

## Tuition fees in higher education

### Introduction

When variable top-up tuition fees for full-time undergraduates were introduced in 2006 in England and Northern Ireland, the then government promised to review them in 2009. The review, chaired by Lord Browne, was set up at the end of 2009. It has been taking evidence and is due to report in the autumn of 2010. The Browne review is to make recommendations to the government on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students.

### Tuition fees

Full-time and part-time undergraduate and postgraduate students in most parts of the UK are liable to pay tuition fees, which vary from one HEI to another. While fees for postgraduates and for part-time undergraduates are determined by the individual HEI, fees payable by full-time undergraduates in England, Wales and Northern Ireland combine a flat rate element and a variable top-up element, both of which are regulated by the government.

In 1998 the government introduced means-tested tuition fees of a flat rate of £1,000 a year for full-time undergraduates in the UK. Initially these fees were payable 'up-front' while undergraduates were at university, although Scotland soon replaced fees with a one-off contribution payment payable by graduates (now even the contribution payment has been abolished by Scotland). The fee increases annually in line with inflation.

Up-front fees proved very unpopular, and were replaced in England, Wales and Northern Ireland with a system in which students take out a loan so they can pay for their fees as they study. That loan is then repayable by students once they have graduated and are in work and earning above a certain level of income. Fees are means-tested so that students from a poor background do not have to pay them, or only have to pay them in part.

Top-up or variable fees were introduced in 2006 in England and Northern Ireland and in 2007 in Wales. They are payable above the original flat rate fee for full-time undergraduates that was introduced in 1998. For students entering higher education in 2006, and were being charged variable fees, the maximum fee payable was £3,000. The fee has since risen in line with inflation, and is a maximum of £3,290 a year at the time of

writing. Any increase to the fee has been matched by a corresponding increase to the loan for fees that students can take out.

## **Student support**

In higher education maintenance grants were finally phased out by the Labour government in 1998, being completely replaced by loans for student support. However, maintenance grants have now been reintroduced. Means-tested non-repayable maintenance grants are available for full-time undergraduates. HEIs charging the full variable tuition fee have to provide an annual minimum living-costs bursary.

Part-time undergraduates may be eligible for a fee grant paid directly to the college or university, and/or a course grant to help with study costs, such as books, materials and travel.

Students are able to take out loans for maintenance and fees, which may be means-tested to some extent. The loans are repayable - at the rate of 9% of salary - once a graduate is earning more than £15,000 a year. The interest on the loans is charged at the rate of inflation, rather than a commercial rate of interest. This in effect means that loans are subsidised by the government - that is, the taxpayer. A report in 2010 from the Institute for Fiscal Studies calculated that for every £1 loaned in the form of the current maintenance and fee loans, the government has to pay 23p. According to the IFS, raising the fee cap would add still further to the subsidy provided by the tax-payer through interest-free loans. <sup>i</sup>

## **Fees as a barrier to participation**

### **HESA data**

Although UCAS data indicate that the number of people from all socio-economic groups from England accepted for a full-time undergraduate degree place increased between 2002 and 2008, nevertheless Higher Education Statistics Agency data show a falling proportion of higher education participants from socio-economic groups (SEG) 4-7 (ie 'disadvantaged' groups) in England in 2007-8. For young full-time undergraduates at a higher education institution in England, the 'disadvantaged' proportion rose from 28.6% in 2002-3 to 30.3% in 2006-7, and then fell to 30.0% the following year. Data will not be available from HESA for 2008-9, but will be produced for 2009-10. It should be noted that the HESA data relate to the country of the higher education institution, rather than the student's country of origin. <sup>ii iii</sup>

