The National Committee of Inquiry into Higher Education (the Dearing Inquiry) was appointed with bipartisan support by the Secretaries of State for Education and Employment, Wales, Scotland and Northern Ireland on 10 May 1996. The Committee published its findings in July 1997 and the Government responded with its proposals for the future of student support on 23 July 1997. This paper gives an outline of the history of student support and discusses the Dearing recommendations, the Government's proposals and responses to those proposals.
Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.
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I Summary

From 1962 until 1990 full-time UK based students studying for a first degree received 100% grants for maintenance, means tested according to parental income. Student loans were introduced in the 1990/91 academic year; these have progressively replaced grants for living costs. At present students who are eligible for full maintenance support receive £3,440 a year or £4,245 in London, 50 per cent through a means tested grant and 50 per cent through a subsidised loan. The parents of 'better off' students are expected to make a contribution of up to £2,000 per year to supplement the loan. Graduates pay back loans in fixed, mortgage type repayments but can defer repayment if their incomes are low; repayments are not income contingent. Part-time and postgraduate students (other than those on teacher training courses) have no general entitlement to public funds for living costs.

The National Committee of Inquiry into Higher Education (the Dearing Committee) was appointed with bipartisan support by the Secretaries of State for Education and Employment, Wales, Scotland, and Northern Ireland on 10 May 1996. It was charged with making recommendations on how the purposes, shape, structure, size and funding of higher education, including support for students, should develop to meet the needs of the UK over the next 20 years. The Committee published its report in July 1997.

The Committee looked at both the short and long term funding requirements of the higher education sector and estimated a need for an additional £350 million in 1998/99 and £565 million in 1999/00. Changes to student support levels were identified as necessary in the short term and in the long term the Committee noted that maintenance support for students should be improved. Specifically, the Committee recommended that the Government should introduce, by 1998/99, income contingent terms for the payment of any contribution towards living costs or tuition costs sought from graduates in work. After studying various options the Committee came down in favour of retaining the current maintenance system of 50 per grants (means tested) and 50 per cent loans (with income contingent repayments) and the introduction of a contribution to tuition fees of around 25 per cent, also through an income contingent mechanism.

The Secretary of State for Education and Employment issued the Government's response to the Committee's proposals on student support on 23 July 1997. The Government accepted the Committee's recommendation that system of funding universities needed to change in order to avoid cuts in standards and to allow more students to go into higher education; however, the Government's proposals for the student support system differ from those produced by the Dearing Committee in some significant ways.
The Government is proposing to:

- introduce a tuition fee contribution for students of up to £1,000 per year in 1998/99 (students from 'lower income' families will be exempt from this contribution);

- replace part of the maintenance grant with a loan in 1998/99; from 1999/2000 maintenance grants will be replaced entirely by income-related loans;

- introduce an income-contingent mechanism for the repayment of student loans;

- introduce an additional maintenance loan equivalent to the tuition fee for students from 'higher income' families;

- introduce a supplementary hardship loan of £250 per year.

These arrangements, when introduced, will apply to students who live in England, Wales or Northern Ireland; separate arrangements and guidance is to be produced for students who live in Scotland.
II A brief history of student support and tuition fees

A. 1944-1984

1. Why grants and not loans?

In Britain, the system of student support that existed up until the introduction of student loans in the 1990/91 academic year, was laid down by statute in 1962. This system was created at a critical junction in the development and diversification of higher education in the UK, and at a time when the supply, training and deployment of qualified manpower and the expectations held of higher education were urgent public issues. At the same time, however, the changes that were introduced by the 1962 Education Act rested on the foundations of the 1944 Education Act with its emphasis on equality of access and educational opportunity for all, with no financial deterrents to a new generation of students coming from families with no tradition of higher, or even advanced education.

Prior to 1962 there was no statutory duty on any local authority to assist students by way of grants. Each local authority was empowered, by virtue of section 82 of the 1944 Act:¹

> 'to grant scholarships, exhibitions, bursaries and other allowances, in respect of pupils over compulsory school age…for the purpose of enabling pupils to take advantage without hardship to themselves or their parents of any educational facilities available to them.'

The criteria for awards were laid down in regulations.² Further guidance for Local Education Authorities (LEAs) on good practice in the implementation of the regulations was also issued. A dual system came into being; LEAs were empowered to make local awards to students fulfilling the set criteria and these awards were supplemented by an extended system of national 'state scholarships' for those with the highest qualifications.³ By 1958 local authority awards had increased from 11,000 in 1948 to 47,000 and state scholarships from 360 in 1939 to 1600 annually. Costs rose from £5.6 million in 1951-2⁴ to £21.6 million in 1958-59.⁵

By 1958 several factors combined to inspire the creation of the Committee on Grants to Students under the Chairmanship of Sir John Anderson. First, there was the increase in

¹ The equivalent for Scotland was section 43 of the 1946 Education (Scotland) Act
² SI 1945/666
³ These scholarships had existed in principle before the war under section 100 of the 1944 Education Act.
⁴ Great Britain
⁵ Anderson Report on Grants to Students, Cmd 1051, 1959/60, para 11
student demand; full-time students had increased from 50,000 in England, Wales and Scotland to 100,000 in 1959/69, with the prospect of another 70,000 students in the following five years.

As Anderson commented: 6

'The country is...committed...to a large expansion in the places available in higher education, and it is the function of the awards system to ensure that those qualified to take advantage of these costly facilities are not deterred from doing so.'

Second, there was the growing sense that the nation urgently needed the greatest possible number of men and women in higher education. Although great public emphasis was being placed on the need to produce more scientists, engineers and mathematicians, the Report emphasised that one of their key recommendations would be that young men and women should go to university to become all-round citizens and not merely to learn a special skill.

The third factor leading to the review was criticism of the existing system of awards and in particular, the variations in practice between local authorities. 7

In making recommendations for a systematic, statutory-based system of grants, the Anderson Committee inevitably, but briefly, looked at the question of loans. In a single paragraph, the Committee, after having studied evidence from other countries, found it profitless to make comparison with educational systems 'so widely different from our own' and concluded: 8

'...though we recognise that a loan may occasionally be a reasonable way of meeting a particular difficulty, we have had no hesitation in rejecting loans as an integral part of the national awards system. The principle of using loans as a standard means of financing students has now been abandoned by public authorities in Great Britain, and our evidence disclosed no wish to see it revived. The obligations to repay, no matter how easy the terms, must represent an untimely burden at the outset of a career. We far prefer the system of outright grants, with the safeguards against misuse, contained in our recommendations.'

Not only did the Committee reject the principle of loans, there was a strong argument put forward for the abolition of the parental contribution. In particular, since the new generation of university graduates would be recruited from 'families with no tradition of university or even advance school education' it was thought that any financial liability would act as a deterrent.

6 ibid para 168  
7 ibid para 36  
8 ibid para 24
The Anderson Committee's recommendations were encapsulated by the then Conservative Government in the 1962 Education Act which laid down the system of mandatory and discretionary means-tested awards that existed until 1990/91 (an explanation of this system is given on page 14).

