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By Joe Lewis,
Paul Bolton
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The Post-18 Education and Funding Review: Government conclusion

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Summary

On 24 February 2022, the Government concluded its review of post-18 education and funding. It announced several reforms to higher education and the student finance system in England, and launched consultations on related policy proposals, including the lifelong loan entitlement.

Background

In February 2018, the then-Prime Minister, Theresa May, announced a wide-ranging review of post-18 education and funding. The review aimed to create a joined-up post-18 education system, which would facilitate lifelong learning and improve the integration of the further and higher education systems.

The review was to be informed by independent advice from a panel led by Philip Augar.

The independent panel report (Augar report)

The Independent panel report (Augar report) was published on 30 May 2019. It contained 53 recommendations on the future structure of the sector and funding proposals. These included reducing higher education tuition fees, extending the student loan repayment period, reducing the income threshold for student loan repayment, and reintroducing maintenance grants for disadvantaged students.

Interim conclusion

On 21 January 2021, the Government published an Interim Conclusion of the Review, which contained commitments to implementing some of the independent panel report's recommendations.

Other recommendations were included in the Skills for Jobs White Paper published on the same day, and have since made their way into the Skills and Post-16 Education Act 2022.

Conclusion of the review: Policies and proposals for consultation

The Government's conclusion to its post-18 education and funding review comprised a statement setting out policy interventions and proposals for consultation, a consultation on the lifelong loan entitlement, and an equality analysis.

The conclusion of the review announced several changes to the student finance system for new students and existing borrowers. For new students starting study from academic year 2023/24, this included:

- the annual salary threshold at which student loans are repaid will be lowered to £25,000 and remain at this level until 2027;
- the repayment term of the student loan will be extended from 30 years to 40 years; and
- the maximum interest rate on student loans will be set at inflation only, as measured by the rate of the Retail Prices Index (RPI).

For current borrowers, the salary repayment threshold will be maintained at its current level of £27,295 until 2025.

The Government also announced tuition fees will be frozen for a further two years at £9,250, and the student finance available for higher technical qualifications at levels 4 and 5 will be aligned with the support available for degrees.

Consultations on whether to introduce caps on student numbers in higher education, and whether to establish minimum eligibility requirements to access student finance, such as achieving a grade 4 (previously a C) in English and maths at GCSE or two E grades at A level, were also announced.

The Government also launched a consultation on the ambition and scope of the lifelong loan entitlement, which, from 2025, will provide four years of funding for post-18 education for use over a person's lifetime.

Responses

Labour has said the Government is "slamming the door on opportunity" and the reforms to student finance will hit those on low incomes hardest.

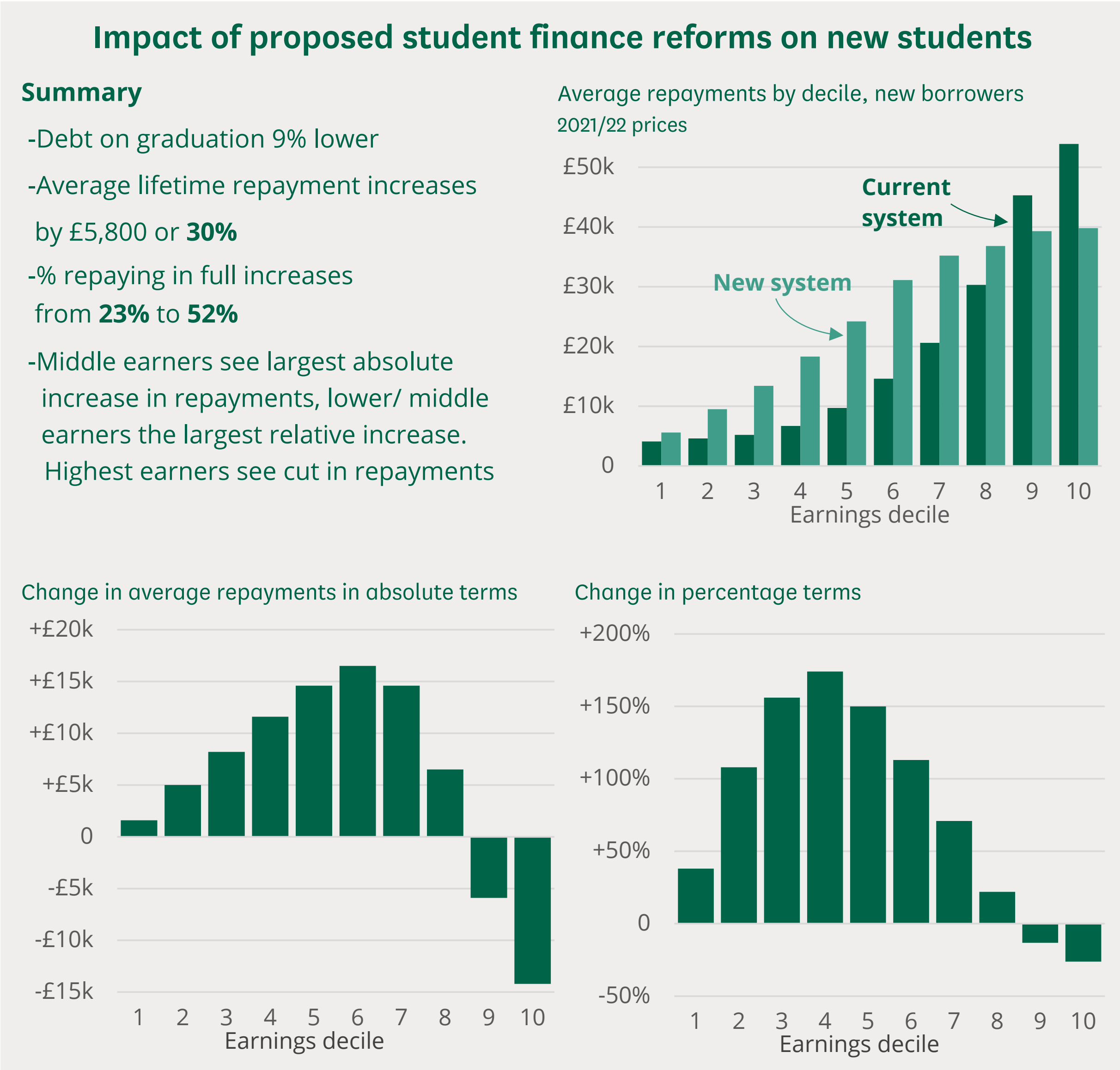
The higher education sector welcomed the announcement of increased investment in capital funding and teaching grants, but the freeze on tuition fees, changes to the student finance system, and possible student number caps and minimum entry requirements were all criticised.

Financial impact

The Government's equality analysis said its reforms would cut the amount the student finance system adds to the fiscal deficit by half over the next six years. The cut compared to the current system is put at around £7 billion in 2026-27. These savings are much larger than those estimated by the Institute for Fiscal Studies of £2.3 billion per cohort of students.

It has been asserted that much of the savings claimed by the Government are due to an accounting change, a lower discount rate.

The Government expects that around half of new borrowers from 2023/24 will repay their loans in full, compared to 25% of current students. The proposed reforms will result in higher repayments among middle and lower earning graduates, but lower repayments for those who earn the highest.



Source: Higher education policy statement & reform consultation Equality Analysis (February 2022), DfE

The Government estimates that for new borrowers from 2023/24, the proposed changes will increase the real value of lifetime repayments by 30% or £5,800 on average. The increase is expected to be larger among female borrowers at 37% compared to 23% among male borrowers.

Further reading

The following Library publications provide information on the review and the working of the student finance system:

- The forthcoming review of post-18 education and funding
- The Post-18 Education and Funding Review (the Augar Review) recommendations
- Higher education funding in England
- Insight series: Student Finance Explained (September 2021)
- Student loan statistics
- What could reforms to student finance mean for teachers and nurses?

