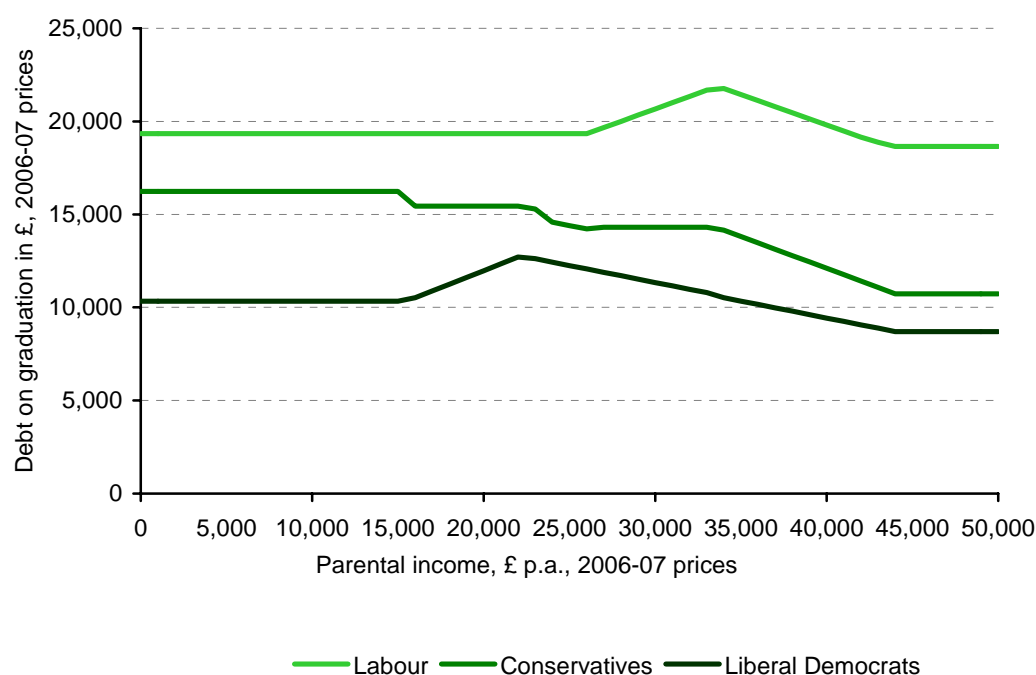
<sup>45</sup> The numbers are based on the experience of a graduate having undertaken a three-year degree course, living away from home outside London and, under a Labour system, having attended a university in which full top-up fees were charged. Maintenance loan take-up under the Conservative proposals is calculated as in the previous subsection.

under the Labour system therefore comprise fee loans and maintenance loans; under the Conservative and Liberal Democrat systems, total debt comprises maintenance loans only.

Debt would be highest under the Labour system, largely due to the extra £9,000 in fee loans. Students would graduate with the lowest debt levels under a Liberal Democrat system, but this would come at the expense of lower upfront support at university than would be available under either of the other two parties' systems. If students wished to achieve the same standard of living under the Liberal Democrat system as under the other two systems, they might need to resort to other forms of debt, which may be more expensive and which may not embody insurance elements (such as income-contingency and fixed repayments).

Debt repayment under both the Labour and Liberal Democrat proposals would be subsidised. The repayment of debt will vary depending on subsequent graduate earnings. Section 6 considers the implications of this debt for graduates.

Figure 5. Estimated total debt on graduation under all three proposals



## 6. What the reforms mean for graduates from 2009–10

Concerns have been raised that the level of debt students may incur during their studies will create a significant financial burden on them throughout their working lives and that this may affect their HE decision. In this section, we analyse the implications of the three parties' funding proposals for graduates. We have seen already (Table 4 and Figure 5) that, depending on the funding system, students are likely to have different debt levels when they graduate. Furthermore, the systems impose different interest rates on debt: Labour and the Liberal Democrats propose a zero real interest rate, whilst the Conservatives propose a positive real interest rate. This has important implications for the amount of debt subsidy paid, the amount of debt and length of time it will take graduates to repay debt, and the amount of outstanding

debt in the event of loans being written off after 25 years. We compare these debt-related outcomes for graduates across all three systems.

What outcome graduates face depends to a large extent on how they fare in the labour market, in terms of employment and earnings. This is for two reasons. First, debt repayment is income-contingent. This means that graduates whose income is below the repayment threshold, whether due to being low earners or due to not being in paid employment, will be exempt from making loan repayments in the relevant periods, and may eventually see their debt written off. Second, loan repayments are scheduled at 9% of surplus income above the repayment threshold. This means that high earners will have to repay loans much faster than low earners because they will repay a higher amount in each period.

This points to the importance of considering a range of graduate earnings paths. Based on our work in Dearden et al.,<sup>46</sup> we use innovative statistical techniques to construct the full distribution of likely future earnings paths for graduates. In constructing earnings paths, we incorporate two key features of the labour market: first, that people's relative earnings positions may change through time and, second, that graduates may move into and out of employment. Armed with these, we assess how HE debt would affect graduates with different earnings paths, for all the main parties' funding proposals.

## 6.1 Lifetime earnings for graduates

Table 5 summarises some information about the lifetime earnings of male and female graduates (based on our calculation of lifetime earnings profiles described above). We estimate that mean lifetime earnings for male graduates is just under £1.1 million, but, as we can see from the standard deviation reported in Table 5, there is a fair degree of dispersion around this mean. We see from the table that the mean of lifetime earnings is significantly lower for female graduates than for male graduates, at just over £765,000, but, as is clear from the standard deviation, there is even greater dispersion around this mean than for men. This is partly because many women take extended time out of the labour market to have children. This dispersion will have important implications for the effects of different policies across the earnings scale, especially for women.