## Proportion of young full-time undergraduates from a disadvantaged background, UK

	England	Wales	Scotland	NI	UK
	%	%	%	%	%
<b>1997-8</b>	25	27	24	34	26
<b>1998-9</b>	26	27	24	34	26
<b>1999-2000</b>	26	27	25	34	26
<b>2000-01</b>	26	27	25	33	26
<b>2001-02</b>	26	28	25	34	26
<b>2002-03</b>	28.6	30.5	29.6	41.6	29.2
<b>2003-04</b>	28.8	30.0	27.5	42.8	29.2
<b>2004-5</b>	28.3	28.9	27.3	41.4	28.7
<b>2005-6</b>	29.6	29.3	28.1	41.4	29.8
<b>2006-7</b>	30.3	30.6	26.6	41.5	30.3
<b>2007-8</b>	30.0	30.8	26.6	40.6	30.1
<b>2008-9</b>	n/a	n/a	n/a	n/a	n/a

Young = aged under 21 at 30 September of the academic year in which they are recorded as entering the institution

Disadvantaged = from socio-economic groups 4: Small employers and own account workers; 5: Lower supervisory and technical occupations; 6: Semi-routine occupations; 7: Routine occupations

Source: Performance indicators in higher education, published by HEFCE to 2001-2 and by HESA from 2002-3; data are from Table T1b 'Participation of under-represented groups in higher education – young full-time undergraduate entrants'

Data not available in 2008-9 because the UCAS question was changed, with the result that the data were not comparable with previous years; UCAS is apparently returning to the pre-1008-9 question in 2009-10

[http://www.hesa.ac.uk/index.php?option=com\\_content&task=view&id=1683&Itemid=141](http://www.hesa.ac.uk/index.php?option=com_content&task=view&id=1683&Itemid=141)

### Future track data on non-continuation of studies

The Futuretrack study has recently provided additional data about those who enter higher education but do not continue their studies.

Futuretrack is an investigation sponsored by the Higher Education Careers Service Unit, and undertaken by the Institute for Employment Research at the University of Warwick, which is following the progress of higher education (HE) 2006 applicants for full-time

courses in UK colleges and universities. This is a large-scale investigation, with 128,260 respondents, of whom 22,372 had not proceeded directly to full-time HE study.

The November 2009 Futuretrack report of the 2006 applicants for UK higher education said: 'While respondents from routine and manual backgrounds are the most likely to have started full-time HE but subsequently left, there is not a very large difference between the groups, with around 4 per cent of respondents from routine and manual backgrounds who entered HE having left, compared to around 3.5 per cent of those from intermediate occupational backgrounds, and 3 per cent of those from higher managerial and professional backgrounds. This does mean, however, that although respondents from a routine or manual background constitute a quarter of the total Futuretrack sample, they make up over 30 per cent of those who started full-time HE and subsequently dropped out, while respondents from professional and managerial backgrounds constitute 54 per cent of the total sample, but only 45 per cent of respondents who entered full-time HE but who are not currently registered as full-time HE students.' <sup>iv</sup>

The report comments: 'Finance is a particular issue for the Futuretrack cohort, who are paying higher tuition fees than previous entrants after the introduction of top-up fees in 2006. Even before the tuition fee rises, authors such as Callender and Kemp (2000) <sup>v</sup> found that 10 per cent of students had considered withdrawing for financial reasons. As with the other reasons for withdrawal, it has been suggested that working class students are more likely to be affected by financial concerns and more likely to withdraw for financial reasons, although it is possible that having started their course, the large amount of money that would be wasted by dropping out will have encouraged some students to remain in HE, particularly if they are from the socioeconomic backgrounds that are more often associated with lower incomes.' <sup>vi</sup>

### **Futuretrack data: non-entry into higher education**

So far the data have been about those who have accepted a place on a higher education course, those who are on a higher education course, and those who have discontinued their studies. The Futuretrack study has recently provided data about applicants who do not enter higher education and have no immediate plans to do so. For these, the cost and the prospect of incurring debts were the chief reasons for not entering higher education. Of those in the Futuretrack sample who applied for but did not enter higher education and have no immediate plans to do so, the most frequently cited reason was 'Put off by the costs' (39% of applicants who did not enter HE), followed by 'Put off by the prospect of incurring debts' (32%). <sup>vii</sup>

### **The problem with fees**

There are six main problems with tuition fees: they are expensive to maintain; they increase student debt; they act as a disincentive to study; they reflect an

oversimplification of the economic benefits of having a degree; they create real individual hardship while raising relatively small sums of money; and they are unpopular with voters.