1 Background

In February 2018, the then-Prime Minister, Theresa May, announced a wide-ranging review of post-18 education and funding. The review aimed to create a joined-up post-18 education system, which would facilitate life-long learning, increase value for money, and break down "false boundaries" between further and higher education.[1] It was to focus on:

- Choice: ensuring access to a range of academic, technical, or vocational routes, and that people can make effective choices between the different options available to them after 18.
- Value for money: ensuring funding arrangements do not stop people from accessing higher education or training but also that taxpayers are getting value for money.
- Access: enabling people from all backgrounds to access, progress, and succeed in post-18 education.
- Skills provision: ensuring skills gaps in the economy are filled and employers can access the workforce they need.

The review was to be informed by independent advice from a panel comprising five members from across post-18 education, business, and academia. The panel was chaired by Philip Augar, an author and former equities trader and non-executive director of the Department for Education (DfE).

The announcement of the review is discussed in the Library briefing The forthcoming review of post-18 education and funding.

1.1 The independent panel report (Augar report)

The independent panel report was published on 30 May 2019.[2] The report was a detailed analysis of the post-18, or 'tertiary', education sector and the funding issues faced by stakeholders. It contained 53 recommendations on the future structure and funding of the sector.

The headline recommendations were:

1 Department for Education (DfE), Prime Minister launches major review of post-18 education, 19 February 2018.

2 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019.

- Higher education tuition fees should be reduced to £7,500 per year;
- Government should replace the fee income that would be lost by universities by increasing the teaching grant;
- The student loan repayment period should be extended from 30 years to 40 years;
- The interest charged on student loans should be reduced while students are studying;
- The overall amount of loan repayment should be capped to 1.2 times the loan;
- The salary threshold at which student loan repayments begin should be reduced from £25,000 to £23,000;
- Maintenance grants of £3,000 should be reintroduced for disadvantaged students;
- Maintenance support should be introduced for level 4 and 5 qualifications;
- A first, free full level 2 and level 3 qualification (equivalent to GCSEs and A levels) should be available for all.

The report acknowledged post-18 education in England is a "story of both care and neglect."[3] It proposed a rebalancing in priorities and funding between the higher education sector and the rest of the post-18 education system, which had experienced "a loss of status and prestige amongst learners, employers and the public at large."[4]

The independent panel report is discussed in the Library briefing The Post-18 Education Review (the Augar Review) recommendations.

1.2 Interim conclusion

On 21 January 2021, the Government published an interim conclusion the review, which contained commitments to implementing some of the recommendations made by the independent panel report. [5]

Other recommendations were included in the Skills for Jobs White Paper published on the same day,[6] and have since made their way into the Skills

3 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p5.
4 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p5.
5 Department for Education, Interim Conclusion of the Review of Post18 Education and Funding, January 2021, 21 January 2021.
6 The Library briefing paper FE white paper: Skills for Jobs: Lifelong Learning for Opportunity and Growth gives an overview of the proposals and outlines some of the issues it aims to address.

and Post-16 Education Act 2022. See the following Library briefings for more information:

- FE white paper: Skills for Jobs for Lifelong Learning for Opportunity and Growth
- Skills and Post-16 Education Bill [Bill No 176 of 2021-22] HL
- Skills and Post-16 Education Bill [HL]: Progress of the Bill

Policy announcements

The main policies announced on 21 January were:

- funding for level 3 qualifications for adults yet to achieve one;
- a lifelong loan entitlement giving individuals access to the equivalent of four years of post-18 education from 2025;
- modularisation of higher education;
- giving employers a central role in shaping skills provision;
- expanding careers guidance programmes;
- aligning the provision of higher education teaching grants with Government priorities and labour market needs;
- rebalancing the post-18 education sector from academic to technical education;
- freezing the maximum tuition fee cap for one year.

The report concluded by saying the Government would provide a full conclusion to the review of post-18 education and funding at the next Comprehensive Spending Review.

A spending review took place in October 2021 alongside the Autumn Budget, at which the point the Government said the conclusion of the review would be published "in the coming weeks".[7]

7 HM Treasury, Autumn Budget and Spending Review 2021, 27 October 2021, p98.

2 Conclusion of the review: policies and proposals for consultation

On 24 February 2022, the Government finally concluded its review of post-18 education and funding. It comprised two documents:

- Higher education policy statement and reform consultation.[8]
  - Part one provided details on higher education funding until 2025 and set out policies on student finance and loan repayment terms.
  - Part two set out a series of policy proposals that would be consulted on and potentially taken forward to supplement the policies detailed in part one.
- Lifelong loan entitlement consultation.[9]
  - This was a consultation document seeking views on the ambition, objectives, and coverage of the lifelong loan entitlement (LLE), which was first announced by the Prime Minister in a speech in September 2020.

The Department for Education also published an equality analysis, which set out its analysis of the impact of the higher education reform proposals on groups with protected characteristics.

These documents were accompanied by a written statement by the Minister of Higher and Further Education, Michelle Donelan, which set out the headline policy interventions and proposals. The Minister also gave a speech at the Centre for Policy Studies explaining the Government's plans.[10]

2.1 Summary

The policy interventions and proposals for consultation included in the Government's conclusion of its review of post-18 education and funding are set out below, with more detail on some of these areas provided in the rest of the briefing.

8 DfE, Higher education policy statement and reform consultation, 24 February 2022.

9 DfE, Lifelong loan entitlement consultation, 24 February 2022.

10 DfE, Higher and Further Education Minister Michelle Donelan speech on the Augar Review, 24 February 2022.

Policy interventions

The headline higher education funding and finance policy interventions announced by the Government include:

- For new students starting study from academic year 2023/24:
  - The annual salary threshold at which the repayment of student loans begins will be lowered to £25,000, and then will increase annually from 2027 in-line with inflation, as measured by the Retail Prices Index (RPI).
  - The repayment term of the student loan will be extended from 30 years to 40 years.
  - The maximum interest rate on student loans will be set at the rate of inflation only, as measured by RPI +0%, rather than RPI+3% as it is for current borrowers
- For current borrowers, the salary repayment threshold will be maintained at its current level of £27,295 until 2025, and then will increase annually in-line with RPI. In the past it has been increased annually in line with average earnings.
- Tuition fees will be frozen for a further two years at £9,250 until academic year 2024/25.
- The student finance available for higher technical qualifications at levels 4 and 5 (see GOV.UK for information on qualification levels) will be aligned with the support available for degrees.
- £900 million of new higher education funding will be made available over the next three years.

The Government also provided updates on two other policy areas:

- After consultation on the merits of a post-qualification admissions system to higher education (when students receive and accept offers from universities after they have received exam grades), the Government said there will be no changes to the current system.[11]
- Consideration of a Sharia-compliant alternative student finance product will continue.[12]

11 See the Library briefing The reviews of university admissions for more information on post-qualification admissions.

12 See the Library casework article Sharia-compliant alternative student finance for more information.

Proposals for consultation

To supplement the above policies, the Government are consulting on the following areas:

- The number of students going to university in England and their outcomes, including:
  - whether to introduce student number controls;
  - whether to establish minimum eligibility requirements for student finance, such as a grade 4 (previously a C) in English and maths at GCSE (or equivalent) or two E grades at A level (or equivalent).
- Access to higher education, including:
  - eligibility for a national state scholarship for students from disadvantaged backgrounds;
  - capping tuition fees for some foundation years so they are aligned with the maximum fees for Access to Higher Education diplomas (currently £5,197)
- Level 4 and 5 courses in England, including:
  - how level 4 and 5 provision, such as higher technical qualifications, can be delivered in a flexible, modular way.

The Government is also seeking views on the scope of the lifelong loan entitlement (LLE).[13] From 2025, the LLE is intended to help fund higher education study at levels 4 to 6 regardless of whether courses are provided in colleges or universities. It would provide a loan entitlement to the equivalent of four years of post-18 education for use over a person's lifetime. The consultation has three themes:

- Ambition of the LLE
- Scope of the LLE
- Supporting quality provision and flexible learning.