Table 5 also shows average lifetime tax and National Insurance (NI) payments.<sup>47</sup> Not surprisingly, overall student debt under all three parties' policies is considerably smaller (by a factor of at least 13 for men and 9 for women) than the average income tax and NI payments that graduates would pay over their working lifetime.<sup>48</sup>

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<sup>46</sup> See L. Dearden, E. Fitzsimons and A. Goodman, *An Analysis of the Higher Education Reforms*, IFS Briefing Note no. 45, 2004 (<http://www.ifs.org.uk/bns/bn45.pdf>).

<sup>47</sup> We do not include in our calculations any in-work credits or benefits that graduates may become entitled to during their working life.

<sup>48</sup> The Liberal Democrats have said that they will fund the additional money for higher education by raising the marginal income tax rate for those earning over £100,000 to 49%. The implications of this for graduates have not been taken into account in any of our analysis. This is because this tax rise would fund more than just the increase in funding for HE; in addition, we do not take into account where the extra taxpayer money that would be needed under the Conservative and Labour systems would come from.

Table 5. Graduate lifetime earnings, NI and income tax

	Average for all graduates	Average for bottom quintile	Average for top quintile
<b>Men</b>			
Lifetime gross earnings	£1,084,900 (£206,300)	£774,710 (£174,080)	£1,328,760 (£87,590)
Working lifetime income tax and NI	£291,260 (£60,970)	£203,540 (£46,970)	£367,070 (£34,970)
<b>Women</b>			
Lifetime gross earnings	£766,600 (£281,700)	£412,970 (£112,980)	£1,171,580 (£254,290)
Working lifetime income tax and NI	£199,460 (£101,480)	£94,170 (£28,940)	£351,490 (£112,650)

## Notes:

All figures are in 2006–07 prices and apply to graduates from 2009–10. No discounting of earnings amounts in different time periods has been applied.

We assume that 2004–05 income tax and NI rates and thresholds apply and we uprate them to 2006–07 prices. Standard deviations are given in parentheses.

Also in Table 5, we present average lifetime earnings amongst graduates in the bottom and top quintiles of the lifetime earnings distributions. Average lifetime earnings are around £775,000 for the bottom quintile of the male earnings distribution, and around £415,000 for the bottom quintile of women. Average earnings for men in the top quintile are £1,329,000 with a standard deviation of just £87,600. This points to there being a lot less dispersion in the top quintile of the male graduate earnings distribution than at the bottom (where the standard deviation is around £174,000), despite the much higher average earnings. For women in the top quintile, average lifetime earnings are slightly lower, at £1,171,600, but the dispersion around this mean is much larger and probably in part reflects the fact that women are more likely to take breaks from the labour market. Furthermore, the dispersion at the top of the female graduate earnings distribution is much greater than the dispersion at the bottom, the opposite of the situation for men.

## 6.2 Implications of the parties' policies for different types of graduates

In this final section, we consider the following outcomes for graduates under the three parties' proposals:

- total lifetime debt repayments (expressed in net present-value terms);
- the number of years taken to pay off loans;
- the level of taxpayer subsidy on graduate debt;
- the percentage of the original debt that is written off.

The amount of debt a student would graduate with depends on their parents' income (because of the means-testing of grants and loans described in Sections 2 and 5). For this reason, we examine how the above outcomes differ according to parental income levels, as well as according to where in the distribution of lifetime earnings a graduate ends up.



Our analysis assumes that under the Conservative system, banks would charge students a real interest rate of 4.0% (see discussion in Section 2.3). We assume a discount rate of 2.5% for our calculations of the net present-value of total debt repayments and of taxpayer subsidies on loans.

### **Total debt repayments**

Figures 6 and 7 show the total value of lifetime debt repayments (expressed in net present-value terms) for graduates. Despite initial debt levels under the Conservatives that would be lower than under Labour (see Figure 5), total lifetime repayments under the Conservatives would be bigger for students coming from most parental backgrounds, for the same lifetime earnings paths.<sup>49</sup> This is because the higher interest rate under the Conservatives would more than offset the lower initial debt levels for many students. We estimate this to be the case for students with parental incomes below around £36,000, who make up about 60% of the total,<sup>50</sup> although the exact cross-over point depends on upon lifetime graduate earnings.<sup>51</sup> Above these parental income levels, initial debt levels under the Conservatives would be sufficiently small that total lifetime repayments would be lower than under Labour, despite the higher interest rate. It is also clear from Figures 6 and 7 that total lifetime debt repayments would be the lowest under the Liberal Democrats, although this would arise, in part, because of lower living standards whilst at university (see Section 5).

Figures 6 and 7 also show how total lifetime debt repayments would vary across the distribution of graduate lifetime earnings: the figures show that under all three parties, lower earners would repay in total less than higher earners. Under the Liberal Democrats and Labour, this would be because of two factors: (i) debt write-off after 25 years and (ii) the zero interest rate, which implies a bigger subsidy the longer it takes to repay. Under the Conservatives, lower earners gain just from the first of these.

However, for male graduates under the Liberal Democrat system, the average net present value of lifetime debt repayments is almost identical regardless of whether they end up in the top quintile of the earnings distribution or the bottom. This is because with their lower levels of debt, virtually all the men will pay off their debt regardless of where they end up in the lifetime earnings distribution (see below), and the only differences relate to the effect of discounting.

