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Higher Education Policy Institute

Examination of higher education fees and funding in England

London Economics, 28th February 2024



Informing policy makers and the public ahead of the General Election.







- **Four separate policy notes on higher education fees and funding published in February**
- **Three other public events to be held - in Belfast, Edinburgh, and Cardiff**
- **Engagement with major political parties to offer analytical support for policy understanding and development**
- **Assessment of manifesto commitments ahead of the General Election**

We gratefully acknowledge the support of the Nuffield Foundation, which is funding this project.

Introduction

Higher education funding policy has diverged significantly since devolution.

Summary by Home Nation		HEI income (relative terms)	Cost split Exchequer vs. students
 England	<ul style="list-style-type: none"> Replacement of student grants with loans only High fees with low TGs 	High	Cost mostly borne by students
 Wales	<ul style="list-style-type: none"> Replacement of fee grants with generous maintenance grants High fees with low TGs 	Medium	Roughly 50/50
 Scotland	<ul style="list-style-type: none"> Very low fees (funded by grants) High TGs + student number controls 	Low	Cost mostly borne by Exchequer
 Northern Ireland	<ul style="list-style-type: none"> Low fees (funded by loans) High TGs + student number controls 	Low	Roughly 50/50



Ongoing challenges:

- Stagnant economy/ fiscal constraints
- Inflation/erosion of unit of resource
- Policy environment/ international students
- Public understanding/ political constraints

HE funding is hugely complex. Today, we are covering four questions.



What is the impact of the current (2023-24) English funding system on the Exchequer, HEIs, and students/graduates?

How does this compare to Scotland, Wales, and Northern Ireland?

What did the previous (pre-Augar response) system look like?

What could be done to increase HEI resources - without increasing fees?

Our analysis is based on the new 2023-24 English funding system. We focus on the **2023-24 cohort of first-year English domiciled undergraduate students studying anywhere in the UK (including FT and PT and all types of UG qualifications).**

1

What is the impact of the current funding system on the Exchequer, HEIs, and students/graduates?



Baseline (current system): Total costs for cohort

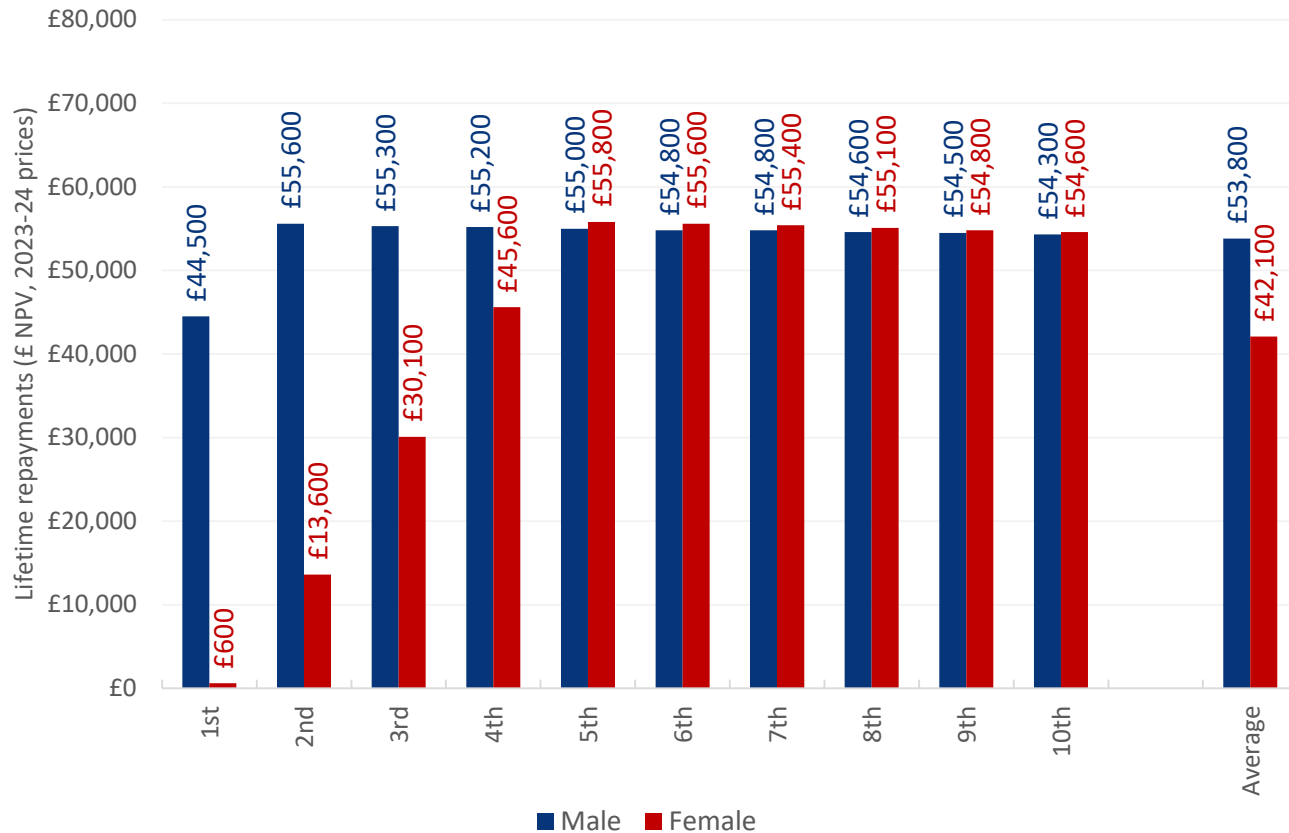
Resource flows (£/£m/%)	Baseline
Net Exchequer cost (adjusted for RAB)	
Cost of maintenance loans	(£326m)
Cost of tuition fee loans	(£423m)
Cost of Teaching Grants	(£1,257m)
Total	(£2,006m)
RAB charge (%)	4.1%
Net HEI income	
Gross fee income	£11,302m
Teaching Grant income	£1,257m
Cost of bursary provision	(£108m)
Total	£12,451m
Students/Graduates (FT first degree students from England studying in England)	
Average debt on graduation	£50,500
Average lifetime repayments (M/F)	£53,800/£42,100