13 DfE, Lifelong loan entitlement consultation, 24 February 2022.

2.2 Changes to the student finance system

Chapter six of the independent panel report to the post-18 education and funding review discussed the student finance system.[14] It highlighted the system's two underpinning features:

- A statutory entitlement for students to a publicly funded loan from the Government to cover tuition fees and living costs.
- The repayment of the loan by graduates on an income-contingent and time-limited basis.[15]

About 80% of students are likely to gain financially from attending university,[16] and this 'pay as you earn' principle is intended to balance the costs of higher education between the taxpayer and graduates in a progressive way. However, the independent panel report said the existing system results in too high a proportion of borrowers repaying very little of their student loans.[17]

In 2021/22, the ultimate cost of student loans for full-time undergraduates to the Government will be around £9.3 billion.[18] In its conclusion to the review, the Government argued "contributions are, at present, skewed too far towards the taxpayer and not far enough to the learners who benefit from the system financially."[19]

As a result, the Government has made several changes to the student finance system and loan repayment terms and conditions for both current and future borrowers, which it said would address the rising costs to the taxpayer while ensuring that student loans remain good value for students.[20]

Changing the loan repayment terms

The Government does not need to pass legislation to change the repayment terms of student loans. Instead, it can amend the regulations that underpin the terms and conditions through statutory instruments. This power was conferred by sections 22 and 42 of the Teaching and Higher Education Act 1998.

14 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, pp162-183.

15 The Library Insight An introduction to student finance in England provides an overview of the system, including how it works, who is involved, and how much it costs.

16 The Institute for Fiscal Studies, The impact of undergraduate degrees on lifetime earnings, February 2020.

17 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p169.

18 House of Commons Library, An introduction to student finance in England.

19 DfE, Higher education policy statement and reform consultation, 24 February 2022, p17.

20 DfE, Higher education policy statement and reform consultation, 24 February 2022, p17.

Changes to repayment terms can also apply to student loans taken out in the past, and this is made clear to students in the terms and conditions document produced by the Student Loans Company. It says:

> The regulations may change from time to time, which means the terms of your loan may also change. [...] When you take out a student loan you must agree to repay your loan in line with the regulations that apply at the time the repayments are due, subject to the regulations being amended from time to time.[21]

The Government has said it will keep the student finance system, including all loan repayment terms, under review "to ensure that they are delivering value for money for both students and the taxpayer."[22]

The length of the loan repayment period

For new borrowers who have taken out a student loan since 2012, any remaining balance will be written off after 30 years. Since 75% of graduates never repay their loan in full, this means a large share of the cost of student debt is covered by the taxpayer.

The independent panel report noted the median graduate continues to earn more in their 50s than early in their working life. It argued "borrowers should continue to repay their loan for as long as they benefit" and judged a suitable repayment period would be 40 years.[23]

The loan repayment period will not change for existing borrowers, but for new borrowers who start study from academic year 2023/24, the Government has said the loan repayment period will be extended from 30 to 40 years.[24]

The impact of extending the loan period is discussed in the Library Insight Student finance in England: Extending the loan term and increasing the repayment rates. It found if no other changes were made, lifetime repayments would increase, especially for middle to higher earners.

Interest rates

The interest rate on student loans taken out after 2012 is currently set at RPI+3% while borrowers are studying, and between RPI+0% and RPI+3% after they have graduated (depending on earnings).

The independent panel report recommended the in-study interest rate be cut to RPI+0%. It argued it was "...unfair that students should incur an above-inflation increase in their debt while studying full-time at a time when they

21 Student Loans Company, Student loans: a guide to terms and conditions 2022 to 2023, section 1 and 2.
22 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p26.
23 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p171.
24 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, pp25-6.

are unable to generate earnings to start to repay their loan." But loans should retain their real value with a rate linked to inflation. The panel also recommended the variable rate after graduation should be retained stating, "…a level of real interest should continue to be charged on the grounds that it would be imprudent and wasteful for government to provide entirely costless finance."[25]

Interest rates will remain unchanged for current borrowers, but new borrowers starting their courses in 2023/24 will be charged a single lower rate of interest of RPI+0%. The Government has said this will mean students/graduates will not pay back more than they borrow in real terms.

While all borrowers will see a smaller loan debt because of this change, only those who repay their loans in full will benefit, because they will make lower overall repayments. Other borrowers would see no reduction in their repayments.

The repayment threshold

In November 2015, the Government announced the salary threshold at which graduates would repay their loans would be frozen at £21,000 for a period of five years for everyone with a plan 2 (post-2012) loan. The expectation had been that the threshold would rise periodically from 2016 in line with earnings, but the change had the effect of meaning graduates would repay a greater portion of their income than anticipated.

Despite the planned five-year freeze, the loan repayment threshold for plan 2 loans was increased from £21,000 to £25,000 in April 2018, and it currently stands at £27,295.

The independent panel report argued "there should be a stronger expectation that student contributions will be made once a financial benefit is secured."[26] It recommended the threshold for repayment be set at median non-graduate earnings, which at the time would have been £23,000, and the threshold would then rise in subsequent years in line with average earnings.

For current post-2012 borrowers and those due to take out loans for the academic year 2022/23, the Government has said the repayment threshold will be maintained at its current level of £27,295 until 2025. The Government has said the financial impact for borrowers will be "gradual and moderate",[27] but the Institute of Fiscal Studies has described such a policy as a "tax rise by stealth".[28]

For new borrowers who commence study from academic year 2023/24, the repayment threshold will be reduced to £25,000. It will be frozen at this level

25 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p173.
26 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p170.
27 DfE, Higher education policy statement and reform consultation, 24 February 2022, p23.
28 Institute for Fiscal Studies, IFS response to the freeze of student loan repayment threshold, 28 January 2022.

for the following three years and then, in 2027, uprated annually in line with RPI.

The Government has said it does not currently have plans to change the repayment threshold for pre-2012 student loan borrowers (currently £19,895) nor for postgraduate loan borrowers (currently £21,000).

Possible impact

A lower repayment threshold, and increasing it at a slower rate,[29] means that borrowers start making repayments sooner, borrowers on lower incomes are drawn into making some repayments, and all borrowers making repayments repay more each month.

Library modelling of the impact of lowering the repayment threshold to £25,000 in 2021/22 found middle earners would have had the largest absolute increase in repayments of any income group, lower earners would have had the largest relative increase, and women would see a larger increase in repayments than men.[30]

Tuition fees

The independent panel reported noted England has some of the highest tuition fees for undergraduate degrees in the world.[31] The report recommended the tuition fee cap should be reduced to £7,500 per year, and the Government should replace in full the fee income that universities would lose by increasing the teaching grant.[32] This would have the effect of leaving the average unit of funding for universities unchanged in cash terms, and this would be maintained by ensuring the fee cap rises in line with inflation.

The impact of reducing the tuition fee cap for undergraduates to £7,500 per year would mainly benefit higher earning borrowers, particularly men, and if the drop in fee income was made up for with increased public funding, it would cost around £0.9 billion for a cohort of students.[33]

The Government has said it will freeze the undergraduate tuition fee cap at its current level of £9,250 until academic year 2024/25. Due to annual inflation, this will have the effect of reducing debt levels for students in real terms, but also reducing the income of higher education providers in real terms. The Government has said this will “encourage increased efficiency” at universities.[34]

29 RPI rather than average earnings
30 House of Commons Library, Student finance in England: Impact of lowering the repayment threshold.
31 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p95.
32 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p95.
33 House of Commons Library, Student finance in England: Impact of reducing the fee cap.
34 DfE, Higher education policy statement and reform consultation, 24 February 2022, p21.

The maximum tuition fee has been capped at £9,250 since 2017/18. The ongoing freeze will mean that by 2024/25 its real value will be 15% lower in 2017/18.[35] This cut in the real value is almost as large as the cut recommended by the independent panel, but the lost income has not been replaced by increases in teaching grant from Government.

Maintenance support

The Government's reform proposals will mean that from 2023/24 learners studying higher technical qualifications part-time will be able to access maintenance loans, as with students on degree courses. There were no other changes made to the system of maintenance support. The independent panel made a number of recommendations about maintenance support including bringing back maintenance grants of at least £3,000 for disadvantaged students. This was, it said, to help address the fact that under the current system disadvantaged students leave university with the highest debts.

The Library Insight How much would it cost to bring back grants? In the Student finance explained series looks at the issue. The Library briefing paper The value of student maintenance support analyses the changing balance of maintenance support over time and explains how support varies with household income.