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<sup>49</sup> This assumes that those whose parents have incomes of £35,000 up to £44,000 borrow in the range of £3,305 to £4,255 per year (or less) depending on precise parental income, and that those whose parents have incomes of £44,000 or more borrow £3,305 per year (or less). These are the amounts needed to achieve the same (or a lower) standard of living as (than) under Labour.

<sup>50</sup> We know from government figures that: around 43% of HE students are from families earning £22,560 per year or less; around 14% of students are from families earning between £22,560 and £33,560 per year; and around 43% are from families earning over £33,560. Source: National Statistics First Release, *Statistics of Student Support for Higher Education in the United Kingdom: Financial Year 2003–04 and Academic Year 2004–05 (Provisional)*, SLC SFR 01/2004, 30 November 2004 (<http://www.dfes.gov.uk/rsgateway/DB/SFR/s000539/index.shtml>).

<sup>51</sup> The cross-over point at which total lifetime debt repayments would become lower under the Conservatives than under Labour would be at family income of £35,000 for male graduates in the top quintile of the lifetime graduate earnings distribution and at £38,000 for male graduates in the bottom quintile.

Figure 6. Net present value of lifetime repayments – men

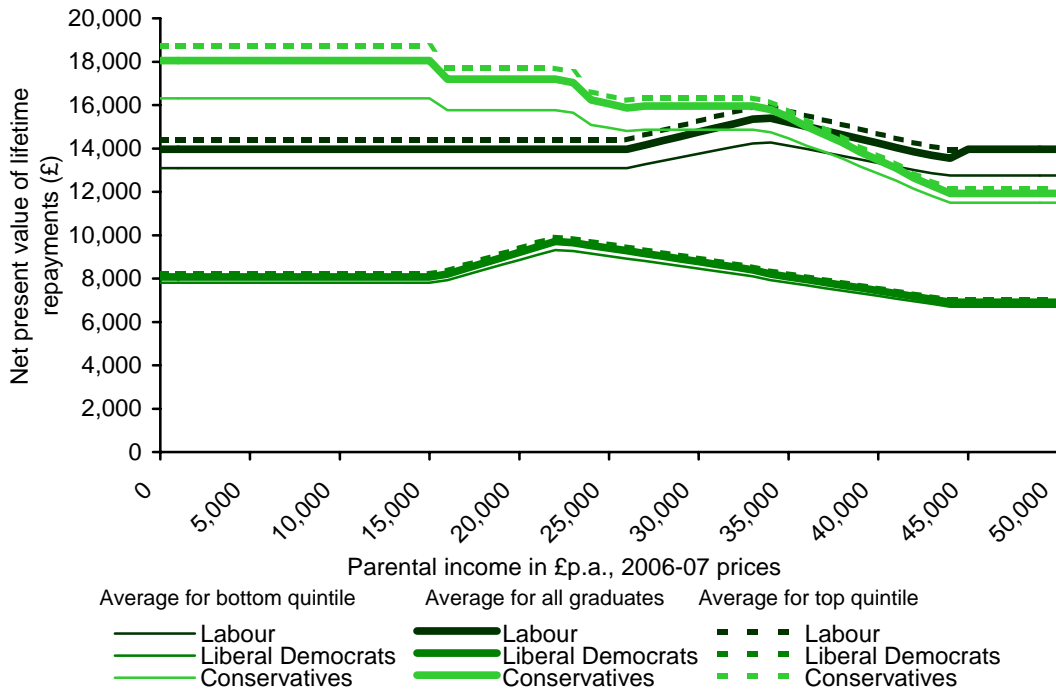
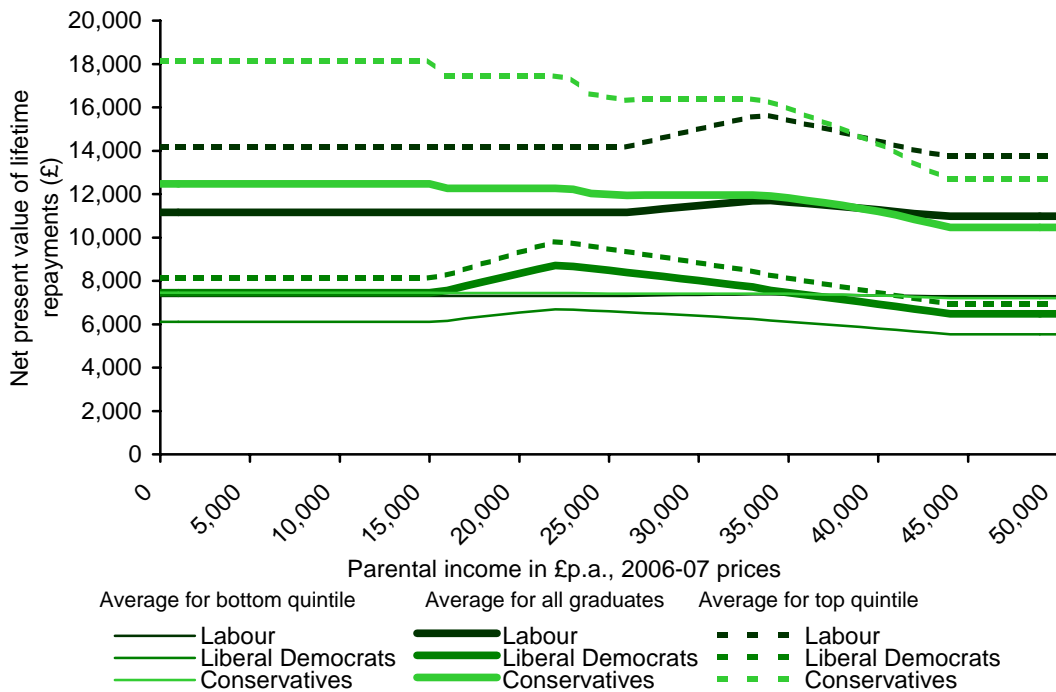