Within a year of the Anderson Committee, the Robbins Committee had begun work, to report in October 1963 with a scheme for the expansion of higher education based on the principle that there should be a place in higher education for every student with the appropriate qualifications and motivations. Like the Anderson Committee, the Robbins Committee also reviewed the arguments for and against loans, but they failed to reach a consensus. On balance, however, they considered that:

'We do not recommend immediate recourse to a system of financing students by loans. At a time when many parents are only just beginning to acquire the habit of contemplating higher education for such of their children, especially girls, as are capable of benefiting by it, we think it probable that it would have undesirable disincentive effects. But if, as time goes on, the habit is more firmly established, the arguments of justice in distribution and of the advantage of increasing individual responsibility may come to weigh more heavily and lead to some experiment in this direction.'

2. Tuition fees

Between 1962 and 1977 both fees and maintenance costs formed part of the 'requirements' of a student. These were offset against the 'resources' of the student and his or her parents. Thus, the actual parental contribution was assessed on the basis of fees and maintenance.

For example, in 1976, the last year before the system changed, the maximum award for a student at a university outside London was £875. Fees were £375. Thus, the maximum award was based on these 'requirements'. If the student and his family were below the income scales (which began at £2,699 and carried a minimum parental contribution of £30), a maximum grant would be awarded. However, at an income of £9,950, the entitlement to a maintenance grant was extinguished, but for families with a residual income between £9,950 and £12,700, the requirement to pay fees continued.

In 1974 a Joint Working Party was set up by the University Grants Committee (UGC) and the Vice Chancellor's Committee to examine the whole question of fees 'with particular reference to overseas students'. 1975 saw the publication of an Interim Report in which the Working Party advised against extreme changes in fee structures. They rejected massive increases in

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9 Higher Education, Cmnd 2154, 1962-63
10 ibid para 647
fee levels on the 'reasonable' assumption that this would deter 'a not insignificant proportion' of those students paying their own fees from pursuing their education. The Working Party was concerned that 'even small increases in tuition fees may have some deterrent effect on certain categories of home students'.

In June 1976, the Final Report of the Working Party made six specific recommendations:

- Tuition fees should continue to be charged. Gross fee income should be not much less than, but should not exceed, 10 per cent of total university income;
- The containment of the open-ended commitment on overseas students by voluntary agreement on the part of universities to limit the numbers admitted;
- Elimination of the differential rate of fees between home and overseas students;
- Any restructuring of fees to provide adequate protection from hardship for home students plus changes in the parental contribution arrangements in order to diminish the extent to which fees are subject to a parental contribution;
- The rate of fee for full-time postgraduate courses should be higher than for undergraduate courses;
- The fees for part-time postgraduate courses should not be increased proportionately to those for full-time postgraduates, but should be left to the discretion of individual universities.

On 5 July 1976 the Government (Labour) announced that, inter alia, students with mandatory awards would not be required to pay tuition fees, irrespective of the level of parental income. Since October 1977 home students with mandatory awards have not been required to pay any tuition fees; they have been paid direct by LEAs. LEAs currently receive 100% specific grant under section 209 of the Education Reform Act 1988 on expenditure that has been properly incurred under the Regulations.

B. 1984-85

The Government announced its public expenditure plans for higher education in November 1984.¹¹

¹¹ He Deb 12 November 1984 c.57W
There will be a net reduction in the previously planned level of spending on student awards in 1985 and the parental contribution scale will be adjusted upwards in line with earnings in the past year: this means that some 10,000 families who would otherwise have been drawn into contributing will be relieved of the need to do so. However, minimum maintenance awards will no longer be made to those whose parents would otherwise be liable to meet the full cost of maintenance, and contributions from those in the middle and upper reaches of the income scale will be extended for those most able to pay to include a contribution up to the maximum of the designated tuition fee.'

This announcement gave rise to a storm of protest, focussed mainly on the imposition of tuition fees, which mobilised students, parents and backbenchers. On 5 December 1984 Sir Keith Joseph responded by announcing that the proposed contribution to tuition fees would be withdrawn. The proposals to abolish the minimum award and increase the level of parental contributions to maintenance for those in the middle and upper reaches of the income were implemented.

The Department of Education and Science set up an internal review of student support in December 1984. In November 1985 Sir Keith stated that the possibility of replacing maintenance grants wholly or partly with loans had been ruled out for the time being and that a consultative document would not be published.

C. 1986

From October 1986 the Government removed full-time students' entitlement to supplementary benefit and unemployment benefit in the short vacations. From June 1986 students' entitlement to housing benefit for vacated accommodation was removed and further restrictions on housing benefit, such as the exclusion from entitlement of students in halls of residence, came into operation in October 1986. Full background to these changes is given in Library Research Note 282. It was the Government's long-term aim to return to the position where students were helped by their families and their own vacation earnings (implying the removal of entitlement to benefit during the long vacations).

In June 1986 the new Secretary of State for Education, Kenneth Baker, committed the Government to undertaking a comprehensive review of student support including the possibility of introducing loans.

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12 HC Deb 5 December 1985 c.200
13 For further information see Library Research Note 213, Student Grants, Fees and the Parental Contribution, 28 November 1984
14 HC Deb 12 November 1985 c.113W
15 Student Grants and the Proposed Changes in Social Security Benefits, 10 February 1986
16 HC Deb 18 December 1985 cc 229-30W
17 HC Deb 18 June 1986 cc 1046-7
Research Paper 97/119

'Student numbers in higher education are at an all-time record level. We want still more to benefit. The Government stands by the principle of access to higher education for all who have the necessary intellectual competence, motivation and maturity, regardless of parental income. We want to ensure that students will neither be deterred from entering higher education nor handicapped in their studies by lack of means. But in doing so we must have regard to the claims on national resources. That is why I think that the time is ripe to investigate with an open mind all possible forms and sources of support.'

D. 1988-91

Mr Baker announced the completion of the review with the launch of the White Paper, Top-Up Loans for Students, in November 1988. The paper proposed that, from the Autumn of 1990, student maintenance grants and parental contributions would be frozen at their 1990/91 level and that top-up loans would be offered to all full-time home undergraduate students in higher education.

The Education (Student Loans) Act 1990 introduced a new system of financial support for students in the academic year 1990/91. This system of support has three components: a means tested basic maintenance grant, a loan facility provided by the Government and Access Funds for students facing particular financial difficulties.

At the same time that loans were introduced, most students also became ineligible for income support, unemployment benefit and housing benefit. The Government argued that the loan facility would more than compensate most students for the loss of benefit entitlement and that there would be three Special Access Funds that would provide help to individual students suffering hardship.

E. 1992-97

When student loans were first introduced the means-tested basic grant was frozen at its 1990/91 cash value. During the 1993 Budget Statement the then Chancellor announced a cut in the cash value of student grants, the effect of which was to accelerate the process of bringing grants and loans into broad balance.