The policy statement announced up to £75 million for a new national scholarship scheme to support talented disadvantaged students.[36] It is not clear whether this funding is per year or across a number of years. To put this funding in context, the IFS Student Finance Calculator reintroducing grants of up to £3,000 could cost around £1.5 billion per year.

2.3 The lifelong loan entitlement

Background

Undergraduate higher education comprises qualifications at levels 4 to 6, with level 6 the equivalent of an undergraduate degree.

Currently, students enrolled on designated courses at levels 4 to 6 can access student finance. Designated courses include foundation degrees, higher nationals (HNDs and HNCs), certificates/diplomas of higher education (CertHE/DipHe), and undergraduate degrees.

Students studying non-designated courses, such as diplomas, certificates, and awards in a wide range of vocational areas from levels 3 to 6, can access Advanced Learner Loans (ALLs) for support with tuition fees. Students cannot

[35] Adjusted using December 2021 GDP deflators for financial years.

[36] DfE, Higher education policy statement and reform consultation, 24 February 2022, p17

access maintenance loans for these courses, but there is a bursary fund to help with study-related costs, such as financial hardship and childcare.

Chapter two of the independent panel report made the case for flexible learning at Level 4 and above, arguing a core principle of any future post-18 education system should be that individuals can access a higher education loan allowance over a lifetime.[37] Recommendation 2.1 of the report said:

> The government should introduce a single lifelong learning loan allowance for tuition loans at Levels 4, 5 and 6, available for adults aged 18 or over, without a publicly funded degree. This should be set, as it is now, as a financial amount equivalent to four years' fulltime undergraduate degree funding.[38]

The Government has made improving the UK's skill base and technical training an important part of recent policy papers, including its Industrial Strategy, and Skills for Jobs and Levelling Up white papers.[39] On 29 September 2020, the Prime Minister, Boris Johnson, gave a speech at Exeter College in which he announced a new lifetime skills guarantee and loans to allow people to undertake technical training throughout their life. He said:

> we'll give everyone a flexible lifelong loan entitlement to four years of post-18 education — so adults will be able to retrain with high level technical courses, instead of being trapped in unemployment.[40]

Skills and Post-16 Education Act 2022

The lifelong loan entitlement (LLE) is a flagship element of the Skills and Post-16 Education Act 2022, which received royal assent on 28 April 2022.

The Government has said the LLE will be introduced from 2025 and comprise the equivalent of four years of post-18 education.[41] It is intended to be used flexibly, for full-time or part-time study of modules or full qualifications at levels 4 to 6 in colleges or universities. The Government's ambition is for the LLE to replace the two existing systems of Government-backed student finance loans and advanced learner loans.

The Skills Act allows for the student finance system to fund modules (as well as full-year courses), the flexibility to fund on a basis other than an academic year, and for a limit to the amount of student funding a person can access over their lifetime.

During the Act's parliamentary progress as the Skills and Post-16 Education Bill, however, the lack of detail was repeatedly criticised, particularly

37 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, pp38-44.

38 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p40.

39 HM Government, Industrial Strategy: Building a Britain fit for the future, November 2017; DfE, Skills for jobs: lifelong learning for opportunity and growth, January 2021; Department for Levelling Up, Housing and Communities, Levelling Up the United Kingdom, February 2022, pp193-200.

40 Prime Minister, PM's skills speech, 29 September 2020.

41 HL Deb 15 June 2021 [Skills and Post-16 Education Bill [HL]], c1791.

because the LLE would be a major change to the current student loans systems.

In the House of Lords, Baroness Barran said the Government intended to consult on the "ambition, objectives and coverage" of the LLE, before bringing further primary legislation at a later date setting out how it will work.[42]

The LLE is discussed in two Library briefings on the Skills and Post-16 Education Bill:

- Skills and Post-16 Education Bill [Bill No 176 of 2021-22] HL
- Skills and Post-16 Education Bill [HL]: Progress of the Bill

Consultation

On 24 February 2022, the Government launched a consultation on the lifelong loan entitlement as part of its conclusion to the post-18 education and funding review.[43]

The consultation document says the LLE will be facilitated through "lifelong learning accounts":

> To give the power of informed choice to the learner, new students will be able to sign up and log in online to find a lifelong loan entitlement worth the equivalent of four years of post-18 education to be used across level 4-6 education as they choose. Like a bank account, their account will show their learning "balance". Through their account, learners will be able to receive clear signposting of the courses and modules they can get onto to propel themselves into learning and further their career aspirations.[44]

The consultation will focus on the design principles of the LLE and how the current system will need to change. It has three themes:

- Ambition of the LLE
- Scope of the LLE
- Supporting quality provision and flexible learning.[45]

The Government said following the outcome of the consultation, it would continue to engage closely on the implementation of the LLE in the run up to its introduction from 2025.

42 HL Deb 21 October 2021 [Skills and Post-16 Education Bill [HL] c311.
43 DfE, Lifelong loan entitlement consultation, 24 February 2022.
44 DfE, Lifelong loan entitlement consultation, 24 February 2022, p8.
45 DfE, Lifelong loan entitlement consultation, 24 February 2022, p6.

2.4 Student numbers and outcomes

In November 2021, the Government announced its approach to access and participation in higher education would focus on standards and student outcomes.[46] The Office for Students (OfS), which regulates higher education in England, is consulting on a new approach to regulating student outcomes in order "to crack down on poor quality courses."[47]

The Government is concerned there are too many graduates who do not benefit from university because it does not lead to well-paid employment.[48] From the Government's perspective, this also means many graduates are unable to repay their student loans in full because they do not earn enough following graduation, and skills gaps in the economy are not being filled.

These were issues highlighted in the Augar report, which argued for some students "the university experience leads to disappointment."[49] The report said universities needed to be encouraged "to bear down on low value degrees and to incentivise them to increase the provision of courses better aligned with the economy's needs."[50]

The report recommended that unless the higher education sector addressed the issue of courses with "poor retention, poor graduate employability and poor long term earnings benefits", the Government should intervene through a cap on student numbers and/or minimum entry requirements.[51]

On 24 February 2022, the Government announced it would consult on whether to introduce student number controls and/or establish minimum eligibility requirements to access student finance.[52] The Department for Education has published a blog post setting out the Government's position on student number controls and minimum eligibility requirements.[53]

Student number controls

The Government has said limiting the numbers of students in higher education is one way provision that offers the best outcomes for students and the economy could be prioritised.[54]

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46 DfE press release, New levelling up plans to improve student outcomes, 24 November 2021.
47 Office for Students (OfS0, OfS sets out plans to crack down on poor quality courses, 20 January 2022.
48 DfE, Get the facts about student loan reform, 24 February 2022.
49 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p10.
50 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p10
51 DfE, Independent panel report to the Review of Post-18 Education and Funding, 30 May 2019, p102.
52 DfE, Higher education policy statement and reform consultation, 24 February 2022, pp27-47.
53 DfE, Minimum eligibility requirements and student number controls – your university reform questions answered, 21 March 2022.
54 DfE, Higher education policy statement and reform consultation, 24 February 2022, p31.

Student number controls have existed in various forms for the last 25 years.

- Between 1994 and 2002, individual higher education providers had to abide by a maximum number of domestic and EU students across all cohorts.
- In 2010, student number controls were reintroduced for full-time undergraduate study but evolved over time.
- By 2015, student number controls had been removed for all courses except medical and dental degrees (funding for places on these courses is limited due to the high cost of delivering them).