The CBI estimate that 'every pound loaned costs the Treasury around 33p,<sup>viii</sup> as a result of the interest rate subsidy and students defaulting on loans'.<sup>ix</sup> To put this in context, in 2008/09 tuition fee loans amounted to just over £2 billion, leaving government with a bill of around £650 million to service that debt.

The Student Income and Expenditure Survey (SIES) 2007/08 showed that graduates at the end of their first year of study, in that year faced average net debt at year end of £3,518, compared with £2,415 for first years in 2004/05. Fear of debt also acts as a disincentive to study, particularly for those from under-represented parts of the community. The SIES 2007/08 reported that 25% of full-time and 31% of part-time students said that concerns over debt nearly stopped them coming to university.<sup>x</sup> The Futuretrack survey confirms this through analysis of those who applied for but did not enter higher education and have no immediate plans to do so.

## Graduate tax

The National Union of Students (NUS) has come up with a bold and innovative proposal to abolish tuition fees and create a graduate tax which would be levied only once an individual earns over a threshold of £15,000, with payments spread out and therefore more affordable.<sup>xi</sup> Students' monthly payments would typically be less than under tuition fees although they would on average pay them for longer.

However one problem with a learning tax of this kind is that it de-incentivises participation by substantially increasing the marginal tax rates of graduates. The NUS proposal, for example, would mean that a graduate with 360 credits earning £30,000 a year would pay a £76 monthly contribution to graduate tax, equivalent to £912 a year.

This is a 19.4% increase on the basic rate of tax of £4,705 compared to someone without a degree who is earning the same amount.<sup>xii</sup>

As the CBI rightly points out, establishing a plentiful supply of high quality graduates is key to the UK's economic prosperity: 'demand for graduates has grown and will continue to do so—over the last 15 years the proportion of jobs requiring a degree-level qualification has risen from 23 to over 30%, with the number of jobs requiring few or no qualifications falling from 60 to under 40%'.<sup>xiii</sup>

## 2010 general election

In the election campaign, Labour and Conservatives skirted round the fees issue. The Labour manifesto, simply noting that the Browne review would report later this year, said the party's policy was to ensure that 'universities and colleges have a secure, long-term

funding base that protects world-class standards in teaching and research'.<sup>xiv</sup> The Conservatives said they would 'carefully consider the results of Lord Browne's review into the future of higher education funding, so that we can unlock the potential of universities ...'.<sup>xv</sup> Of the three main parties, only the Liberal Democrats have put their collective heads above the parapet, saying: 'We will scrap unfair university tuition fees so everyone has the chance to get a degree, regardless of their parents' income'. They plan to phase fees out over six years.<sup>xvi</sup>

## Conservative-Liberal Democrat Coalition

The document *The Coalition: our programme for government*, published in May 2010 by the Con-Lib government, says:

'We will await Lord Browne's final report into higher education funding, and will judge its proposals against the need to:

- increase social mobility;
- take into account the impact on student debt;
- ensure a properly funded university sector;
- improve the quality of teaching;
- advance scholarship; and
- attract a higher proportion of students from disadvantaged backgrounds.

'If the response of the Government to Lord Browne's report is one that Liberal Democrats cannot accept, then arrangements will be made to enable Liberal Democrat MPs to abstain in any vote. We will review support for part-time students in terms of loans and fees.'<sup>xvii</sup>

## Submissions on fees to the Browne review

The table below summarises the submissions on fees made to the Browne review. Most of the organisations representing higher education institutions argued for an increase in tuition fees – or 'graduate contributions' – but Million+ called for lower fees, and University Alliance implied rather than stated clearly that HEI income was expected to grow through changes to the fee system. While most of the HEI organisations called for a cap or maximum for the increased fees, the Russell Group wanted an incremental removal of the cap. Most of the HEI organisations want a real (though not commercial) rate of interest on loans to students; Universities UK only proposed this as a potential option. While most HEI organisations want bursaries to continue to be determined by them, Million+ called for bursaries to be removed. Of organisations calling for a different system, the National Union of Students has called for a graduate tax (an option rejected by the HEI organisations) and