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m. 'Gross fee income' refers to fee income before the deduction of bursaries provided to students

- The Exchequer currently contributes **c.£2.01bn per cohort (£1,630 per FT student in England per year)**.
- **HEIs receive £12.45bn in net income per cohort (£10,220 per FT student in England per year)**.
- The average **debt on graduation** per FT first degree student is **£50,500**.
- Average lifetime repayments stand at **£53,800 for male graduates and £42,100 for female graduates**.

Baseline (current system): Graduate loan repayments

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2023-24 prices), by lifetime earnings decile and gender



- The post-Augar reforms have *increased* repayments for low- to middle-income graduates but *decreased* those for higher earning graduates. More on that later...
- The current repayment system is **locally regressive**. Many graduates will repay c.£55,000, irrespective of their earnings.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

2

How does the English system compare with other Home Nations?



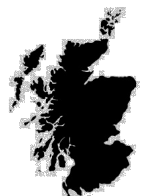



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How do the Home Nations differ in terms of funding? Substantially!

The English system includes the *lowest* Exchequer cost but the *highest* HEI income per student:

	Exchequer cost	HEI income
	£1,630	£10,220
	£3,780 (>2x England)	£9,290 (9% < England)
	£9,130 (>5x England)	£7,870 (23% < England)
	£4,810 (c3x England)	£7,620 (25% < England)

£ per full-time 'home' student per year in 2023-24





Item	English in England	Scottish in Scotland	Welsh in Wales	NI in NI
Net Exchequer cost per student				
Maintenance grants	-	£550	£3,800	£1,140
Maintenance loans	£240	£720	(£240)	£330
Tuition fee grants	-	£1,790	-	-
Tuition fee loans	£330	-	(£270)	£310
Teaching grants	£1,060	£6,080	£490	£3,030
Total	£1,630	£9,130	£3,780	£4,810

Net HEI income per student				
Gross fee income	£9,250	£1,790	£9,000	£4,710
Teaching grant income	£1,060	£6,080	£490	£3,030
Cost of bursaries	(£90)	-	(£200)	(£120)
Total	£10,220	£7,870	£9,290	£7,620

Note: All values are for 'home' domiciled full-time undergraduate students (including first degrees and other undergraduate) in the 2023-24 entry cohort (where 'home' domicile refers to English domiciled students studying in England, Welsh domiciled students studying in Wales, etc.). Values are rounded to the nearest £10.

How do the Home Nations differ in terms of funding? Substantially!

Balance of total contribution between the Exchequer vs. students/graduates

	Exchequer	Students/Graduates
	16%	84%
	44%	56%
	113%	-13%
	51%	49%

- In **England**, most of the cost of HE is borne by students/graduates.
- In **Wales and Northern Ireland**, the split between Exchequer vs. student/graduate cost is roughly even.
- In **Scotland**, students are effectively *paid* to attend HE (as they typically pay no fees but receive maintenance funding).