The Government believes the current situation of nearly all higher education providers adopting the maximum fee limit, combined with no student number controls for most courses, has incentivised providers to expand student numbers on courses that are less expensive to teach, but which may only provide limited benefits to graduates and the wider economy.[55]

There are a number of possible approaches to student number controls, and the Government has said it is consulting on the best way to "tilt growth towards the provision of post-18 education and training with the best outcomes for students, society, and the economy."[56] The consultation including the following possible approaches:

- Overall student numbers could be controlled at sector level, where individual providers are set the total number of students they can recruit, as their share of the aggregate total.
- Individual providers could be set the total number of students they can recruit, with provision for certain subjects (to be agreed based on a set of criteria or metrics) allowed to continue to grow.
- Individual providers could be set the total number of students they can recruit for certain subjects, based on an assessment of student/graduate outcomes for each subject, at a national level.
- Individual providers could be set the total number of students they can recruit, for certain subjects, based on an assessment of student/graduate outcomes at each individual provider. This would mean that each provider's student number control was based on all student/ graduate outcomes for that provider.[57]

It is hard to assess the possible impact of student number controls because the numbers of students with different protected characteristics vary

55 DfE, Higher education policy statement and reform consultation, 24 February 2022, p32-3.
56 DfE, Higher education policy statement and reform consultation, 24 February 2022, p34.
57 DfE, Higher education policy statement and reform consultation, 24 February 2022, p34.

significantly across providers and subjects, and it is unclear what exemptions might be in place for particular providers, subjects, or student groups.[58]

Minimum eligibility requirements for student finance

The Government believes there are problems with students starting undergraduate degrees when they are not ready. It also wants to reduce the number of students pursuing university, rather than an alternative post-18 option, when it might not improve their future outcomes (in terms of financial benefits and employment).[59] The Government's conclusion to post-18 education and funding review said:

> A university degree should not be the default choice for everyone, and evidence shows that not all students benefit from a level 6 university education.[60]

As a result, the Government is considering introducing a minimum eligibility requirement for accessing student finance for undergraduate degrees. The possible requirements being consulted on are:

- Students needing a grade 4 (previously a grade C) at GCSE in English and maths (or equivalent for qualifications taken outside England)
- Students needing two E grades at A-level (or equivalent for qualifications taken outside England)

The Government is also consulting on possible exemptions for students "for whom the minimum eligibility requirement is no longer the best indicator of their potential, due to work and/or further qualifications".[61] These groups would potentially be mature students aged 25 or above, part-time students, students with existing level 4 and 5 qualifications, students with an integrated foundation year or Access to HE qualification, and in the case of the GCSE requirement, students who subsequently performed well at level 3.[62]

Possible impact

The accompanying equality analysis estimated that if a grade 4 in English and maths at GCSE was required to access student finance in 2019, 24,100 England-domiciled 18-24-year-olds first-degree entrants (7% of the total)

58 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, pp95-100.
59 DfE, Higher education policy statement and reform consultation, 24 February 2022, p37.
60 DfE, Higher education policy statement and reform consultation, 24 February 2022, p38.
61 DfE, Higher education policy statement and reform consultation, 24 February 2022, p38.
62 Information on qualification levels is available on GOV.UK: What qualification levels mean.

would have been affected. If all the exemptions for the groups above were in place, 4,800 would have been affected (1.4%).[63]

If two E grades at A level were required, 26,800 England-domiciled 18-24-year-olds first-degree entrants (7.8% of the total) would have been affected. If the exemptions for the groups above were in place, 6,200 would have been affected (1.8%).[64]

UCAS modelling on how a minimum entry requirement for higher education would change patterns of access is discussed in an article on Wonkhe: "The impact of a minimum entry requirement for access to student finance", January 2022.[65]

The Department for Education has modelling of the impact of possible minimum entry requirements (at GCSE or A-Level) based on "limited data".[66] It found that the following groups of students were more likely to fall below these requirements and hence would be disproportionately affected:

- Black students
- Males
- Students with Special Educational Needs
- Students from disadvantaged backgrounds including those who were eligible for free school meals.[67]

The equality analysis suggested some students could be positively affected by minimum entry requirements if it led them to choose a different course or education pathway with a better outcome. It added:

> ...given evidence shows that not all students benefit from a level 6 qualification and the poorer average outcomes for students below the MER, it is expected that on average these students may be subsequently better off as a result.[68]

63 DfE, Higher education policy statement and reform consultation, 24 February 2022, p43; DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, p102. The equality analysis has the same figures as the policy statement and reform consultation document but for 18-34-year-olds.

64 DfE, Higher education policy statement and reform consultation, 24 February 2022, p43; DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, p103.

65 "The impact of a minimum entry requirement for access to student finance", Wonkhe, 6 January 2022.

66 Grades C in both English and maths at GCSAE or 2 grades E at A level.

67 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, pp103-107.

68 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, p107.

IFS analysis

The IFS published an analysis of the impact of minimum eligibility requirements on 27 April 2022.[69] They looked at pupils in the 2011 and 2021 GCSE cohort and followed the progress of those who went on to higher education.

Their analysis found that around 40% of pupils did not achieve a grade 4/C in GCSE English and maths and a similar number did not achieve at least two E grades at A-level. Among those that went to university, around 10% would have been affected by the GCSE requirement and 2% by the A-level requirement. These rates vary considerably by student characteristics. A much higher proportion of students eligible for free school meals would have been affected by the GCSE requirement (23% compared to 9% of other students). Similarly, more Black (23%) and Pakistani and Bangladeshi (18%) students would have been affected. A minimum requirement based on A-levels would affect many fewer students, but the patterns by student characteristics would be similar.[70]

The IFS research also found lower graduation rates among students who would have been affected by the proposed minimum requirements, but said, “the vast majority of these students (around 80%) do still graduate.” The authors also found that a smaller proportion of this group of students achieved a first or a 2:1 in their degree (around 40% compared to 70%).[71]

2.5 Higher education funding

At the 2021 Autumn Budget and Spending Review, the Government announced funding for the continuation of the Turing Scheme for the next three years, but said further details of the higher education funding settlement would be set out alongside its response to the Augar report.[72]

In the foreword to the conclusion of the post-18 education and funding review, the Government announced almost £900 million of investment in higher education over the next three years.[73] Across the period from financial year 2022-23 to 2024-25, the Government has pledged:

- An additional £300 million in Strategic Priorities Grant (SPG) funding. The SPG is paid to eligible providers to support Government priorities, including high-cost subjects, access to higher education, and specialist providers.

69 IFS, The impact of student loan minimum eligibility requirements, 27 April 2022
70 IFS, The impact of student loan minimum eligibility requirements, 27 April 2022, pp3-5
71 IFS, The impact of student loan minimum eligibility requirements, 27 April 2022, pp6-7
72 HM Treasury, Autumn Budget and Spending Review 2021, 27 October 2021, p98.
73 DfE, Higher education policy statement and reform consultation, 24 February 2022, p4.

- £450 million in capital funding to support the delivery of high-cost subjects, such as sciences, medicine, and engineering, and level 4 and 5 courses; and to meet the skills needs of employers and industry.[74]

The OfS will also receive £60m to support the Student Loans Company (SLC) in delivering the LLE as well as the Government's other reforms to higher education and student finance.[75]

The Government also announced it is considering proposals to invest up to £75 million in a new national scholarship scheme for disadvantaged students. in accessing and succeeding in HE.[76] A National Scholarship Programme for low-income students had been introduced from 2012, but it was cut in size from 2014 and withdrawn from 2015.[77]

74 DfE, Higher education policy statement and reform consultation, 24 February 2022, p17.

75 DfE, Higher education policy statement and reform consultation, 24 February 2022, p17.

76 DfE, Higher education policy statement and reform consultation, 24 February 2022, pp53-4.

77 For more information, see IFS, The rise and demise of the National Scholarship Programme: implications for university students, 22 October 2014.

3 Responses to the conclusion of the review

Response to the Government's conclusion of its post-18 education and funding review has been collated in the FE News article: Augar's Higher Education Reform – Sector Response, 24 February 2022.

3.1 Labour

In an article for the Times prior to the conclusion of the post-18 education and funding review, Labour's Shadow Secretary of Education, Bridget Phillipson, accused the Government of leaving a "void where an ambitious vision for the future of higher education should be."[78]

Following the conclusion's publication, she focussed on the changes to student finances and the proposals around student outcomes, saying the Government was "slamming the door on opportunity". She said:

> The Tories are delivering another stealth tax for new graduates starting out on their working lives which will hit those on low incomes hardest.
>
> Instead of fixing the broken system these changes simply store up problems for the future. Ministers are kicking the can down the road while seeking to limit young people's aspirations to study at university. Instead of focusing on supporting more students to succeed at school or widening access to university, the Government is slamming the door on opportunity.
>
> Parents and grandparents across this country are incredibly proud of their children who are working hard for degrees that the Government is now rubbishing. That is insulting.[79]

During a debate on the reforms in the House of Commons, the Shadow Education Secretary said: "Concerns about fairness and affordability for students seem to have been lost entirely."[80] She accused the Government of being more concerned about saving money than supporting children and young people, and concluded:

78 "Tories are trashing Britain's university sector", The Times, 18 February 2022.