Figure 7. Net present value of lifetime repayments – women



**Years to pay off loan**

A closely related outcome is the number of years graduates might expect to repay their debts. From Figure 8, we see that although the Conservative policy would involve lower initial debt than the Labour Party policy, the effect of the positive real interest rate is that it would take male graduates coming from families with incomes below around £35,000 longer to repay

Figure 8. Years to pay off debt – men

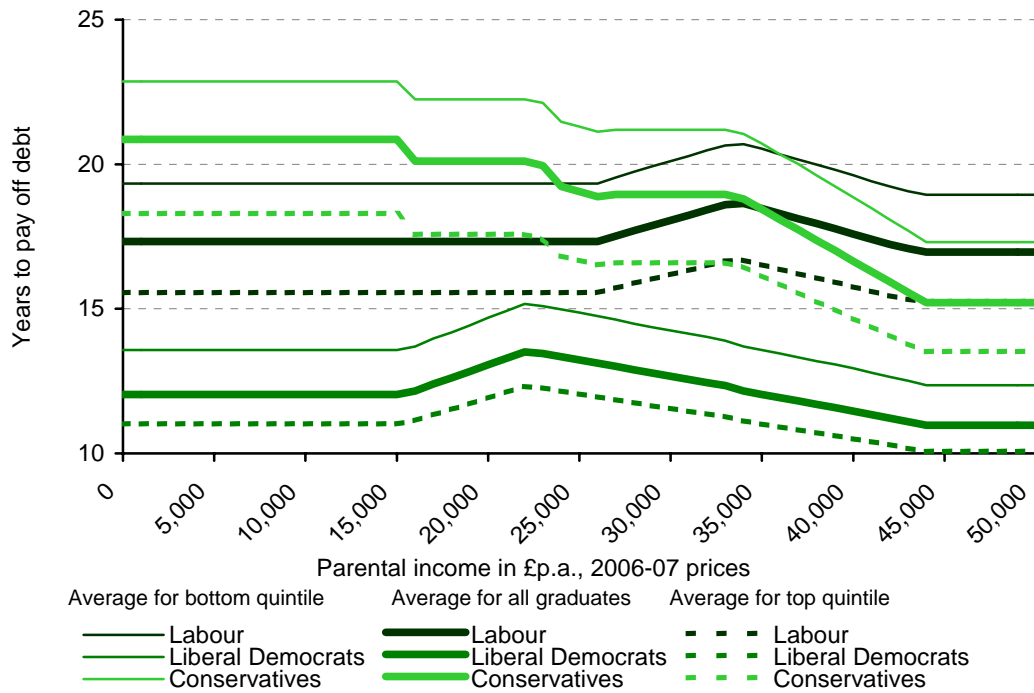
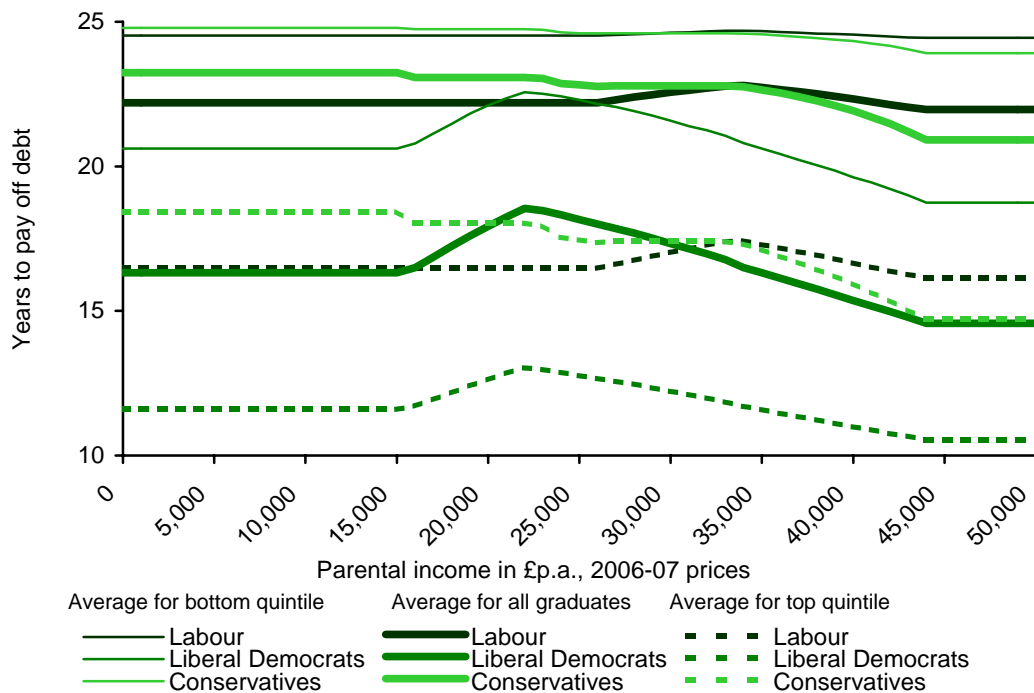


Figure 9. Years to pay off debt – women



their debts under the Conservatives than under Labour. By contrast, it would take less time for male graduates coming from families with incomes of £35,000 or more to repay their debts under the Conservatives than under Labour, for the same lifetime earnings paths. For all male graduates, there is a much larger dispersion around these mean times to pay back the debt under the Conservatives than under the other systems, with the standard deviation ranging from 3.3 to 3.5 years. For men under the Liberal Democrat scheme, the average time to pay back loans ranges from 11.0 to 13.6 years. This is considerably lower than for both the Conservative and Labour schemes.