Note: The balance of contribution between the Exchequer and students/graduates was calculated across *all* students in the relevant 2023-24 entry cohort of English, Scottish, Welsh, and Northern Irish domiciled undergraduate students (studying anywhere in the UK and including both full-time and part-time students).

3

What did the previous (pre-Augar response) system look like?



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Impact of the Department's response to Augar

The main features of the DfE's response to Augar included the **removal of real interest rates**; a **reduction, freeze, and then slower uprating of the repayment threshold**; and the **extension of the repayment period to 40 years**:

PREVIOUS SYSTEM (PRE-AUGAR RESPONSE):

- **Repayment threshold of £27,295**, uprated with average earnings growth each year
- **Real interest rates** of 3% during study, 0-3% for earnings between £27,295 and £49,130, and 3% for earnings of £49,131 or more
- **Loan repayment period** of 30 years

CURRENT SYSTEM (POST-AUGAR RESPONSE):

- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation each year thereafter
- **No real interest rates** applied to loans (so nominal interest = 0% + RPI)
- **Loan repayment period** of 40 years

Impact of the Department's response to Augar

Pre- vs. post-Augar system

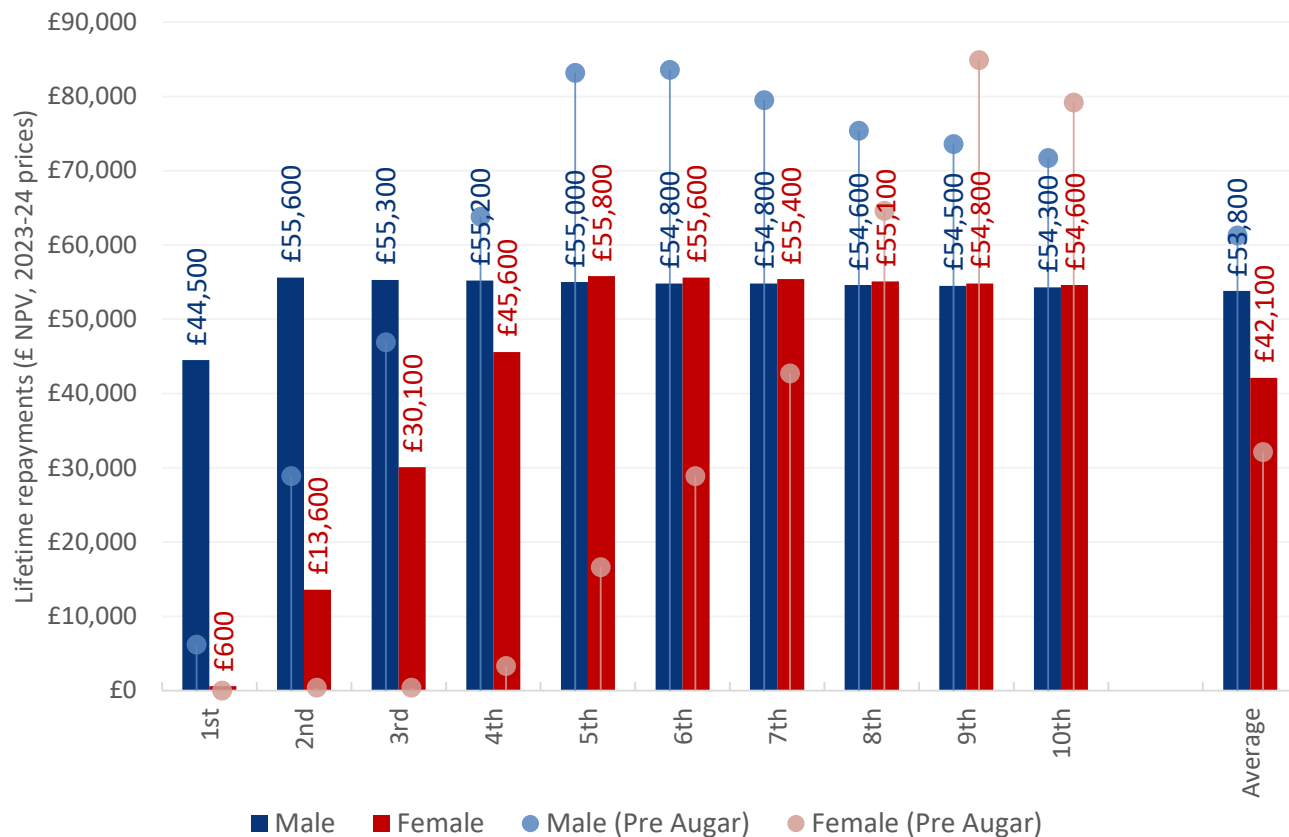
Resource flows (£/£m/%)	Previous (pre-Augar) system	Current (post-Augar) system	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance loans	(£809m)	(£326m)	£483m
Cost of tuition fee loans	(£1,060m)	(£423m)	£637m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	(£3,126m)	(£2,006m)	£1,120m
RAB charge (%)	10.2%	4.1%	-6.1pp
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	£12,451m	£12,451m	-
Students/Graduates (FT first degree students from England studying in England)			
Ave. debt on graduation	£52,100	£50,500	(£1,600)
Ave. lifetime repayments (M/F)	£61,300/£32,100	£53,800/£42,100	(£7,500)/£10,000