79 "Augar's Higher Education Reform – Sector Response", FE News, 24 February 2022.

80 HC Deb 24 February 2022 c490.

> Unlike this Government, the next Labour Government will treat universities not as a political battleground, but as a public good, central to the success of our country.[81]

3.2 Sector responses

Further education

The Chief Executive of the Association of Colleges, David Hughes, said he hoped the lifelong loan entitlement would be delivered as soon as possible, but warned of the impact minimum entry requirements might have on accessing higher education delivered by colleges. He said:

> We would like to see the promise of the Lifelong Learning Entitlement – access for every adult to flexible, part-time, and local training throughout a person's lifetime as their circumstances and industry changes – to be delivered as soon as possible. Government needs to stop talking about a Lifelong Learning Entitlement and get on and deliver it.
>
> We will carefully examine the proposals on minimum entry requirements, maintenance support and the role of colleges before we can comment on the potential impact of these reforms. There is a risk to adult widening participation because adults often enter college HE without a suite of GCSEs or A Levels and go onto good outcomes, including good jobs and promotions; excluding them through a minimum entry requirement would be perverse.[82]

Higher education

Dr Tim Bradshaw, Chief Executive of the Russell Group, which is an association of UK research universities, welcomed the announcement of increased investment in capital funding and strategic teaching grants over the next three years. He said:

> High quality higher education doesn't come cheap and we recognise the Treasury will always need to balance its books, so the additional £750m investment in capital funding and strategic teaching grants over the next three years in England is very welcome. Now we would like to see similar investments across the four nations to ensure the UK has the pipeline of high-level skills to build our economy and accelerate our recovery from the pandemic.
>
> Freezing tuition fees inevitably reduces their value over time, so this will add to the financial pressure on universities to adapt while maintaining quality and choice for students, and is why a more risk-based and proportionate approach to regulation is needed to keep down the cost of bureaucracy.[83]

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81 HC Deb 24 February 2022 c490.

82 Association of Colleges, Post-16 Education review announcements - AoC response, 24 February 2022.

83 Russell Group, Russell Group response to announcement on post 18 education system, 24 February 2022.

The response from Universities UK also welcomed the increase in grant funding and the Lifelong Learning Entitlement, but criticised the freeze on the fee cap and possible student number controls.[84]

Vanessa Wilson, CEO of the University Alliance, which represents professional and technical universities, also welcomed the increase in grant funding, but criticised the freeze on fees, student number caps, minimum entry requirement and the changes to student loans:

> …a freeze in tuition fees, which equates to a real-terms funding cut, would be at total odds with the government's commitment to increasing quality in higher education.
>
> […]
>
> Introducing student number caps based on flawed student outcomes data will serve only to deny industry the skills it needs to thrive and will hit the very communities targeted as part of the government's levelling up agenda. It will disproportionately affect subjects such as the creative arts, where the data does not accurately reflect career success, cutting off the skills supply to the cultural industries, the UK's fastest growing industry. Employers need graduates with a wide range of skills, and this policy move would simply catapult the country into huge skills shortages.
>
> The introduction of minimum entry requirements would be disastrous for the government's levelling up agenda. It would disproportionately deny opportunity to the most disadvantaged parts of the country where school attainment is significantly lower across the board. Whilst richer students who do not meet the minimum entry requirements will be able to simply pay their own way, poorer students will once again be denied access to higher education.
>
> Lowering the repayment threshold is an attempt to make surface changes to a student finance system which is fundamentally broken, and it shifts more of the burden on to lower paid graduates at a time when they can least afford it. Changes to interest rates will only benefit higher earning graduates.[85]

Rachael Hewitt, Chief Executive of MillionPlus, the association for modern universities, described the Government's proposals as a 'mixed bag". She welcomed the commitment to the Lifelong Learning Entitlement and the increase in teaching grant, but said the freeze on fees meant universities were being asked to do more with less and this could affect the 'levelling up' agenda.

On the proposed minimum entry requirement, she argued:

> While it is encouraging that exceptions are to be made for mature students, any minimum grade threshold for accessing higher education will fall hardest on those from areas of greater deprivation and lower participation, the very

84 Universities UK, UUK response to government's announcement on funding for post-18 education, 24 February 2022

85 University Alliance, University Alliance responds to government announcement on post-18 education reforms, 24 February 2022

> areas the government has pledged to level up. For prospective students who have followed non-traditional paths into higher education, or indeed have been failed by the schools system, there should be a pathway still open to them into higher education. This should be fundamental.[86]

The Director of the Higher Education Policy Institute, Nick Hillman, published a blog in which he argued removing the 'real' interest rate from student loans would be regressive, since the poorest graduates will not see any benefits. He suggested the change is guided by political concerns and compared it to the decision to abolish interest rates on student loans in New Zealand, where it was considered an attempt to win middle-class votes.[87]

Hillman also said the lifelong learning entitlement could be "the most significant education reform of the 2020s", but cautioned it may be a while before we have a real idea of how the LLE will work in practice and whether it its potential scale might be affected by concerns about costs.

86 MillionPlus, MillionPlus comment on the government's higher education reforms, 24 February 2022

87 Higher Education Policy Institute, How to read today's expected announcements on higher education from the Westminster Government: 10 points of note, 24 February 2022.

4 Financial impact of the proposals

4.1 Graduate repayments

Government analysis

The proposed reforms will result in higher repayments among middle and lower earning graduates, but lower repayments for those who earn the highest. The Government's equality analysis of its proposals said:

> Among new full-time HE borrowers, lifetime repayments are higher for the bottom 80% of lifetime earners under the new system, but lower for the top 20%. Similarly, among post 2012 full-time HE borrowers, lifetime repayments are expected to increase for the bottom 90% of lifetime earners but be marginally lower for the top 10%.[88]

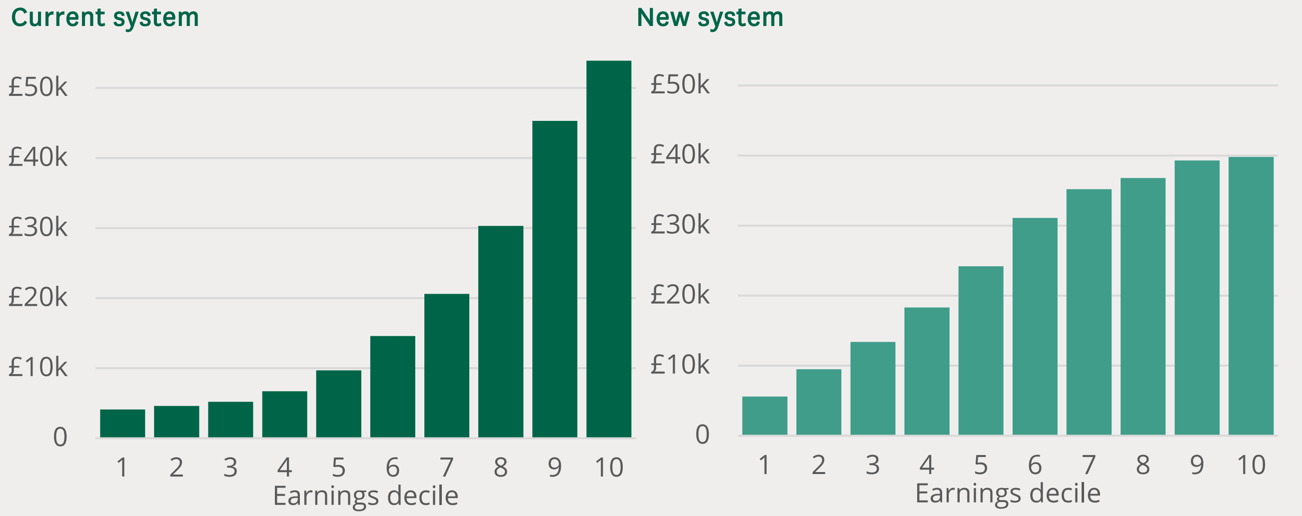
Freezing the repayment threshold (lowering it for new students) and then only increasing it by RPI rather than average earnings (which is generally higher than RPI) draws in lower earning graduates to repayment than under the current system. It also means that all graduates who earn enough to make repayments will pay more each month than at present. Some of the highest earners among existing borrowers will actually repay less in real terms as their higher repayments will mean they pay less in interest.

