

Government funding and tuition fees

1. The amount of university student debt that will be repaid has been overestimated. It has emerged that the rate of default on student loans is now so high that the £9000 a year tuition fee system could end up producing zero financial reward for the government.¹

Nick Hillman², an advisor to David Willets and now director of the Higher Education Policy Institute, has called for action to address the 'big funding gap' looming in the university sector. The funding gap has been caused by mistakes in the government's modelling system and graduates earning less than expected.

2. Possible sources of the problem concerning the financing of higher education institutions include the following issues.

- 2.1 Universities promote staff based on research performance and not on teaching ability.
- 2.2 Universities lack feedback on the design and delivery of study programmes.
- 2.3 Little consideration is given to the identifying of teaching and research institutions.
- 2.4 Limited estimation made of subject or teaching research and the planning and evaluation of research efforts.
- 2.5 Little effort is made to identify research output and teaching presentations by course lecturers.
- 2.6 Limited consideration of merging universities that would assist the sharing of teaching responsibilities and savings in services and overhead costs.

The absence of agreed criteria to guide the assessment of research activities or the evaluation of research and teaching performances continues to limit the assessment of university attainment.

3. Under the current fees regime students start paying back their loans once they are earning over £21,000 at a rate of 9% of their salary above £15,000. Ministers originally thought in 2010 that 28% of student loans would never be repaid and have now revised their estimates upwards several times.³

- 3.1 David Willetts, universities minister, has previously admitted the true figure is an estimated 45% and is approaching the 48% threshold at which it is expected the benefits of raising fees to £9000 are cancelled out.⁴

Willetts has previously denied that the changing estimates are any kind of 'deep defect in the system'. It has been claimed the changes in repayment numbers are purely a result of graduates temporarily earning less than expected.

¹ Rowena Mason, Shiv Malik, James Ball, Government Got Maths Wrong Over Tuition Fees – Advisor, The Guardian, 22 March 2014

² Nick Hillman, Director, HE Policy Institute. n.hillman@hepi.ac.uk

³ Hugh Muir, These Loans Don't Work, The Guardian, 22 March 2014

⁴ The Guardian, Teetering on the Brink, Editorial comment, 22 March 2014



Stellae Limited
Corpus Christi House
West Walk
Leicester
LE1 7NA

T +44 (0)116 249 3900
E dgr@stellae.com

www.stellae.com



3.2 The Department for Business, Innovation and Skills has stated that

"The university sector... (is) well funded and the estimates can and will continue to change."

3.3 Hillman⁵ has, however, claimed

"government has it wrong and, therefore, there is a big funding gap and something has to be done about it."

He has stated

"...now we know how big the shortfall is, what do you do about it? How much would you need to change the loan system to actually solve the problem?"

The questions are justified

"The government has got the maths wrong plus the economy has changed. The £21,000 repayment threshold is in real terms much higher than the government expected."

Hillman considers that neither the government nor the opposition have policies to resolve the current funding problem. The Labour policy is based on a £6,000 fee and rests on the same modelling process as government strategies. He suggests possible solutions include limits on the level of loan given to each student or freezing the repayment threshold so that graduates start repaying their loans more quickly.

3.4 Others call for the entire system to be overhauled.

3.4.1 Rachel Wenstone, vice-president of the National Union of Students, has said new figures show tuition fees are

"an experiment that has well and truly failed... These revelations blow apart ministers' claims that £9,000 fees would save public money. This confirms our long held view that the changes were ideologically driven. The government's system costs more than what it replaces and represents a real turning point in the debate about the future of higher education funding."

3.4.2 Nicola Dandridge, Chief Executive of Universities UK said

"It is vital that university funding is put on a sustainable footing for the long term... Our future success relies on maintaining and indeed increasing the number of graduates coming out of our universities. There needs to be careful consideration of how this can be paid for."

The situation is particularly urgent given the government's policy to remove the cap on student numbers from 2015.

⁵ Nick Hillman, Director, HE Policy Institute. n.hillman@hepi.ac.uk

4. Universities UK is planning to call for cross party consensus on how to create a long term and sustainable funding system for higher education.⁶

The implication of fewer students completing the repayment of their loan is:

- 4.1 repayment shortfall will be made up by payments from taxes:
- 4.2 pressure to reduce university budgets.

The Office for Budget Responsibility has revised down the estimates for student loan repayments by about £2.5 billion over the next six years. The primary reason for the reduced repayments is lower earning levels.

New official forecasts suggest the write-off associated with the loan system has reached 45% of the £10 billion in student loans paid out each year. The figure is perilously close to 48.6% at which the arithmetic ensures the loan system is less viable than the previous grant support system:

The unique Stellae space modelling system generates substantial space and capital cost savings. The use of the system to relocate a Scottish university saved an estimated £28.5 million in capital costs and an estimated saving in operating space costs of £1.6 million per year. The consultancy team also offers a proven system to aid the evaluation of research performances and teaching strategies.

⁶ Rowena Mason, Universities minister refuses to rule out increase in tuition fees, The Guardian, 24 March 2014