- The Exchequer costs declined by **36% per cohort (£1.12bn)**.
- **The RAB charge declined by 6.1pp.**
- **HEIs are unaffected.**
- The average debt on graduation per FT first degree student declined from **£52,100** to **£50,500**.
- For male graduates, average expected lifetime payments have **declined by £7,500**, but repayments for female graduates have **increased by £10,000**.

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

Impact of the Department's response to Augar

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2023-24 prices), by lifetime earnings decile and gender



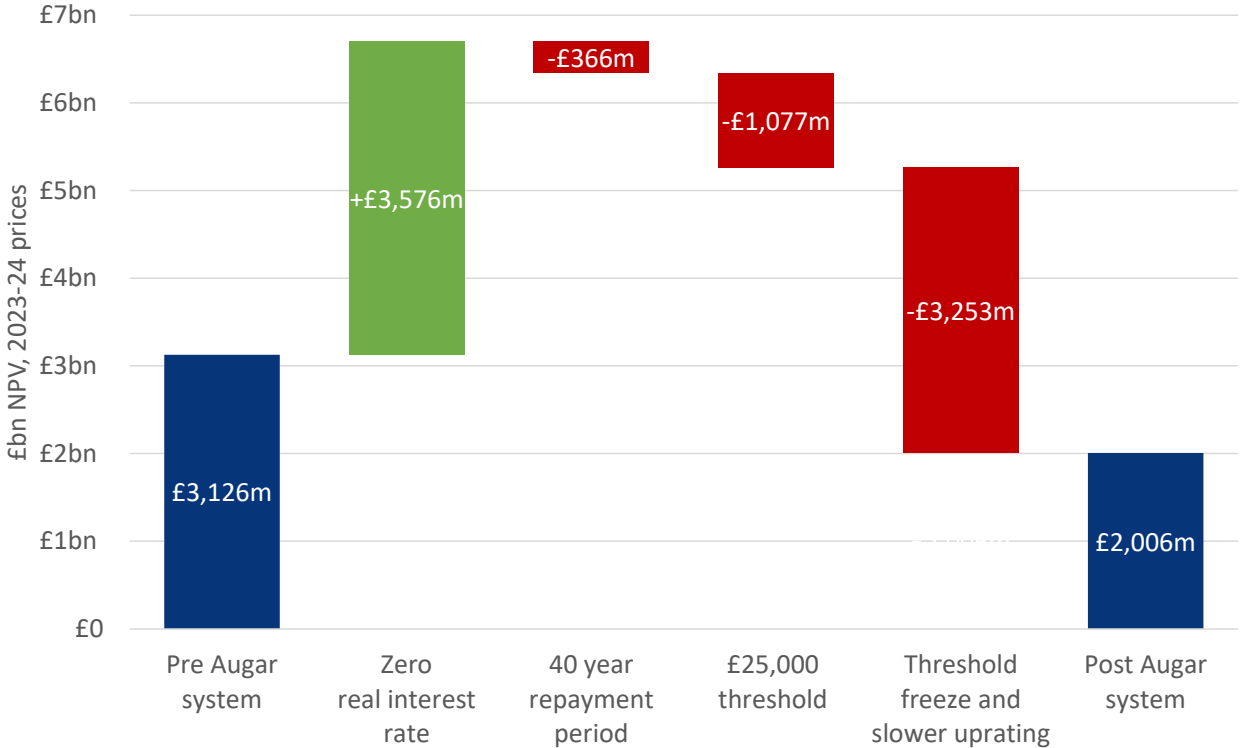
- Lifetime repayments have *increased* for low- and middle-income graduates but *decreased* for higher earners.
- This is an effective subsidy for high-earning graduates, paid for by low/middle-income graduates.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