Cutting the maximum interest rate for new borrowers to RPI+0% only benefits higher earners, because they currently repay their loans in full. This is the main reason for the lower repayments among the highest earners. Extending the loan repayment term to 40 years generally results in higher repayments among middle earners. The charts below look at estimates of the impact of the reforms on new borrowers by lifetime earnings decile 10% (band).

88 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, Summary.

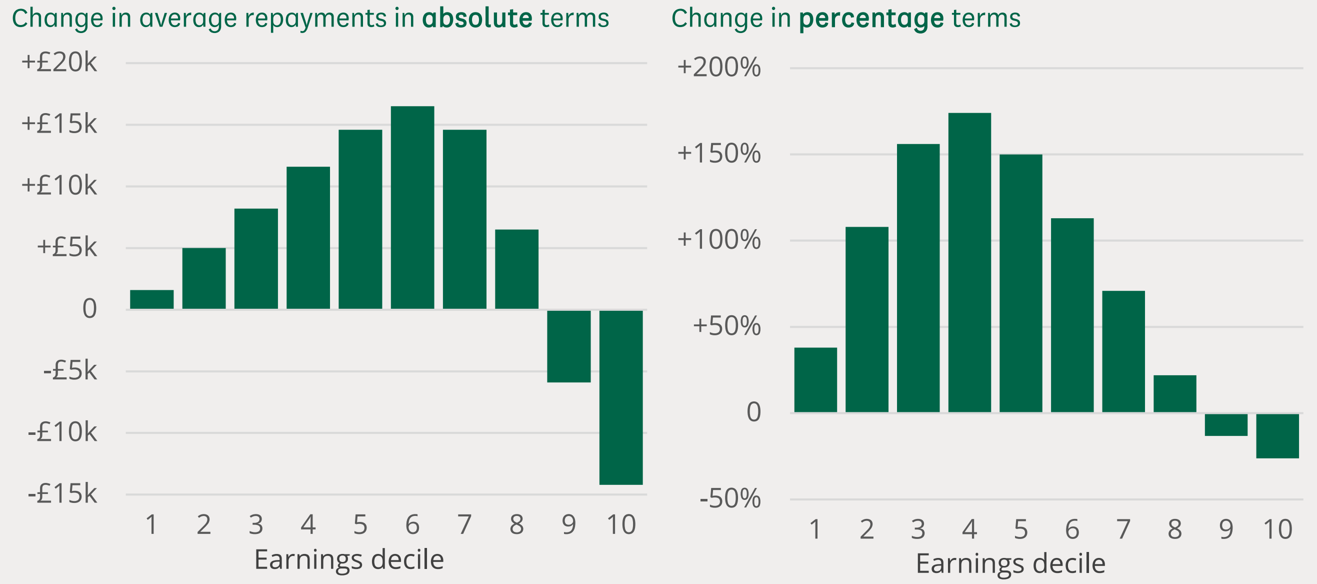
Loan repayments under new system substantially less progressive than currently

Average repayments by decile, new borrowers, 2021/22 prices



Source: Higher education policy statement & reform consultation Equality Analysis (February 2022), DfE

Highest earners expected to make lower lifetime repayments under new system, middle to lower earners see increases of over 150%



Source: Higher education policy statement & reform consultation Equality Analysis (February 2022), DfE

Higher earnings graduates are still expected to make higher repayments over their lifetime, but the gap between them and middle/lower earners is lower under the new system. Repayments are higher for the lowest 10% of earners (decile 1 above), but the increases they face are smaller than for some other groups, because it includes graduates who will still make few if any repayments, even with the lower repayment threshold.

The equality analysis found that the following groups of borrowers would see the largest increases in repayments:

- Female
- White or Black ethnicity
- Middle to lower earners
- From disadvantaged backgrounds
- From the North, Midlands, South West or Yorkshire and the Humber
- Disabled (and in employment)

The groups most likely to see a cut in repayments were said to be

- Male
- Asian, mixed or 'other' ethnicity
- Young graduates
- From advantaged backgrounds, such as independently schooled or from areas with high levels of HE participation
- Living in London after graduation

This pattern is due to the link between these groups and lifetime earnings.

Among new borrowers from 2023/24, the proposed changes are estimated to increase the real value of lifetime repayments by 30% or £5,800. The increase is expected to be larger among female borrowers at 37% compared to 23% among male borrowers.

The Government expects that around half of new borrowers from 2023/24 will repay their loans in full compared to 25% of current students.[89] It has estimated that the average debt for new borrowers will be about 9% lower than under the current system when it first becomes due. This is due to the continued freeze on fees and the lower interest rate.[90]

Other analysis

The Institute for Fiscal Studies (IFS) published an initial response to the Government's proposals on 24 February.[91] Its broad conclusions on the impact

89 DfE, Higher education policy statement and reform consultation, 24 February 2022 , p26.

90 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, Table 7

91 IFS observation, Sweeping changes to student loans to hit tomorrow's lower-earning graduates, 24 February 2022

by earnings levels and gender were similar to those in the Government's Equality Analysis. It said:

> Those with the lowest lifetime earnings lose comparatively little from the announced reform, because they will rarely earn more than the repayment threshold for student loans even under the new system. Those with below average but not the lowest earnings (3rd and 4th decile of borrowers' earnings) stand to lose the most at around £28,000, as they will in many cases still not pay off their student loans under the new system, but will make repayments for ten years longer and on a larger chunk of their earnings than under the current system.
>
> Graduates with higher middling earnings will nearly always pay off their loans under the new system, but would not have under the old system. For them, the effect of lower interest rates roughly balances out the effect of the lower repayment threshold and the longer repayment period. Finally, the highest earners would have paid off even under the current system; they gain £25,000 on average from the lower interest rate, and the lower repayment threshold merely forces them to pay their loans off more quickly
>
> [...]
>
> The reform package also entails substantial redistribution across genders: men stand to gain on average, whereas women are set to lose. On average, men will repay around £3,800 less towards their student loans under the new system, whereas women will pay £11,600 more. This is because women tend to spend more time out of work than men and on average earn less than men even when in work. As a result, men are much more likely to pay off their loans and benefit from lower interest rates.

London Economics analysis of the Government's proposals came to similar conclusions. It said:

> - The proposals result in significant increases in lifetime repayments for middle income graduates (both male and female). Male and female graduates on the 5th earnings decile would be expected to make an increased contribution of £4,700 and £9,400, respectively.
> - Male graduates in the top three earnings deciles and females in the top earnings decile would be significantly better off as a result of these changes (by approximately £15,000-£20,000).
> - The combination of options is a direct transfer from low/middle income graduates to high earning graduates
> - The reduction in the repayment threshold results in a more regressive system. Male graduates in the 4th decile now contribute the greatest proportion of their post graduation earnings in loan repayments (compared to the 7th decile under the Baseline scenario).