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18 Cmnd 520
19 For further background information see Library Research Note 470, Student Maintenance Grants and Loans, 2 October 1989.
20 See Library Reference Sheet 89/12, Education (Student Loans) Bill, 27 November 1989
21 Department for Education (DFE) Press Release, 30 November 1993
'For 1994/95, the Government will continue to maintain the real value of the funds offered to students through the main rates of grant and loan and supplementary grants, which together will increase by 4% in cash. Reductions in the main rates of grant of 10% against their 1993/94 levels will be offset by increase in loan entitlements. Similar adjustment will be made over the next two years; on present estimates they will bring the grant and loan into broad balance in 1996/97. This shift from grant to loan represents an acceleration of the Government's existing plans.'

In the November 1994 budget the Government announced that the main rates of student grants and loans, as well as the main allowances, would be increased in line with inflation over the next three years; in 1995/96 the loan and grant together increased by 2.5 per cent. The main grant rate fell by around 8 per cent while loan rates received a corresponding increase. In addition, the Government phased out the older students allowance which was payable to certain students over the age of 26.22

The National Committee of Inquiry into Higher Education, under the Chairmanship of Sir Ron Dearing, was established with bipartisan support on 10 May 1996. The Committee was charged with the task of making recommendations on how the purposes, shape, structure, size and funding of higher education, including support for students, should develop to meet the needs of the UK over the next 20 years. The Committee issued its report on 23 July 1997,23 the Secretary of State for Education, David Blunkett, announced the Government's response to the proposals concerning student support on the same day.24

The Committee's recommendations and the Government's response are discussed in detail later in this paper.

22 DFE Press Release 293/94, 29November 1994
23 Higher Education in the learning society
24 HC Deb 23 July 1997 cc 949-51
The existing system of student support has three main elements:

- the continuing availability of a means-tested basic maintenance grant and supplementary allowances for categories such as disabled students and those with dependants;
- a non-means tested Government loan facility offered at nil real interest (i.e. the nominal rate of interest payable on the loan is set equal to the rate of inflation - in real terms an interest free loan); and
- Access funds for certain students facing financial difficulties. These funds are cash limited by the Government and are paid at the discretion of the university or college where the student is studying.

A. Maintenance grants

Section 1 of the 1962 Education Act places a duty on LEAs to make awards to persons ordinarily resident in their area in respect of attendance at full-time first degree courses; courses for the Diploma of Higher Education; courses for the Higher National Diploma; and courses for the initial training of teachers. All other conditions and provisions concerning mandatory awards are specified in regulations made under the Act. The regulations currently in force are the Education (Mandatory Awards) Regulations 1997. The arrangements in Northern Ireland are virtually the same as those in England and Wales; the system is administered by the Northern Ireland education and library boards.

In Scotland the Students' Allowances Scheme, which is also very similar to that operated in England and Wales, is administered by the Student Awards Agency. Students in Scotland receive a slightly lower maintenance allowances than those in England and Wales. The relevant legislation is the Education (Scotland) Act 1980.

In order to qualify for a mandatory award, students must have been 'ordinarily resident' in the UK, Channel Islands or the Isle of Man for the three years preceding the academic year in which their course begins. There are certain exceptions to this rule, e.g. where a student's parents have been temporarily employed abroad.

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25 An award includes money towards living costs (the grant) and the college's tuition fees
26 SI 1997/431
Grant rates for the 1997/98 academic year in England and Wales are set out in the table below:

<table>
<thead>
<tr>
<th>In London</th>
<th>Elsewhere</th>
<th>Living at parental home</th>
</tr>
</thead>
<tbody>
<tr>
<td>£2,160</td>
<td>£1,755</td>
<td>£1,435</td>
</tr>
</tbody>
</table>

In addition to the basic grant some students will qualify for supplementary allowances such as the 'extra weeks' allowance (for students who are required to study beyond the period covered by the basic grant), and allowances for dependent children or disabled students.

Maintenance grants are means-tested. A student's parents, their husband or wife, or the student themselves, may be expected to contribute towards their grant. In the case of a student's parents, the LEA works out their 'residual income' by taking their gross income less certain deductions, chiefly for other adult dependants, interest payments, life insurance and pension scheme contributions. After the residual income is calculated the LEA works out the parental contribution according to the following scale.27

<table>
<thead>
<tr>
<th>Parent's residual income</th>
<th>Their contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>below 16,450</td>
<td>no contribution</td>
</tr>
<tr>
<td>16,450</td>
<td>45</td>
</tr>
<tr>
<td>20,000</td>
<td>318</td>
</tr>
<tr>
<td>25,000</td>
<td>828</td>
</tr>
<tr>
<td>30,000</td>
<td>1,372</td>
</tr>
<tr>
<td>38,000</td>
<td>2,415</td>
</tr>
<tr>
<td>45,000</td>
<td>3,349</td>
</tr>
<tr>
<td>50,000</td>
<td>4,015</td>
</tr>
<tr>
<td>55,000</td>
<td>4,682</td>
</tr>
<tr>
<td>64,470 or more</td>
<td>5,945</td>
</tr>
</tbody>
</table>

The parental contribution cannot be more than the maximum grant that the student is entitled to and the contribution is reduced where the parents have other dependent children. In the case of married independent students, the spouse's contribution is similarly based on residual income. No contribution is required where the income is less than £13,015.

Students are allowed to receive a certain amount of income from various sources, e.g. scholarships or sponsorships, before this is taken into account for grant assessment purposes. Students who receive income in excess of these amounts have their grant entitlement reduced pound for pound.28

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27 DfEE Student Grants and Loans: A brief guide for higher education students 1997/98
28 Any income from casual or part-time work is disregarded.
Expenditure on mandatory awards made to students by LEAs in England and Wales in the 1995/96 academic year was £2,059 million of which £1,075 million was for maintenance grants.\textsuperscript{29} The parents of some 198,000 (33\%) dependent students were assessed as having to make a nil contribution to grant because their income was £15,510 or below. The parents of a further 149,000 (25\%) dependent students were required to make a contribution of between £45 and £1,000 because their income was between £15,510 and £25,300.\textsuperscript{30}

**Expenditure on maintenance element of mandatory awards**

<table>
<thead>
<tr>
<th>England and Wales: £ million</th>
<th>cash</th>
<th>1996/97 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987/88</td>
<td>496</td>
<td>748</td>
</tr>
<tr>
<td>1988/89</td>
<td>526</td>
<td>743</td>
</tr>
<tr>
<td>1989/90</td>
<td>587</td>
<td>775</td>
</tr>
<tr>
<td>1990/91</td>
<td>701</td>
<td>857</td>
</tr>
<tr>
<td>1991/92</td>
<td>813</td>
<td>934</td>
</tr>
<tr>
<td>1992/93</td>
<td>1,008</td>
<td>1,112</td>
</tr>
<tr>
<td>1993/94</td>
<td>1,098</td>
<td>1,177</td>
</tr>
<tr>
<td>1994/95</td>
<td>1,227</td>
<td>1,296</td>
</tr>
<tr>
<td>1995/96</td>
<td>1,119</td>
<td>1,149</td>
</tr>
<tr>
<td>1996/97 estimated outturn</td>
<td>1,017</td>
<td>1,017</td>
</tr>
</tbody>
</table>

Source: DfEE Departmental Report 1997 (Cm 3610) and earlier editions

**B. Student loans**

The operation of the loans scheme is currently governed by the *Education (Student Loans) Regulations* 1997\textsuperscript{31} in England and Wales; similar provisions exist for Northern Ireland and Scotland. The Regulations cover: the eligibility conditions for loans, loan rates, indexation, repayment requirements, deferment and cancellation of loans.