University and College Union has called for fees to be replaced by a Business Education Tax. <sup>xviii</sup>

<b>Organisation</b>	<b>Fees</b>	<b>Support</b>	<b>Loans</b>
<b>1994 group</b> – representing smaller research-focussed HEIs	Keep variable top-up fees. Raise fees cap in stages 'to a level to bring in sufficient funding to maintain high quality provision'	£1,000 fee waiver for poorest students paid by HEI + non-repayable maintenance bursary; keep HEI-determined bursaries	Repayable over 30 years at 1% above government rate of borrowing
<b>Million+</b> - mainly representing post-1992 HEIs	Lower fees	Remove bursaries	Charge real rate of interest at 1-2%
<b>National Union of Students</b>	Replace with graduate tax		
<b>Russell Group</b> – representing larger research-focussed HEIs	Remove fee cap incrementally; ultimately 'allow institutions to determine the level of all fees for all undergraduates ...'	Keep HEI-determined bursaries	Introduce a real rate of interest; increase repayment rates
<b>Universities UK</b> – representing all heads of UK HEIs	Increase up to a maximum which 'allows universities to recover the cost of their teaching provision ...'	Universities free to determine own support policies	Reduce cost to government of loans system, which <b>could</b> mean: a real rate of interest; increased repayment rate; longer repayment period
<b>University Alliance</b> – representing a mixture of pre- and	Universities to decide maximum fee for courses – with the assumption that fees would increase		Real (but not commercial) rate of interest

<b>Organisation</b>	<b>Fees</b>	<b>Support</b>	<b>Loans</b>
post-92 HEIs			
<b>University and College Union</b> – representing academic and academic-related staff	Replace with Business Education Tax		

## **Business education tax**

University and College Union has consistently opposed the payment of tuition fees. Rather than charge students for their education, UCU would charge large employers who benefit from the plentiful supply of graduates through a new Business Education Tax (BET). This innovative, practical and radical approach produces more money for higher education than the current tuition fee scheme, and costs less to administer.

UCU believes that while employers benefit enormously from the plentiful supply of graduates, they will not willingly contribute to the infrastructure that creates this supply. Further, with corporate taxation levels lower in the UK than in other comparable economies and a collection shortfall of £8 billion a year, we believe scope exists for a modest increase in their tax burden in order to directly support higher education.

This is not a matter of ideology. We have noted in other areas of the public realm that business levies can be used to overcome the private sector’s unwillingness to pay for services that benefit them. The most striking recent example is that set by London Mayor Boris Johnson who is levying a business tax of 2p in the pound to raise £4.1 billion to help fund the Crossrail project.

A 1p increase in main rate corporation tax would (at current levels) raise around £800 million a year according to the IFS.<sup>xix</sup> Increasing it to the G7 average of 32.87p and hypothecating the extra revenue would therefore generate almost £3.9 billion for higher education—more than enough to abolish all tuition fees. This move would still leave the UK’s main rate corporation tax rate below France, United States and Japan, and would leave unchanged at 21% the small companies’ rate. UCU would favour tax breaks on the BET for companies who fund their employees to return to education to learn new skills, creating a virtuous cycle of positive practice encouraged by an activist state. UCU also believes that proactive steps to close the £8 billion tax gap between what corporations should and do pay are required.

To address the need to close the gap between what the UK spends on higher education compared to other countries we believe that as collection is improved a fund should be set



aside for education. Improving collection from companies to just 10% of the underpaid amount would yield an extra £800 million a year—enough to fund up to 100,000 students. UCU believes that a Business Education Tax would enable the UK to:

- make access to higher education free
- reduce student debt and re-incentivise participation
- reduce the cost to taxpayers of servicing student loans
- increase the amount available for universities to invest
- increase the engagement of the corporate sector with higher education
- promote 'return to learning' schemes in the private sector in return for tax breaks
- guarantee the plentiful supply of graduates our economy requires
- help bridge the gap between UK investment and that of our competitors
- leave the UK with a competitive corporate tax structure and protect small businesses from a tax increase
- provide a powerful incentive for government to collect all unpaid corporation tax.