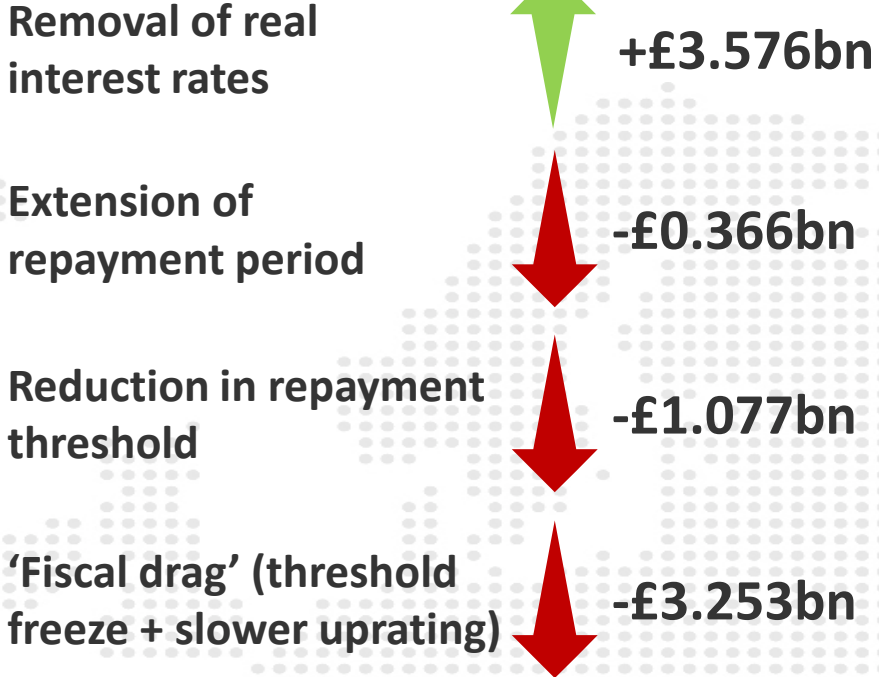
Impact of the Department's response to Augar

Pre- vs. post-Augar system

Decomposition of Exchequer cost changes per cohort following the Augar response (NPV in 2023-24 prices)



Change in Exchequer costs



Combined, there is a transfer of costs away from the Exchequer *and* high-earning graduates, to low- and middle-income graduates.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £1m.

4

What could be done to increase HEI resources - without increasing fees?



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How to increase resources for HEIs?