Students taking full-time courses of higher education below post-graduate level will usually be eligible for a loan if they are aged less than 50 when the course begins and have been ordinarily resident in the UK, the Channel Islands or the Isle of Man, for the three years before the start of the course. Applicants must have a bank or building society account; must not be in default on

\textsuperscript{29} The Secretary of State pays LEAs 100\% specific grant on expenditure that is properly incurred under the Regulations.  
\textsuperscript{30} HC Deb 31 July 1997 c.502W  
\textsuperscript{31} SI 1997/1675
repayments on a previous loan under the scheme; and must enter into a loan agreement by 31 July in the academic year.32

Students are not required to repay their loans until the April after they finish or leave their courses. Repayments are usually made in the form of fixed monthly instalments; most commonly 60 instalments over five years. Students may defer loan repayments for a year at a time if their income is not more than 85 per cent of national average earnings (£15,702 up to 31 July 1997). The Government announces the deferment threshold for each year in June.

Disabled borrowers may also have their repayments deferred if their income is above the deferment level and they have "major special costs" which are not covered by benefits received, or by their employers, and which take their income below the deferment threshold.

Loans are cancelled in the event of death and if unpaid because of deferment, unless the borrower is in default, the loan is cancelled after 25 years or when the borrower reaches the age of 50, whichever is the earlier.

The loan facility is not subject to a means test and is offered at a nil real interest rate. The maximum loan available in the current academic year in England and Wales is set out below. In the final year of study the loan facility is less than in other years because it is not meant to cover the summer vacation after graduation:

<table>
<thead>
<tr>
<th></th>
<th>full year</th>
<th>final year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students living away from</td>
<td>£2,085</td>
<td>£1,520</td>
</tr>
<tr>
<td>their parental home and</td>
<td>£1,685</td>
<td>£1,230</td>
</tr>
<tr>
<td>studying:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in London</td>
<td></td>
<td></td>
</tr>
<tr>
<td>elsewhere</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students living at their</td>
<td>£1,290</td>
<td>£945</td>
</tr>
<tr>
<td>parental home</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The scheme is administered by the Student Loans Company Ltd (SLC) which is based in Glasgow. The SLC is wholly owned by the Government; funding for both loans and operations is provided by Government and, accordingly, the company makes neither a profit nor a loss.

32 HC Deb 3 December 1991 c.92W
Within the limits of the financial memorandum between the SLC and Government the company is required to operate as an independent company and, as far as possible, commercially.\textsuperscript{33}

In the academic year 1995/96 some 946,000 students were eligible for loans of whom 560,000 took up their entitlement. This represented a take up rate of 59\% and an increase in loans paid of 8\% over the 1994/95 academic year.\textsuperscript{34} The average individual loan value in 1995/6 was £1,252; by the end of the 1995/96 academic year the total loans paid out under the scheme had reached 2.3 million.\textsuperscript{35}

At 31 March 1997 49 per cent of graduates were deferring repayment of loans amounting to around £465 million; 9.3 per cent of graduates, who owed some £10.8 million, were in default or in arrears.\textsuperscript{36}

On 17 November 1995 the then Government presented the \textit{Education (Student Loans) Bill}; it received Royal Assent on 29 April 1996.\textsuperscript{37} The aim of this legislation was to amend the \textit{Education (Student Loans) Act 1990} to enable the payment of Government subsidies to private sector institutions that would, in turn, provide loans to students in higher education. The SLC was to continue to provide loans to students who applied to it in preference to private sector bodies.

On 11 September 1996 Gillian Shepherd announced that the proposed 'twin-track' scheme would not proceed, she stated:\textsuperscript{38}

'I am extremely grateful to Barclays, NHL and the Clydesdale for taking the trouble to put forward bids and for taking part in detailed discussions with us. In the event we have not been able to agree a deal which would meet their requirements at the right price for the taxpayer. But our negotiations with them and others have been vital in demonstrating the feasibility of private sector involvement in student loans and in preparing this new way forward.'

This 'new way forward' was to involve the sale of some of the existing student loan debt and the contracting out of the administrative work of the SLC.\textsuperscript{39}

\textsuperscript{33} SLC Annual Report 1994, Chairman's statement
\textsuperscript{34} SLC Annual Report 1996, p.9
\textsuperscript{35} ibid
\textsuperscript{36} HL Deb 19 June 1997 c.125WA
\textsuperscript{37} see Library Research Paper 95/115
\textsuperscript{38} DfEE press notice 294, 11 September 1996
\textsuperscript{39} ibid
or desirable function for the public sector to carry out. The Government's policy of transferring provision from the public sector to the private sector has resulted in significant improvements in effectiveness and customer service.

It has also delivered the benefits of risk transfer to the private sector and longer term benefits to the economy as a whole from reducing the size of the public sector. Such changes come in part from dynamic changes which are often hard to identify in advance and impossible to quantify.

Against this background, we have been holding discussions in recent months with a number of financial institutions on the twin-track scheme. We have concluded that in the immediate future our long term goals can best be achieved through the sale of part of the existing student debt and the strategic contracting out of the Student Loans Company.

We believe this will pave the way for private sector lenders to take on responsibility for the provision of student loans.

There is already some £2 billion in outstanding loans, due for repayment over many years, together with further sums from loans in the years ahead. Selling some of this debt will bring benefits from transferring risk to the private sector, while the strategic contracting out of the current loans administration should in turn lead to real improvements in service and effectiveness.

In line with our longer term policy objective of transferring the student loans activity into the private sector, it is our firm intention to go down this route and the Government's policy will be to accept the most competitive private sector tender or tenders. The financing costs involved will reflect the transfer of risk to the private sector.

The new Government has proceeded with the sale of the student loan portfolio. The Education (Student Loans) Bill 1997 was presented to Parliament on 10 July 1997; the current Secretary of State for Education and Employment made the following statement on the Bill's purpose:

'The sale of student loans is a critical element in meeting the Government's manifesto pledge to work within spending plans already announced for the next two years. This Bill smooths the path for the sales. It puts on a clearer footing my power to make subsidy payments to buyers and provides safeguards for the buyers and the taxpayer. Given the support of the Opposition for this measure I expect the House of Commons to see it as non controversial.'

C. Access Funds

Access funds enable educational institutions to provide discretionary payments to students who have financial difficulties and for whom the grant and loan are not enough. From the outset it was made clear that these funds were meant to help only in cases of extreme difficulty.

