Behind the Headlines: 'Are the changes to higher education funding in England cost effective? London Economics Press Release

Background

In the second **million+** *Behind the Headlines* series of pamphlets focusing on the different options for higher education fees and student support, **London Economics** undertook a detailed analysis of the resource flows between higher education institutions, the Exchequer and students/graduates.

Impact on Students

Modelling a 30,000 reduction in the size of the student cohort between 2010/11 and 2012/13, the analysis shows that taking into account all the changes to fees, grants, loans, scholarships and bursaries, compared to the 2010/11 cohort, the smaller cohort of students entering higher education in 2012/13:

- will contribute **£1.463 billion** more than previously the case, as the total contribution (in present value terms) will increase from **£409 million** in 2010/11 to **£1.872 billion** in 2012/13.
- will contribute **24.5%** of the costs of higher education from the point of entry to higher education to the when their student loans are potentially written off, compared to an equivalent estimate of **5.6%** for the 2010/11 student cohort.

Short term Exchequer savings

The contribution from the Treasury associated with the smaller 2012/13 cohort is expected to be **£5.781 billion** compared to a contribution of **£6.947 billion** associated with the larger 2010/11 cohort. This represents a reduction of **£1.166 billion** in Treasury expenditure, which is driven primarily by the shift away from the provision of HEFCE teaching grants towards increased loan-supported tuition fees. Breaking this estimate down:

- The Treasury will experience an increase of approximately **£232 million in costs** for the 2012/13 cohort compared to the 2010/11 cohort, as a result of increased eligibility for maintenance grants.
- The write-offs on full-time student fee and maintenance loans will cost approximately **£2.418 billion** more for the 2012/13 cohort compared to the 2010/11 cohort (an increase from **£1.678 billion** in 2010/11 to **£4.096 billion** in 2012/13). The biggest item of expenditure for the Treasury associated with the funding of higher education will be the **maintenance** and fee loan subsidy/write-off (the RAB charge (which is the proportion of the loan that is never repaid)).
- The analysis indicates that the RAB charge overall will increase by approximately **13.4 percentage points** (from **26.1%** to **39.6%).** Of the additional tuition fee loans, the modeling suggests that approximately 61% will never be repaid.
- Against these increases in costs, the primary saving or reduction in expenditure achieved by the Treasury results from the **£3.871 billion** reduction of HEFCE teaching funding between the 2010/11 and 2012/13 cohorts of students. The Treasury will also make some additional savings as a result of the reduction in the number of students that are likely to enter higher education following the increase in tuition fees.

Impact on higher education institutions

Following the changes to higher education fees and funding, higher education institutions are in aggregate expected to receive approximately **£298 million** more funding for the 2012/13 cohort compared to the 2010/11 cohort, though there will be significant variation across the

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sector. This amount is dependent on the assumption that the overall student population for 2012/13 is 30,000 fewer than in 2010/11. The actual aggregate change in funding for higher education institutions will depend on the actual number of students.

Conclusions

Our analysis suggests that in present value terms, the Treasury will contribute **£1.166 billion** less to the funding of the smaller 2012/13 cohort of students overall compared to the 2010/11 cohort of students. This saving is achieved primarily by the shift away from the provision of HEFCE teaching grants directly to higher education institutions towards increased loan-supported tuition fees.

However, these benefits must be considered alongside the costs of the new system.

Specifically, following the increase in tuition fees and the likely impact on the number of undergraduates studying at university in 2012/13, the modeling draws upon previous work undertaken for million+ (here) that demonstrates the economic costs to the UK economy from a reduced student cohort.

These include **£3.001 billion** and **£0.444 billion** in reduced expected earnings and employment outcomes (at undergraduate and postgraduate level respectively) and **£2.360 billion** and **£0.463 billion** in lost taxation revenues at undergraduate and postgraduate level respectively. Other costs include **£0.840 billion** in additional payments linked to inflation and increased borrowing costs, such as the repayments on index-linked gilts.

Overall, the short term benefits expected to be achieved by the Treasury (and by inference the taxpayer) are significantly less than the economic costs in the long run. We have assessed the combined costs of increasing higher education fees to be almost **6½ times** as great as the potential Treasury expenditure savings.

About London Economics

London Economics is a leading European economic consultancy firm specialising in the provision of high quality research in public policy, competition and regulatory economics. We are committed to providing expert economic and financial advice across the public and private sectors, both within the United Kingdom and internationally. Underpinning our work is a strong commitment to placing our clients' needs centre-stage and to delivering methodologically robust and independent analysis.

Education and Labour Markets Team

London Economics' has extensive experience in the education sector having undertaken many high profile projects ranging from the evaluation of early years policy interventions to the analysis of further and higher education funding systems. Our clients include central government Departments and non Departmental Public Bodies, the European Parliament, European Commission and OECD, as well as individual higher education institutions and university mission groups. Our Education and Labour Markets team is led by Dr Gavan Conlon

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