If we focus on men in the bottom quintile of the earnings distribution, we see that those coming from low-income families pay off their loan much more quickly under Labour than under the Conservatives, whereas it takes less time for those coming from high-income families to pay off their loan under the Conservative scheme. This is also true for men in the top quintile of the earnings distribution, although the family income where the Conservative policy gives a shorter time is slightly lower (£33,000 instead of £36,000).

For women, Figure 9 shows that graduates would take on average between 22 and 23 years to pay off the loans under Labour. Under the Conservative scheme, it would take slightly longer for women coming from families earning less than £32,000 per year, but it would take 1 year less than under Labour for women coming from families earning £44,000 or more.<sup>52</sup> This is because the smaller size of the loan offsets the higher real interest rate for this group.

By comparing the results in Figures 8 and 9, we see that female graduates under any of the schemes would, on average, take between 3 and 5 years longer to pay off their loans than male graduates with similar debt and family circumstances, because of their different lifetime earnings paths and overall lower lifetime earnings.

### ***Taxpayer subsidy on debt***

The real interest rate that students would be charged for their loans under Labour and the Liberal Democrats is zero. However, the cost of government borrowing to finance these loans is not zero, and this subsidy to graduates represents a cost to the government under both the Labour and Liberal Democrat schemes (see Section 3). In what follows, we assume that the real government borrowing rate is 2.5% and we use this to calculate the taxpayer subsidy under each of the schemes. Under the Conservative system, there is no taxpayer subsidy, as the loans would not be administered by the government.

From Figure 10, we see that for men under the Labour policy, the average taxpayer subsidy on the loan ranges from 27.4% to 29.3%. For men in the bottom quintile of lifetime earnings, the average taxpayer subsidy ranges from 31.7% to 34.5%, whilst for those in the top quintile, the average taxpayer subsidy ranges from 25.2% to 26.8%. For women under Labour, the subsidy is substantially higher for all groups, with the average for the whole sample ranging from 41.2% to 46.4%, as we can see from Figure 11. This greater subsidy arises from the fact that lifetime female earnings are lower than lifetime male earnings. One key feature of an income-contingent loan system is that those who earn less obtain a higher taxpayer subsidy.

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<sup>52</sup> Again, assuming that they do not borrow more than we have assumed. See footnote 49.

For women in the bottom quintile of lifetime earnings, the average taxpayer subsidy ranges from 61.0% to 66.3%; and for those in the top quintile, it ranges from 26.3% to 28.3%.

Figure 10. Taxpayer subsidy as a proportion of debt – men

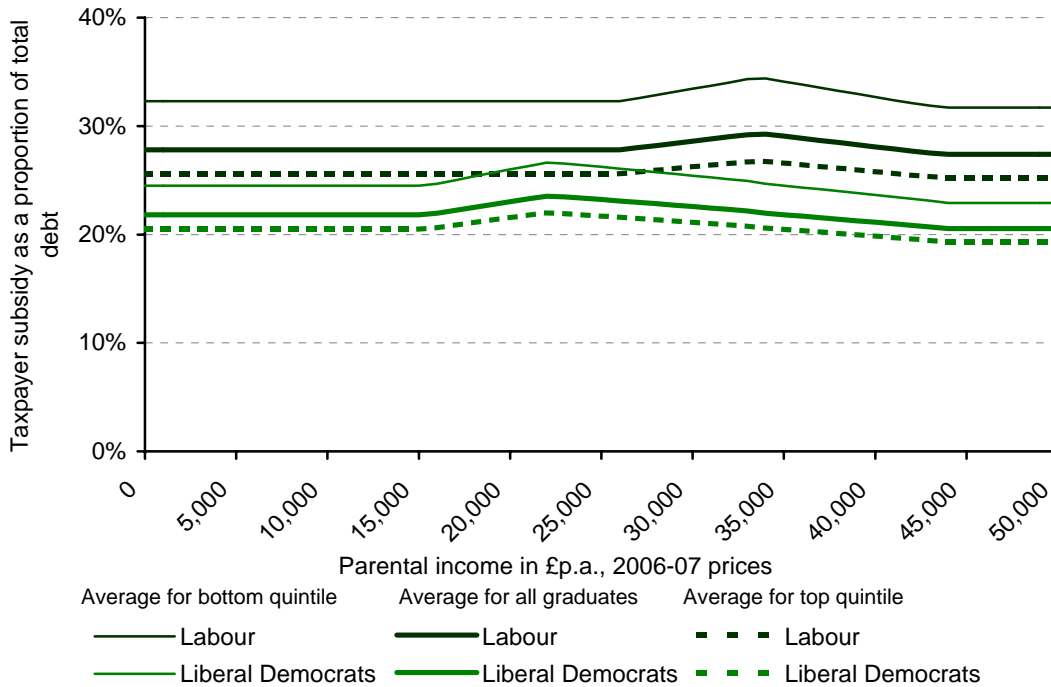
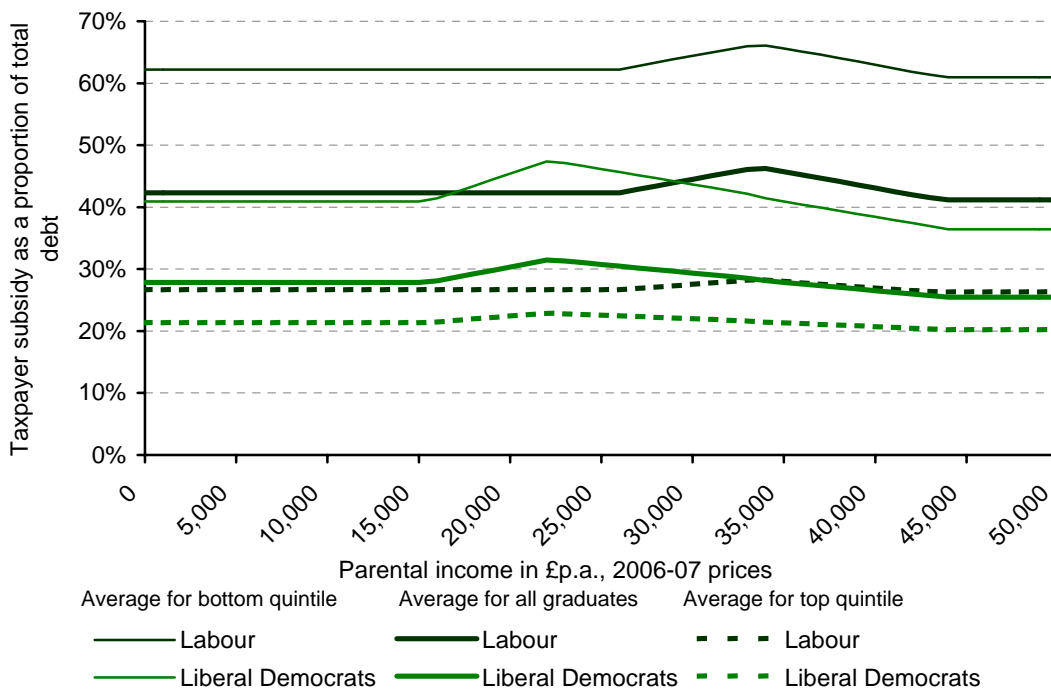