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40 see Library Research Paper 97/91
41 DfEE press notice 200, 11 July 1997
Access funds are allocated to individual institutions by the Higher Education Funding Council. Each institution is responsible for deciding which students should receive payments and for all other matters relating to the administration of the funds in accordance with the DfEE's conditions. In the 1996/97 academic year the amount available for eligible students in England and Wales was around £23 million.
IV  Evidence of student hardship

Reports of student hardship quickly followed the changes in financial support for students introduced in the 1990/91 academic year. These reports have intensified with reductions in the level of grant available despite increases in the level of loans. Various studies have been carried out into the level of student debt/hardship and its consequent impact on drop out rates and access to higher education.

Between February and May 1996 the Policy Studies Institute (PSI) carried out interviews about student finances with 1,971 students (59% response rate); the results of this research were published later in 1996. On student income and changes in student income since 1988/89 they found:

"The average student income in the 1995/96 academic year was £4,907; three-fifths of which came from various sources of student support (grant, parental or spouse's contribution, student loan or Access/Hardship Funds), the remaining two-fifths from a range of other sources.

Since 1988/89 younger students' incomes have kept pace with inflation, but not with average earnings. This is largely because they have earned more money, have borrowed against future earnings or withdrawn money they had put by. By contrast, single, mature students' incomes have fallen slightly in real terms largely because of the fall in grants with the ending of the Older Student's Allowance.

There has been a marked change in the composition of student income since 1988/89. The proportion of support available through grants has (as a matter of policy) declined, with a corresponding increase in the proportion from student loans. At the same time, the proportion of income earned, borrowed from commercial creditors or withdrawn from savings has also increased."

A 1993 survey of students carried out by Barclays Bank found an average increase in student debt levels of 22% since 1992. The then Government noted that this survey presented some interesting data on student debt, but stated: "its findings are not truly representative and cannot be extended to all students." The same survey has been repeated annually; in 1994 it found that average debt levels had risen by 13% and by 14% in 1995. The 1996 survey recorded an average debt amongst students of £1,982 representing a 32% increase over the average debt recorded in the 1995 survey (£1,502).

In June 1995 the Committee of Vice-Chancellors and Principals (CVCP) published a survey of students who had left their courses during the academic year. The survey found an overall increase in the numbers leaving their courses (a total of 5% of students dropped out in 1992/93)

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42 Student Finances: Income, Expenditure and Take-up of Student Loans
44 HL Deb 26 July 1993 c.80WA
and an increase in those giving a 'non-academic' reason for leaving (3% of the total gave a non-academic reason). The CVCP concluded:\footnote{CVCP Press Release 28.6.95}

"The report suggests that the increasing financial pressures faced by some students may aggravate other difficulties. Although it is not possible to calculate precisely the importance of financial hardship in a decision to leave, anecdotal evidence strongly suggests that financial difficulties are responsible for much of this increase in students leaving courses."

Similarly, the National Union of Students (NUS) 1995 survey of student finances\footnote{Value for Money Survey for the Academic Year 1994/95} found that 3% of students often (once a month) considered dropping out of their course because they faced financial difficulties.

The 1996 PSI survey identified those groups of students who appeared to be showing the greatest signs of financial strain using three indicators, ie the proportion receiving assistance from an Access or Hardship Fund;\footnote{Colleges and universities have Hardship Funds for students in financial difficulty; money for these funds is raised locally either by the institution or by the students' union. Payments are discretionary.} levels of arrears on bills and other regular commitments and very large amounts owed relative to levels of savings.\footnote{Student Finances pp 91-7} The survey found that on all three measures lone parents stood out as exhibiting very high levels of financial strain:

\begin{itemize}
  \item 26% of them had received help from an Access or Hardship Fund, compared with 6% of all students;
  \item they owed, on average, £340 in arrears, more than ten times the average amount for all students;
  \item and they owed creditors a total of £3,148 after taking savings into account.
\end{itemize}

Other mature students who were either single and had no children or who lived with a partner who did not work were also found to show above average levels of strain on all three indicators. Students who did not qualify for a grant showed much less evidence of strain and, amongst grant recipients, the survey found that there were notable differences depending on the type of grant received:
The table shows that students with a grant who lived at home exhibited less evidence of financial strain than those living independently; amongst independent students, those living in London showed higher levels of financial strain. The survey found that no clear picture emerged to suggest that students were not facing difficulty because they were not receiving their assessed parental contributions in full.

The previous Government consistently refuted suggestions that the system of financial support for students was inadequate. On publication of a 1992/93 study of student income and expenditure, commissioned by the Department for Education (DFE), the Government made the following statement:49

At the same time, the report records the reduced financial burden on parents, whose contribution to younger students' income has on average fallen by about a fifth in real terms since 1988-89. On average, parents have continued to pay in full the contribution expected of them, with most paying more and only about a third paying less.

The Government particularly welcome the survey’s finding that a higher proportion of students from lower social groups are entering higher education. The fears of those who said that the introduction of loans would deter these groups have not been realised.

A system of loans for maintenance rates is based on the recognition that everyone's spending needs are different. The accelerated switch from grant to loan which my right hon. Friend announced on 30 November will enhance still further the flexibility of our system of student support.

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49 HC Deb 16.12.93 c.774W
A similar survey carried out in 1989 found that student expenditure exceeded income by some 14%; the recent survey found that this imbalance had increased to 20% but concluded: \(^{50}\)

"This may not imply anything about a change in the amount of income students have to cover their expenditure. Some of the expenditure figures may be overestimates and there were less data available in the present survey as only 75% of students filled in diaries compared with 85% in 1989."

In response to a national NUS demonstration (November 1994) against the erosion of the student grant, the then Further and Higher Education Minister, Tim Boswell, issued the following statement: \(^{51}\)

"The NUS must learn to get its facts right.

Fact - Government support for students has risen by over 40% since 1989. This year, the main rates of grant and loan have risen by 4%, and has fully matched the rate of inflation.

Fact - there is no evidence whatsoever of widespread student hardship amongst those students who take out Government subsidised student loans. Being a student was never easy. The NUS is simply scaremongering.

Fact - student loans are a good investment and a good deal. Students pay nothing while at college, nothing if unemployed, and nothing until they are earning almost £14,600 per year. Graduates repay in real terms only what they borrow. And the Government keeps the scheme under review to ensure that the level of monthly repayments remains manageable.

Fact - student loans are enabling more young people to go to university than ever before. It is right for students to invest in their own future - after all, they get the most out of higher education. Students entering higher education from less well-off backgrounds have shifted from being the minority in 1988 to being in the majority now.

The NUS wants to turn back the clock to a time when universities were for the lucky few. Those days have gone I am glad to say. It is time the NUS modernised itself."

In June 1995 Mr Boswell once again defended the system of student grants and loans on the ground that participation in higher education had increased: \(^{52}\)

"The present system of student grants and loans introduced in 1990 has been accompanied by increased participation. The number of home full-time undergraduates in Britain increased by over 50 per cent in the five years between 1987-88 and 1992-93. Some 30 per cent of young people now enter higher education, compared with only 15 per cent in 1987. The number of mature home entrants to full-time undergraduate courses also rose by some 125 per cent between 1987-88 and 1992-3."