## Endnotes

---

- <sup>i</sup> Lorraine Dearden et al (2010), Future arrangements for funding higher education, IFS
- <sup>ii</sup> Source: UCAS; 2001 census - standard tables, ONS Crown Copyright Reserved [from Nomis on 17 December 2009]
- <sup>iii</sup> <http://www.hesa.ac.uk/index.php/content/category/2/32/141/>
- <sup>iv</sup> Kate Purcell et al, Futuretrack (2009), HECSU/Warwick IER, p 163-4
- <sup>v</sup> Callender, C. and Kemp, M. (2000) Changing student finances: income, expenditure and the take-up of student loans among full and part-time higher education students in 1998/99, Department for Education and Employment Research Report RR213, London: Department for Education and Employment
- <sup>vi</sup> Kate Purcell et al, Futuretrack (2009), HECSU/Warwick IER, p 166
- <sup>vii</sup> Kate Purcell et al, Futuretrack (2009), HECSU/Warwick IER, p 159
- <sup>viii</sup> HEPI, 2008; Funding higher fees – some implications of a rise in the fee cap
- <sup>ix</sup> [highereducation.cbi.org.uk/uploaded/CBI\\_HE\\_taskforce\\_report.pdf](http://highereducation.cbi.org.uk/uploaded/CBI_HE_taskforce_report.pdf)
- <sup>x</sup> Student Income and Expenditure Survey 2007/8  
[www.dcsf.gov.uk/research/programmeofresearch/projectinformation.cfm?projectid=15007&resultspage=1](http://www.dcsf.gov.uk/research/programmeofresearch/projectinformation.cfm?projectid=15007&resultspage=1)
- <sup>xi</sup> [news.bbc.co.uk/1/hi/education/8092977.stm](http://news.bbc.co.uk/1/hi/education/8092977.stm)
- <sup>xii</sup> UCU research
- <sup>xiii</sup> [highereducation.cbi.org.uk/uploaded/CBI\\_HE\\_taskforce\\_report.pdf](http://highereducation.cbi.org.uk/uploaded/CBI_HE_taskforce_report.pdf)
- <sup>xiv</sup> The Labour Party Manifesto 2010, A future fair for all, p. 3:7
- <sup>xv</sup> The Conservative Manifesto 2010, Invitation to join the government of Britain, p.17
- <sup>xvi</sup> Liberal Democrat Manifesto 2010, p. 39
- <sup>xvii</sup>  
[http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/documents/digitalasset/dg\\_187876.pdf](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_187876.pdf)

---

<sup>xviii</sup> <http://www.university-alliance.ac.uk/Proposal%20for%20a%20Graduate%20Contribution%20Scheme%20in%20England.pdf>

<http://www.nus.org.uk/en/Campaigns/Higher-Education/>

<http://www.russellgroup.ac.uk/uploads/Russell-Group-second-submission-to-Browne-Review-12-May-2010.pdf>

[http://www.1994group.ac.uk/documents/public/1994GroupSubmission\\_BrowneReviewPhase2\\_14May2010.pdf](http://www.1994group.ac.uk/documents/public/1994GroupSubmission_BrowneReviewPhase2_14May2010.pdf)

[http://www.ucu.org.uk/media/pdf/2/3/inplaceoffees-betax\\_ucucompass\\_mar10.pdf](http://www.ucu.org.uk/media/pdf/2/3/inplaceoffees-betax_ucucompass_mar10.pdf)

<http://www.universitiesuk.ac.uk/Newsroom/Media-Releases/Pages/UniversitiesUKcallsforurgentreformoffundingforhighereducation.aspx>

<sup>xix</sup> [www.ifs.org.uk/budgets/gb2010/gb2010.pdf](http://www.ifs.org.uk/budgets/gb2010/gb2010.pdf)