CDBU

Tuition fees and the funding of university teaching

1. The Current Arrangements

The present method of financing teaching in UK universities (apart from Scotland) is usually described as a system of tuition fees. The notion of a fee was appropriate before 2010, when the fee was a top-up to state funding, but a tuition fee implies a payment from a student or a student's family to an HEI, so the term is now inappropriate. In this sense fees have been abolished, and in their stead the Treasury pays the cost of tuition in the universities. The Treasury seeks to recover its investment through what will be a delayed surtax administered by the Student Loans Company. Treasury investment is huge; according to the Parliamentary Public Accounts Committee (HC 886; published 14 February 2014), the debt burden is already £46bn, and is currently rising by £12 bn each year. The PAC estimates an outstanding debt arising from ongoing loans to new students and repayment defaults (accumulating from 1998 due to all types of defaults) of £200bn by 2042. The cost to the public purse in upfront loans is much the same as when students were paying a third of the cost of fees; ultimately the total spend by government and student repayments combined would appear to be increased by a considerable amount above that of the previous funding regime.

The present level of Treasury contributions is not the product of a carefully-meditated plan: it is rather a compromise hammered out by members of the Coalition government. Conservatives favoured fees being regulated by the market; Liberal Democrats favoured freezing tuition fees. The result was a fee cap of £9000, which HMG envisaged as the maximum set by the best universities; in the event, all universities declared themselves to be the best, and so many pegged their fees at the maximum. Now some vice-chancellors are calling for the cap to be raised or removed altogether. Should this happen, PAC estimates will need to be revised upwards. The Student Loans Company, which manages this debt under government guarantee, has forecast that third of it will be unrecoverable. That may be a conservative estimate: at present more than 40% of student loans has been written off; many (including Mr Willetts) think that that figure could rise to 50%.

In short, the new funding regime does not save money. Indeed, it requires the government to borrow, and future graduates and taxpayers to repay, more money, not less. The Government's plan to sell the student loan book gradually (the next tranche is expected to be £12bn) will exacerbate the situation by increasing the amount that graduates must repay as interest rates rise, while decreasing revenue to the Treasury. The principal effect of the current regime is to disguise this inefficiency temporarily while transferring a mountain of debt and all the risks associated with it to future generations.

2. Consequences of the current arrangements

(a). Uncontrolled access to the student loan system has had the effect of diverting funding for teaching to private-sector institutions, some of dubious quality. An example adduced by Mr Byrne is a private international college in central London, recently suspended by BIS, that receives more funding for teaching than does the LSE.

(b) The debt burden of the individual student is now the highest in the world (£45,000 including maintenance plus interest of 6.3%); in the USA, by contrast, the average debt for the 71% of graduates who have any debt was $20,875 (£12,500) in 2012.

(c). The current financial arrangements are thought to have reduced by some 50% the number of applications from mature students and part-time students, and have also reduced applications for postgraduate courses.

(d). BIS's June 2011 White Paper *Students at the Heart of the System* argued that the new system would ensure that high earners would make a fair contribution to the costs of the system as a whole. Alas, as the analysis of Ron Johnston has shown <http://blogs.lse.ac.uk/politicsandpolicy/archives/29978>, using the Government's own 'student loans repayment calculator', the system is regressive rather than progressive, especially if factors such as maintenance loans, initial salaries, and the option of paying off debts immediately are taken into account. Broadly speaking, Professor Johnston concludes, 'the greater your rewards from studying for a degree, the less you pay for the opportunity'.

(e). In the past, the older generation paid through general taxation for the education (including university education) of the younger generation. Under the current system, the older generation will have paid nothing towards university tuition, and the younger generation will pay twice (once through direct re-payment, and again through general taxation to recover the debt incurred by government). This intergeneration unfairness seems particularly inappropriate for the current younger generation, which is already disadvantaged by comparison to their elders.

3. **Alternatives to the current arrangements**

CDBU's principal aim is to reduce the fee debt burden on students. The best alternative, in our view, would be to return to the funding of higher education through general taxation, as our colleagues on the continent do. Although the present system will become very costly indeed, at present the UK spends less than the OECD average on higher education: 1.4% of GDP (OECD average 1.6%) in total, and in public money, 0.7% (OECD average 1.1%).

Funding through general taxation would be our preferred option, but we are prepared to consider other ways of reducing the burden of debt, such as greater subsidies to poorer students (e.g. OFFA-enforced scholarships), pegging or reducing interest rates, discontinuing government-funded expansion of private HEIs, freezing the selling of the loan book, and a retrospective graduate tax.

The present system of financing universities is, in our view, unjust and unsustainable. We are eager to engage political parties in the quest for a system that will maintain the quality of our universities and the principle of access to all on grounds of ability and potential without the deterrent of substantial debt.

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