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\(^{50}\) section 3.4

\(^{51}\) DFE Press Release 280/94, 9.11.94

\(^{52}\) HC Deb 13.6.95 c.484W
V The Dearing inquiry

The National Committee of Inquiry into Higher Education (the Dearing Committee) was appointed with bipartisan support by the Secretaries of State for Education and Employment, Wales, Scotland, and Northern Ireland on 10 May 1996. It was charged with making recommendations on how the purposes, shape, structure, size and funding of higher education, including support for students, should develop to meet the needs of the UK over the next 20 years. The Committee published its report in July 1997.

The Committee looked at both the short and long term funding requirements of the higher education sector and estimated a need for an additional £350 million in 1998/99 and £565 million in 1999/00. Changes to student support levels were identified as necessary in the short term and in the long term the Committee noted that maintenance support for students should be improved, including larger Access Funds.

The Committee identified that a student support system for the future should, as far as possible:

- be equitable, and encourage broadly based participation;
- require those with the means to do so to make a fair contribution to the costs of their higher education;
- support lifelong learning, so that choices between part-time and full-time study and for discontinuous study are financially neutral;
- be easy to understand, administratively efficient and cost-effective.

In regard to student support, the Committee recommended that the Government should introduce, by 1998/99, income contingent terms for the payment of any contribution towards living costs or tuition costs sought from graduates in work:  

'Although the average graduate receives a good financial return from higher education, some will experience periods of unemployment, some will need to take career breaks, and others will have low paid jobs. If graduates are to be asked to make an increased contribution they

53 Higher Education in the Learning Society (summary report) para 85
54 ibid para 86
55 ibid para 95
56 ibid para 98
need the reassurance that they will not be faced with unreasonable payment burdens. This can be achieved by introducing payment mechanisms which relate the annual level of payment to a graduate’s income: income contingent loans.’

The Committee then went on to discuss the way in which an income contingent contribution scheme should operate. The idea of a graduate tax, under which graduates are liable to pay an income tax supplement, was rejected despite its potential for securing substantial additional resources for higher education. It was felt that the scheme’s lack of means to enable individuals to pay their contribution up-front would not deliver any additional funding in the short term. A graduate tax was also viewed as inequitable as it would place an open-ended obligation on graduates; those graduates who were particularly successful would contribute larger sums.

A deferred contribution scheme was viewed by the Committee as ‘worth further exploration for the medium term’. This scheme would involve a student in making a commitment to contribute a certain percentage of their future income with the total potential contribution being limited to the cost of the higher education programme taken or some defined percentage of that. The terms of the payments would be set so that the average graduate would, in practice, pay only around 25 per cent of the cost.

The Committee examined a range of options for supporting graduates with loans to be repaid on an income contingent basis once the graduate is in work, and also looked at whether graduates should make a contribution to their tuition costs. The options considered are summarised in the table below:

<table>
<thead>
<tr>
<th>Living costs support</th>
<th>Tuition contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing system</td>
<td>50% means tested grant 50% loan</td>
</tr>
<tr>
<td>Option A: Maintenance contribution</td>
<td>100% income contingent loan</td>
</tr>
<tr>
<td>Option B: Tuition contribution</td>
<td>50% means tested grant 50% income contingent loan</td>
</tr>
<tr>
<td>Option C: Means tested tuition contribution</td>
<td>100% income contingent loan</td>
</tr>
<tr>
<td>Option D: Tuition contribution with restoration of maintenance grants</td>
<td>100% means tested grant</td>
</tr>
</tbody>
</table>

57 ibid para 100  
58 ibid papa 101  
59 ibid p.32
Each of these options was reviewed against the impact it would have on: individuals and their families at the time of study; graduates; different social groups; and the funds generated for higher education.

The following table from the Dearing report summarises the range of parental contribution required for a student who studies away from home outside London for three years. Rounded figures of £10,000 for the maximum support for living costs over three years, and £1,000 a year for a tuition contribution, are used.60

<table>
<thead>
<tr>
<th></th>
<th>Existing system</th>
<th>Maintenance contribution A</th>
<th>Tuition contribution B</th>
<th>Means tested tuition contribution C</th>
<th>Tuition contribution with restoration of maintenance grant D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher income families (£)</td>
<td>5,000</td>
<td>0</td>
<td>5,000</td>
<td>3,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Middle income families (£)</td>
<td>2,000</td>
<td>0</td>
<td>2,000</td>
<td>1,200</td>
<td>4,000</td>
</tr>
<tr>
<td>Lower income families (£)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The next table shows the maximum graduate commitment that would be incurred by a student who studied for three years:61

<table>
<thead>
<tr>
<th></th>
<th>Existing system</th>
<th>Maintenance contribution A</th>
<th>Tuition contribution B</th>
<th>Means tested tuition contribution C</th>
<th>Tuition contribution With restoration of maintenance grants D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,000</td>
<td>10,000</td>
<td>8,000</td>
<td>10,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

The Committee concluded that none of these commitments would be unmanageable for graduates so long as income contingent payment mechanisms were in place.62

The next table from the report shows how the various options would redistribute public subsidies among families of different incomes over a three year period:

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60 ibid
61 ibid p.33
62 ibid para 106
The Committee noted that it was reluctant to see any reduction in public subsidies being concentrated on students from the poorest families and even more reluctant to see the funding released by this, and more, being used to increase the subsidies for others.63

The final table (below) assesses the financial effects of the various options compared to the existing arrangements:

<table>
<thead>
<tr>
<th>Option Description</th>
<th>Students from high income families</th>
<th>Students from low income families</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: Maintenance contribution</td>
<td>Increased public subsidy through availability of additional £5,000 living cost loans at a subsidised rate.</td>
<td>Decreased public subsidy as living costs grants of £5,000 replaced by loans at a subsidised rate.</td>
</tr>
<tr>
<td>B: Tuition contribution</td>
<td>Decreased public subsidy through £3,000 tuition contribution backed by a subsidised loan.</td>
<td>Decreased public subsidy through £3,000 tuition contribution, backed by a subsidised loan.</td>
</tr>
<tr>
<td>C: Means tested tuition contribution</td>
<td>Depends precisely on the balance between the increased public subsidy on living cost loans and the level of the new tuition contribution.</td>
<td>Decreased public subsidy as living cost grants of £5,000 replaced by loans at a subsidised rate.</td>
</tr>
<tr>
<td>D: Tuition contribution with restoration of maintenance grant</td>
<td>Decreased public subsidy through loss of £5,000 subsidised loans for maintenance and a new tuition contribution of £3,000 although the latter is mitigated by access to a subsidised loan.</td>
<td>Depends on the precise balance between increased public subsidy in 100 per cent grant for living costs and loss of public subsidy in having to contribute £3,000 to tuition backed by a subsidised loan. Likely to be an increase in public subsidy.</td>
</tr>
</tbody>
</table>