The IFS published a briefing note on the reforms on 8 April 2022 which included more detailed analysis and an update of their initial response. Its key findings included:

- **The results of our initial analysis hold up when we update our projections using the latest economic forecasts from the Office for Budget Responsibility and new data on graduate earnings.**

- **The reform makes the higher education funding system in England even more of an outlier internationally.** Even before the reform, England relied less on public funds for funding higher education than comparable countries. It is unpredictable how the low public subsidy will affect prospective students' choices.
- **The change in threshold indexing from average earnings growth to RPI alone is likely to cost middle-earning graduates from the 2022 and 2023 cohorts more than £10,000 over their lifetimes.** For the taxpayer, this change alone is set to save substantially more than £2 billion in undiscounted real terms.
- **Overall, the highest-earning borrowers will be better off under the system from 2023 onwards, and low-earning borrowers will be better off under the 2022 system.**
- **The taxpayer will likely save more on loans to the 2022 cohort than on cohorts from 2023 onwards as a result of policy changes announced this year.** This is because the cohorts from 2023 onwards will enjoy a lower interest rate on student loans, which will be costly for the taxpayer. In undiscounted terms, the reforms will likely cut the taxpayer cost by three-quarters for the 2022 cohort and by half for the 2023 cohort.
- **Despite this, the short-term reduction in government borrowing from the reforms will be much larger for cohorts from 2023 onwards than for the 2012–22 cohorts.** This is entirely due to the treatment of changes in the student loan interest rate in the national accounts.
- **The government's policy choices have made the taxpayer cost of the student loans system less predictable.**

4.2 Public spending on higher education

The Government's conclusion of the post-18 education and funding review was in large part underpinned by a desire to ensure value for money for the taxpayer. Its higher education policy statement said:

> While taxpayer investment should make a substantive contribution towards the costs of HE, and should underwrite some of the financial risk to students, contributions are, at present, skewed too far towards the taxpayer and not far enough to the learners who benefit from the system financially. We must also ensure that taxpayers' money is spent well, funding high-quality courses that are aligned with opportunities for graduates and help meet the skills needs of the economy.[92]

Its proposals may have a small impact on the amount of money loaned to students through the continued fee cap freeze and possible student number controls. There is also £900 million extra in direct funding for higher education over three years. The Library paper Higher Education funding in England gives more detail on changes to the balance of direct and loan funding over time. However, the largest impact by far is on the cost of student loans through changes to the student finance system.

[92] DfE, Higher education policy statement and reform consultation, 24 February 2022, p18.

Student finance system

The Government currently loans almost £20 billion a year to around 1.5 million students. The value of outstanding student loans at the end of March 2021 reached £141 billion. The Government forecasted the value of outstanding loans would increase to around £560 billion (2019-20 prices) by the middle of this century.[93]

The changes to loan repayment terms will increase repayments from borrowers overall. The largest impact will be on new students from 2023/24. The changes shift the costs of the student finance system away from the taxpayer and towards graduates.

Unlike in previous major reforms to student finance the Government has not published a repayment model to accompany these changes.

Impact on the deficit

The Government estimates the value of loans made each year that it expects will never be repaid by graduates, and hence written off as a cost to the public sector. This economic cost is counted against the public sector deficit each year. To produce this estimate, the share of the loans forecast to be written off, plus interest, is calculated in today's values. This amount counts against the deficit in the year that the loans are made.

The Government estimates that the addition to the deficit from the student finance system will be cut by half over the next six years. Analysis by London Economics and the IFS suggest that the impact will be considerably smaller

The Government's equality analysis said its reforms would reduce the impacts of the student finance system on the deficit by half over the next six years (combined).[94] The current system would cost around £11 billion in 2026-27, while the new system would cost £4 billion. A saving of 64% in that year.[95]

The IFS have estimated the long-run savings to the taxpayer of these reforms will be substantially smaller at £2.3 billion per cohort of students. This figure is in 2022 prices, adjusted for inflation only, ie. not discounted.[96] Their calculations are based on their Student finance calculator which can be used to look at the impact of changes to student finance on the public finances and graduate repayments.

93 House of Commons Library, Student loan statistics, (December 2021)

94 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, (p30).

95 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, (Tables 11 and 12).

96 IFS observation, Sweeping changes to student loans to hit tomorrow's lower-earning graduates, (updated 2 March 2022).

London Economics have estimated the economic costs of the new system will save around £540 million a year due to changes in graduate repayments.[97] Changing the discount rate (alone) cuts the amount which is counted against the deficit by around £3.4 billion a year.[98]

Resource Accounting and Budgeting charge

The Resource Accounting and Budgeting (RAB) charge follows a broadly similar concept accounting rules for the deficit. It is the difference between the amount lent to a cohort of students, and the (discounted) present value of their repayments as graduates. In effect, the proportion of loans that are not repaid and have to be written off. This rate is used for the Department for Education's cost estimates.

The current discount rate used for these calculations is RPI+0.7%. The equality analysis states that a new lower discount rate of RPI-1.1% will now be used. This lower discount rate has a substantial impact on the RAB charge, despite having no impact on the actual amount loaned or repaid, and having no connection to student loan interest rates

The Government estimates the current RAB charge is 58%, reducing to 44% with the lower discount rate. It would fall to 19% by 2026-27 under new system. London Economics have estimated that the RAB charge for the new system would be just 3 percentage points lower than the current system if the same discount rates were used. [99]

The following calculation illustrates the impact of the change to the rate:

> With long-term forecast RPI of 2.9%[100] a discount rate of RPI+0.7% means that £1 in 30 year time is valued at **33 pence** today. A discount rate of RPI-1.1% means that same £1 in 30 years time is valued at **58 pence** today.

The differences in the discount rate effectively compound over time so the gap is even larger after 40 years.

The discount rate was last changed, from RPI+2.2% to RPI+0.7%, in 2015.

97 London Economics, The impact of funding changes in response to Augar, February 2022.

98 Is the new student loan system really fairer? The government says its new student loan scheme will be cheaper for the taxpayer while the richest grads pay less. How? Gavan Conlon and Andrew McGettigan find the discounts, Wonkhe, 25 February 2022.

99 DfE, Higher education policy statement and reform consultation. Equality Analysis, February 2022, (Table B2).

100 Office for Budget Responsibility, **Economic and fiscal outlook – October 2021 (Table 2.9)**

"…the proposals are trumpeted as if they generate huge cost savings and put the loan scheme on a sustainable footing. That's not really the case"

Gavan Conlon and Andrew McGettigan

In an article for the Wonkhe website, student finance experts Gavan Conlon and Andrew McGettigan said:

> …it turns out that most of the claimed savings to the taxpayer are not the result of the policies themselves – but a result of this hidden change.
>
> The issue is that in the government's assessment of the impact of the proposed changes, they use the old discount rate for the current student support arrangements and the new discount rate for the proposals. As such, the proposals are trumpeted as if they generate huge cost savings and put the loan scheme on a sustainable footing. That's not really the case.[101]

4.3 Universities

The only reform proposal not up for consultation which will have a direct impact on university finances is the continued freeze on the fee cap. The consultation on student number controls could have a further impact, depending on its outcome.

The maximum tuition fee has been capped at £9,250 since 2017/18. The ongoing freeze will mean that by 2024/25 its real value will be 15% lower than its 2017/18 level. It will be worth £7,875 in 2017/18 prices. [102] This cut in the real value is almost as large as the cut recommended by the independent panel, but this lost income has not been replaced by increases in teaching grant from Government, as the independent panel recommended.

Official data on the costs and income of universities in 2019/20 show that universities do not cover the full economic costs of teaching UK undergraduates with their income from fees and direct funding.[103] The further real cut in funding from this continued freeze will put further financial pressure on universities, particularly those that do not recruit many overseas students (where fees more than cover costs).

The Government has announced some headline figures on increases to public funding for universities, but this is smaller than the real loss in fee income and includes no detail of timing, revenue/capital split or links to specific types of courses or universities:

> …we are investing almost £900 million in our fantastic higher education system over the next three years. This includes £750 million to be invested in high-quality teaching and facilities including in science and engineering, subjects that support the NHS, and degree apprenticeships.[104]

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101 Is the new student loan system really fairer? The government says its new student loan scheme will be cheaper for the taxpayer while the richest grads pay less. How? Gavan Conlon and Andrew McGettigan find the discounts, Wonkhe, 25 February 2022.

102 Adjusted using December 2021 GDP deflators for financial years.

103 OfS, Annual TRAC 2019-20: Sector summary and analysis by TRAC peer group, July 2021.

104 DfE, Higher education policy statement and reform consultation, 24 February 2022, p4.

London Economics has modelled the loss in income to universities of a minimum entry requirement which affects 6.4% of potential entrants and student number controls which cut current numbers by 2%. The found that this would cut university income by around £840 million or 7.5% of current undergraduate teaching income.[105]

[105] London Economics, The impact of funding changes in response to Augar (February 2022)