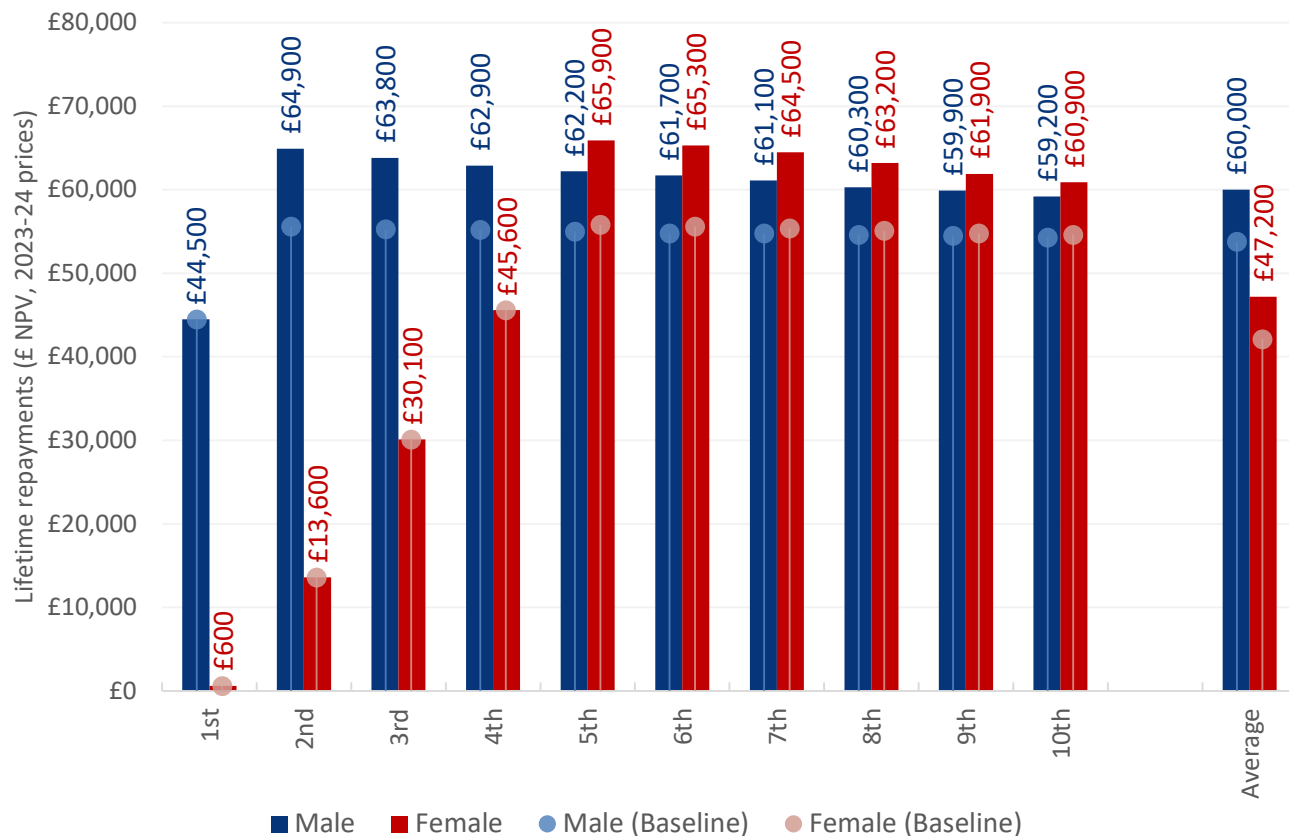
Higher TGs + 1% real interest rates

Resource flows (£/£m/%)	Current (post-Augar) system	Higher TGs + 1% real interest	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance loans	(£326m)	£543m	£869m
Cost of tuition fee loans	(£423m)	£725m	£1,148m
Cost of Teaching Grants	(£1,257m)	(£2,426m)	(£1,170m)
Total	(£2,006m)	(£1,158m)	£847m
RAB charge (%)	4.1%	-6.9%	-11.0 pp
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£2,426m	£1,170m
Cost of bursary provision	(£108m)	(£108m)	-
Total	£12,451m	£13,621m	£1,170m
Students/Graduates (FT first degree students from England studying in England)			
Ave. debt on graduation	£50,500	£51,000	£500
Ave. lifetime repayments (M/F)	£53,800/£42,100	£60,000/£47,200	£6,200/£5,100

- Raising fees is politically unpalatable. The only way of increasing HEIs' teaching resources is by increasing Teaching Grants.
- Here, we model a £1,000 increase in Teaching Grants for English HEIs. To pay for this, we model the (re-)introduction of real interest rates of (up to) 1%.
- HEIs would be **£1.17bn** better off.
- The Exchequer costs would **decline by £847m per cohort**.
- Average expected lifetime payments would increase by **£6,200**, for male graduates and by **£5,100** for female graduates.

How to increase resources for HEIs?

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2023-24 prices), by lifetime earnings decile and gender



- Under the re-introduction of real interest rates, middle- and high-income graduates would repay *more* than under the current system.
- In contrast, graduates at the bottom of the income distribution would be *unaffected*.
- This is one of the (many) widely misunderstood aspects of the HE fees and funding system.

Conclusion





CURRENT UNDER-FUNDING

- Lots of debate over fees
- Frozen fees + low TGs = erosion of real-terms HEI resources
- Limited public investment in HE funding – graduates bear most of the costs (and adverse distributional effects)
- Limited (loans-only) maintenance support



PUBLIC FUNDING CONSTRAINTS

- Significant pressures on public sector budgets – any changes likely need to be at least cost-neutral
- Very difficult decisions on how to allocate limited resources



POLICY OPTIONS?

- Wide range of potential policy options to consider
- Will need to be thought through carefully: Even ‘small’ changes have large impacts, and winners and losers are not intuitive (e.g. Augar response)
- No short-term ‘sticking plasters’

Thank you.

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Full details of all the publications produced as part of this project are available here:

<https://londoneconomics.co.uk/blog/publication/general-election-briefings-examination-of-higher-education-fees-and-funding-across-the-uk/>

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