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63 ibid para 108
## A. Cash accounting

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 8</th>
<th>Year 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: Maintenance contribution</td>
<td>(200)</td>
<td>(300)</td>
<td>(400)</td>
<td>(50)</td>
<td>800</td>
</tr>
<tr>
<td>B: Tuition contribution</td>
<td>50</td>
<td>100</td>
<td>150</td>
<td>500</td>
<td>1,100</td>
</tr>
<tr>
<td>C: Means tested tuition contribution</td>
<td>0</td>
<td>0</td>
<td>50</td>
<td>400</td>
<td>1,450</td>
</tr>
<tr>
<td>D: Tuition contribution with restoration of maintenance grant</td>
<td>200</td>
<td>300</td>
<td>450</td>
<td>650</td>
<td>600</td>
</tr>
</tbody>
</table>

## B. Resource accounting

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 8</th>
<th>Year 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: Maintenance contribution</td>
<td>350</td>
<td>500</td>
<td>700</td>
<td>450</td>
<td>100</td>
</tr>
<tr>
<td>B: Tuition contribution</td>
<td>350</td>
<td>550</td>
<td>750</td>
<td>700</td>
<td>900</td>
</tr>
<tr>
<td>C: Means tested tuition contribution</td>
<td>550</td>
<td>850</td>
<td>1,100</td>
<td>950</td>
<td>750</td>
</tr>
<tr>
<td>D: Tuition contribution with restoration of maintenance grant</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>300</td>
<td>800</td>
</tr>
</tbody>
</table>

Notes: Figures in brackets are net additional costs to the Exchequer.

Cash accounting counts all loans advanced as public expenditure in the year they are made and all repayments as negative public expenditure in the year they are received. Resource accounting counts as public expenditure only the implied subsidies in the loans (including interest subsidies, provision for default and other kinds of non-payment).

The conclusion reached by the Committee on the basis of these figures was that none of the options would provide the necessary additional funding for higher education in the longer term. It felt that any option that _would_ deliver the resources would place unacceptable burdens of graduates and on families of modest means, or would lead to unacceptably high levels of graduate debt. 64

The Committee decided that Option B offered 'the best balance between seeking a continuing contribution from higher income families and from graduates in work'. The option of seeking an increased contribution from graduates towards living costs was rejected on the grounds that. 65

- it takes away subsidies from the poorest families and redirects them to others;
- it increases public expenditure in the short term;
- it releases modest resources for higher education in the long term.

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64  ibid para 110
65  ibid para 111
The Committee strongly favoured options that would involve a contribution to tuition costs because:

- students are likely to be more demanding of institutions if they are contributing;
- it would help to level the playing field between full and part time study and would bring full time higher education students more in line with adult further education students;
- if graduates are contributing to the costs of their tuition there will be a clearer expectation that the funding released should be spent on higher education.

The Committee recommended that any tuition contribution should be a flat rate one of around 25 per cent of average tuition costs each year. It noted that there may be a need for bursary or scholarship arrangements for subjects such as medicine and teacher training where courses tend to be longer than three years.

The Scottish Committee's report, *Higher Education in the learning society*, agreed with the introduction of a contribution to tuition fees of around £1,000 per year but recommended that the contribution from Scottish graduates for qualifications gained in Scotland (usually of four years duration) should be equitable with that paid for comparable qualifications gained elsewhere in the UK.

The Dearing Committee also recommended the establishment of a unified Student Support Agency with responsibility for:

- assessing the eligibility of individuals for various kinds of public support;
- administering graduate contributions on an income contingent basis;
- means testing and paying grants for students' living costs;
- making per capita tuition payments to institutions according to the number of students they enrol.

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66  ibid
67  ibid para 112
68  This Committee was set up alongside the National Committee to advise on the distinctive nature of the system in Scotland and on particular Scottish issues that should be taken into account. It was chaired by Ron Garrick.
69  Recommendation 29 of the report of the Scottish Committee
70  *Higher Education in the learning society* (summary report) p.36
VI The Government's proposals

David Blunkett responded to the publication of the report of the National Committee of Inquiry into Higher Education with the following statement on student support:\textsuperscript{71}

\textbf{Mr. Blunkett:} With permission, I wish to make a statement about the publication today of the report of the National Committee of Inquiry into Higher Education.

The Government are very grateful - as I am personally - to Sir Ron Dearing, the chairman of the inquiry, and to the 16 members of his committee. Their work has been completed in record time, and in a manner for which we are all extremely grateful.

Today, the Government announce a new deal for higher education, involving new funding for universities and colleges, free higher education for the less well-off, no parent having to pay more than at present and a fair system of repayment linked to ability to pay.

Our university system is in crisis. Our competitors in north America and the far east-the Asian tigers-have many more young people in higher education. In the United States, the proportion is about 40 per cent., and in Canada it is 44 per cent. Those countries recognise the need to invest in their people, mirroring the investment in fixed capital and equipment of the past. Such countries are expanding higher education rapidly. Business in this country recognises that need as well.

One young person in three now enters higher education, compared with one in 20 in the early 1960s. Half the students in higher education are over the age of 21, and a third of them are part time. Public funding per student has fallen by about 25 per cent. over the past decade, with consequences for the quality of teaching, seminar work, materials and investment. Yet the increase in participation among socio-economic groups A to C has been double that of groups D and E. The present system is clearly not working.

The same level of funding for students today as existed in the 1970s would cost the taxpayer an extra £4 billion per year. That level, with increased participation towards 40 per cent would cost an additional £2 billion by 2015. Taken together, such changes would add up to 3p in the pound to the basic rate of tax.

The previous Government placed a cap on the expansion of higher education, created the present mix of loans, grants and parental contributions and failed to address the financial implications of the further development of the sector. However, with cross-party agreement, they established the Dearing inquiry, accepting that the status quo was no longer an option. Everybody recognised that our higher education system was in dire need of attention. It has faced both funding problems and huge anomalies.

Tuition is free for some, but 500,000 part-time students in higher education and many of the 2 million further education students are expected to pay fees and receive little or no maintenance support.

The committee was given the task of ensuring maximum participation in higher education, enhancing standards and quality and ensuring fair and transparent means of student support, while obtaining value for money.

The Government endorse the aims and purposes of higher education set out by the committee, which builds on the Robins committee report of 30 years ago. "Higher Education in the Learning Society" is a coherent and thoughtful report that provides a vision of the future.

The committee's recommendations cover the local and regional role of higher education, the qualifications framework, academic standards, the role of information technology, management and governance of institutions and the quality of teaching and research. We shall consider those recommendations over the summer.

We welcome the committee's proposals for widening participation, including its emphasis on groups that are currently under-represented. Later this year, we shall set out our comprehensive response in a White Paper on lifelong learning. Today, I shall give an initial response to set out a clear direction.