Figure 11. Taxpayer subsidy as a proportion of debt – women



Under the Liberal Democrat policy, the average taxpayer subsidy for men ranges from 20.5% to 23.7% and reflects the fact that under an income-contingent scheme, a smaller debt implies a smaller proportional subsidy, since the sooner the debt is repaid, the lower the cost to the government. For women, the corresponding subsidy ranges from 25.5% to 31.7%. For those in the bottom quintile of the lifetime earnings distribution, the average taxpayer subsidy ranges from 22.9% to 26.8% for men and from 36.4% to 47.8% for women. For those in the top quintile of the lifetime earnings distribution, the average taxpayer subsidy ranges from 19.3% to 22.1% for men and from 20.2% to 23.0% for women.

### ***Amount of debt written off after 25 years***

We now look at the average amount of debt written off after 25 years as a proportion of the initial debt. This would be an important cost for banks under the Conservatives' scheme and for taxpayers under Labour or the Liberal Democrats (in addition to the taxpayer subsidy for the loan discussed above). The percentage written off could be greater than 100% under the Conservative scheme because banks will charge a real interest rate. Under the Labour and Liberal Democrat schemes, the proportion written off can never be more than 100% because there is a zero real interest rate, although this zero real interest rate imposes other costs on the taxpayer that have already been discussed.

Under the Labour policy, for the average male graduate, the amount written off represents between 1.1% and 1.4% of the original debt on graduation (see Figure 12). Under the Conservatives' scheme, the amount that the average male graduate fails to repay represents between 2.6% and 9.1% of the original debt on graduation. Under the Liberal Democrats' scheme, between 0.4% and 0.6% of the original debt is not paid off by the average male graduate. This suggests that whilst the Conservative system would involve no taxpayer subsidy, the positive real interest rate on the debt would mean that there would be a substantial rise in the average proportion of male graduates who would not pay off their debt within 25 years compared with the Labour and Liberal Democrat schemes for most debt levels.

For women, we see from Figure 13 that under the Labour system, the average outstanding debt as a proportion of the original loan lies between 17.3% and 23%. Under the Conservative scheme, the average amount outstanding would represent between 40.2% and 89.7% of the original debt. Under the Liberal Democrat scheme, the average amount of debt written off would only represent between 3.8% and 6.9% of the original loan amount.

Where the big differences lie between the parties is for those in the bottom quintile of the lifetime earnings distribution. The average proportion of the original debt outstanding is always significantly higher under the Conservative system, especially for those coming from families with low incomes, but even for those from families with the highest incomes. This is true for men, and is even more marked for women, for whom the average outstanding debt is more than 100% at all family income levels. Again, this has important implications for the banks administering the loans.

Figure 12. Proportion of original debt outstanding after 25 years – men

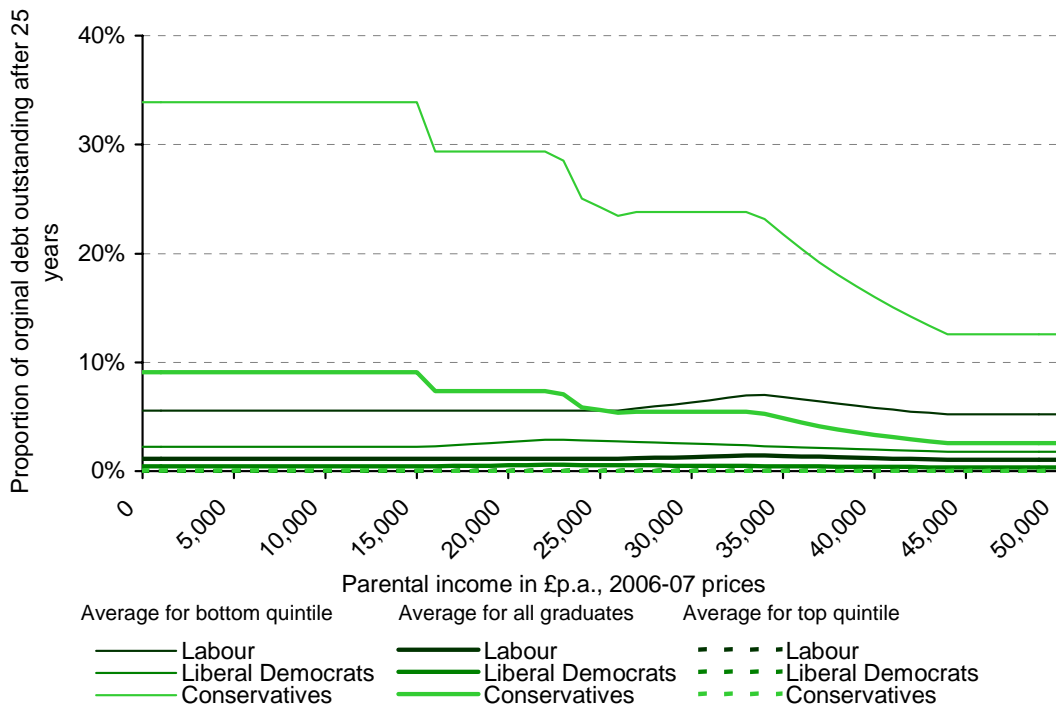
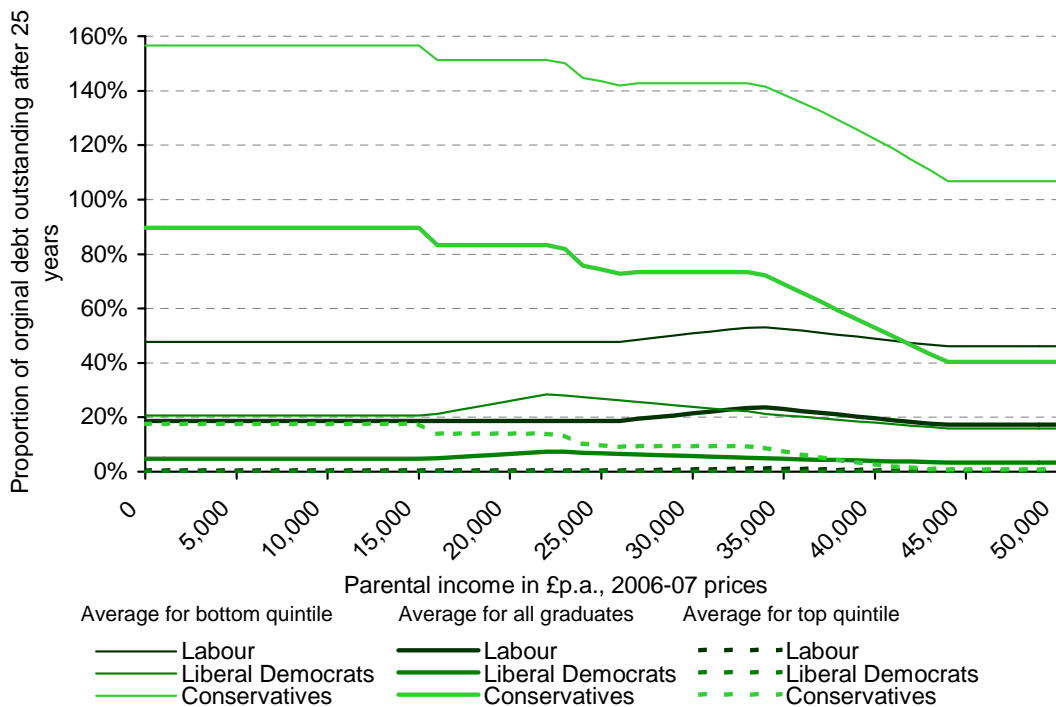


Figure 13. Proportion of original debt outstanding after 25 years – women



## **7. Conclusions**

We have set out how the higher education funding policies of the three main parties would affect taxpayers, students, graduates and universities. The policies have some similarities but also many differences.

Universities would stand to gain from all three parties' proposals, allowing funding per student to return to the levels seen in the early 1990s, but well below the peak experienced in the early 1970s. Increasing per-student funding more in the future would require less additional taxpayer funding under Labour's system of variable fees than under the other two parties' systems.

We have shown that the taxpayer costs of the parties' reforms would be similar under Labour and the Conservatives, but substantially higher under the Liberal Democrats.

All three parties' systems would allow the living standards of the poorest students to go up compared with those of students today, although upfront support would be considerably lower under the Liberal Democrats than under the other two parties.

Although much attention has been paid to the potential deterrent effects of levels of student debt under Labour, all three parties' systems contain both potential attractions and possible deterrents to HE entry. If – as has been suggested by some – people would be put off by fees, or by large amounts of debt on graduation, then Labour's system would most deter students from entering HE. However, we have shown that some graduates would actually pay less in total in debt repayments under Labour's system, where initial levels of borrowing are higher, than under the Conservatives' system, which would combine lower initial debt with higher interest rates. This suggests that debt levels alone can be a poor indicator of the cost of HE.

Furthermore, if it is actually the uncertainty surrounding future earnings that most deters potential students from taking on the costs of studying at university, rather than debt itself, then the Conservative system could be the least attractive. This is because, by introducing a commercial interest rate for maintenance loans, it would require graduates to take on the biggest risks of all the three parties' systems. By contrast, under Labour and the Liberal Democrats, loans are highly subsidised and without risk to the borrower.

Finally, if the real problem for students is how much money they have to live on at university, rather than the debt they accumulate, then the Liberal Democrats' system would most deter students from entering HE compared with the other two parties' proposals.



## Appendix

Table A1. Government costing assumptions, March 2005

	Per year
<b>Fee income for higher education providers</b>	
Fee income from standard fee (based on 2006–07 standard fee of £1,200)	£950 million
Additional income from variable fees (based on 91% of universities charging full £3,000 fee)	£1,350 million
Total	£2,300 million
<b>Cost of student support</b>	
New grant of £2,700	£890 million
Maintenance loans	£740 million
Fee loans	£830 million

Notes: (as contained in source cited below)

- All costs are in steady state 2006–07 terms.
  - Fee loan forecasts are based on the assumption that 9 per cent. of students are charged £2,000 and 91 per cent. charged £3,000, so the average fee for new students will be £2,910. 80 per cent. take-up of fee deferral is also assumed.
  - The maintenance loan forecasts assume 82 per cent. take up.
  - The forecasts are based on a RAB charge for maintenance loans of 29 per cent. and for fee loans of 42 per cent., under 3.5 per cent. discount rate.
  - Fee income forecasts have been rounded to the nearest £50 million. All other figures have been rounded to the nearest £10 million.
  - Forecasts are based on setting a grant threshold so that 30 per cent. of students receive the full grant.
  - The combined grant costs represent an extra £440 million over and above expenditure on the £1,200 fee remission grant as it would have been.
  - Adopting the £2,700 grant has the effect of moving costs from maintenance loans to fee loans, because the £1,200 fee remission grant would have substituted for fee loans whereas some of the £2,700 grant substitutes for maintenance loan. The level of the substitution rate will be set to ensure overall cost neutrality.
- Source: *Hansard Written Ministerial Statements* for 23 March 2005, column 72WS  
([http://www.publications.parliament.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm#50323m02.html\\_dpthd1](http://www.publications.parliament.uk/pa/cm200405/cmhansrd/cm050323/wmstext/50323m02.htm#50323m02.html_dpthd1)).

Table A2. Government costing assumptions, January 2004

	Per year
<b>Cost of fee deferral</b>	
Highest estimate of cost of deferring existing fees	£190 million
Highest estimate of cost of deferring variable fee	£445 million
Cost of loan write-off after 25 years	£30 million
<b>Cost of student support</b>	
Increasing loan to median basic living costs	£65 million
Cost of HE grant to £1,500	£420 million

Notes: All costings are in 2006–07 prices, and have not been rounded. Fee loan cost estimates based on assumption that tuition fee revenue in total is £1.8 billion. This is consistent with 2003–04 student numbers, and with 75% of universities charging the full top-up and 25% of universities charging the basic fee.  
Source: Provided to IFS by Department for Education and Skills, January 2004.

Table A3. Conservative costing assumptions, September 2004

	Per year
<b>Savings compared with Labour's system</b>	
Maintenance loan subsidies	£1,020 million
Fee loan subsidies	£660 million
Student loan administration	£40 million
<b>Costs compared with Labour's system</b>	
Fee replacement <i>including existing fee remissions</i>	£1,800 million
Gifting of the Student Loan Book	£380 million
<b>Costs common to Labour and Conservative systems</b>	
Fee remissions	£480 million
Student grants	£420 million

Notes: IFS calculations for Conservatives' system (Table 2) are based on updated government cost estimates (see Table A1), but keep fee replacement allocation as stated by Conservatives, 2004.

Source: Conservative Research Department, *Funding the Future: A Conservative Policy for Universities and Students*, 2004.

Table A4. Liberal Democrat costing assumptions, March 2005

	Per year
<b>Costs</b>	
Fee replacement <i>including existing fee remissions</i>	£2,130 million <sup>a</sup>
Grant of £2,000	£560 million
'Barnett Consequential' for non-English universities	£200 million
<b>Savings compared with Labour's system</b>	
Fee loan subsidies	£770 million <sup>b</sup>
Cost of debt write-off after 25 years	£30 million

Notes: IFS calculations for Liberal Democrats' system (Table 2) are based on updated government cost estimates (see Table A1).

<sup>a</sup> Calculations based on Department for Education and Skills, *The Future of Higher Education and the Higher Education Act 2004: Regulatory Impact Assessment*, 2004, assuming 100% of universities charge the full top-up on all courses. Of the total fee replacement, £1,280 million is calculated to be replacement of top-up fees and £850 million is basic fee replacement.

<sup>b</sup> Assumes 90% take-up of loans. Loan subsidies calculated on basis of £0.37 cost to the exchequer on each £1 of basic fee loan and £0.42 on each £1 of top-up fee loan (see Department for Education and Skills, *ibid.*, points 43. and 44.).

Source: Provided to IFS by Liberal Democrats, March 2005.