\textsuperscript{71} HC Deb 23 July 1997 cc 949-951
The committee recognises that we cannot afford further improvement or expansion of higher education on the basis of current funding arrangements. Students should share both the investment and the advantages gained from higher education: rights and responsibilities go hand in hand. The investment of the nation must be balanced by the commitment of the individual: each will gain from the investment made. Graduates gain considerably from higher education. Compared with non-graduates, graduates see their earnings rise on average by as much as £4,000 for every £20,000 of earnings.

Dearing believes that the present loan system is unfair, unworkable and ineffective. He recommends that loans should be paid back over a longer period to help poorer students; that parents should not be asked for higher contributions; that a £1,000 tuition fee for everyone which is roughly 25 per cent. of the average cost of a course-should be added to the loan; and that some element of maintenance grant should be retained.

We accept a great many of the broad principles laid out by Sir Ron. We intend to build on the committee's preferred option, and to take it together with the proposal in our policy statement, "Lifelong Learning".

We must develop a more efficient system than the present confusion of loans, grants and parental contributions. For lower-income families, instead of the remaining grant, students' living costs will be covered by a maintenance loan of the same value as the current grant and loan package. An additional maintenance loan equivalent to the tuition fee will be available to students from higher-income families. We shall, however, ensure that the poorest students do not have to pay fees. That is the best way of encouraging access to free education for the least well-off. We are equally determined to ensure that there is no increase in parental contributions.

Our response to Dearing ensures that fees and maintenance together do not place an increased burden on middle-income families. At present, parents are expected to contribute up to £2,000 for maintenance.

The committee proposes that repayments should be made on an income-contingent basis. We accept that, but the committee's funding options also assume that repayments should begin when a graduate's income reaches £5,000. We do not believe that that is acceptable. We shall consult on a higher starting point for repayment. We also believe that repayments should be over a longer period and set at a lower level of annual repayments than is proposed by the committee. A supplementary hardship loan of £250 per year will also be available.

We are also minded to accept the committee's recommendation that students with special needs should receive the specific grant on a non-means-tested basis. We shall consider the need for appropriate measures, such as bursaries for students entering teacher training and some health and social care professional courses. Employers in other fields may wish to consider similar measures.

We intend that these proposals should apply to all new students and we are examining how best such changes might be phased in. In addition, I assure the House today that top-up fees play no part in the Government's proposals. No university or college should proceed on the basis of introducing such additional fees.

The Government will also be considering how the new arrangements will apply to the particular situation of higher education in Scotland.

The proposals will mean more money for universities. The Government will ensure that savings are used to improve quality, standards and opportunity for all in further and higher education. Change is essential if we are to maintain the skills and research base of our country. We cannot defer action to another generation. Our preferred solution secures equity, access, quality and accountability. Our proposals retain the principle that repayments should be made on the basis of future income, not present circumstances.

Today's report presents major challenges which every Member of this House will have to address. I recommend to the House that we take on this challenge with clarity and courage. To do otherwise would be to betray the next generation. Building on the report, we shall produce a system that will be fair, and will be good for students, for parents, for the universities, for business and for Britain.

This Government are facing the future with confidence. We have the will to take the difficult decisions and to ensure the investment needed for the future of our nation.
Since this announcement certain aspects of the Government's proposals have been clarified. Students whose gross family income is below around £23,000 a year will be exempt from paying tuition fees; it has been estimated that this exemption will affect about 30 per cent of students (where parental income is taken into account).72 Those with a gross family income of less than about £35,000 a year will pay less than £1,000 (estimated to affect a further third of students).73 Loans will not be available from the Government to cover the tuition fee contribution but increased loans for maintenance will be available. The contribution to tuition fees will be payable direct to universities and colleges and they will decide exactly when this money should be requested. The Government has stated that ‘no student or parent will have to make a higher up-front contribution than under the current arrangements. For example, a parent who under the current system would contribute £1,500 a year towards living costs will under the new arrangements contribute £1,000 to fees and £500 to living costs.’74

Students who start their courses next year will be eligible for a maintenance grant (depending on income) and a support loan with an interest rate linked to inflation. The rates of maintenance grant and support loan for 1998/99 have not yet been announced but ‘the value of the grant and loan when taken together will be similar to this year.’75 From 1999/2000 maintenance grants will be replaced entirely by income-related loans; students’ entitlement to financial support will continue to be assessed against family income but any support that they receive will be given in the form of a loan.

After graduation students will not begin to repay the financial support they have received until their income is at least £10,000 per annum. The level of repayments will depend on the graduate's income; repayments are to be based on a percentage of the graduate's marginal income over £10,000. The table below gives illustrative examples of weekly repayments that will be required at different levels of income:76

<table>
<thead>
<tr>
<th>Annual income £</th>
<th>Weekly repayment £</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000</td>
<td>0</td>
</tr>
<tr>
<td>12,000</td>
<td>3</td>
</tr>
<tr>
<td>15,000</td>
<td>9</td>
</tr>
<tr>
<td>17,000</td>
<td>12</td>
</tr>
<tr>
<td>20,000</td>
<td>17</td>
</tr>
<tr>
<td>25,000</td>
<td>26</td>
</tr>
</tbody>
</table>

The length of time over which graduates will repay their financial support will depend on their income and on the total amount borrowed. Some graduates, for example those whose income never rises above £10,000 per annum, will never have to make any repayments. The

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72 Investing in the future: Supporting Students in Higher Education, DfEE, September 1997
73 ibid
74 ibid
75 ibid
76 ibid
rate of interest charged is to be linked to inflation and the Government is considering whether repayments can be made through the Inland Revenue.\textsuperscript{77}

David Blunkett defended the abolition of maintenance grants at a Seminar of University Vice-Chancellors in October.\textsuperscript{78}

'As for loans, graduates will repay nothing until their income reaches £10,000 a year. A graduate earning £17,000 will pay about £12 a week. Many earning under £20,000, and some earning as much as £27,000, will pay less a week than under the current system, and the average repayment period will be much longer. Compared with those without degrees, graduates on average see their earnings rise by as much as £4,00 for every £20,000 of earnings. As graduates benefit, we believe that it is right that they should share the cost.'

It has been agreed that students who had obtained a deferred entry place for university in 1998 (often referred to as 'gap-year students') by 1 August 1997 will be exempt from tuition fees for the duration of their courses and will have the same maintenance arrangements as in 1997.\textsuperscript{79} Students who are on a foundation year in 1997/98, which forms an integral part of their HND or degree course, will also be exempt from tuition fees and the maintenance arrangements in 1998/99. Students on access courses who begin a degree course in 1998/99 or 1999/2000 will be subject to the new arrangements in those years. Students already on a course who transfer to a different course in 1998/99 or later will continue to get support under the current arrangements provided that the new course is designated for mandatory awards and therefore attracts a grant and a loan.

Students studying for the Post-Graduate Certificate in Education (PGCE) will be exempt from the £1,000 tuition fee contribution as 'the Government has a key interest in the effective training of teachers and in maintaining a healthy supply of teachers.'\textsuperscript{80} Students on medicine and dentistry courses in England and Northern Ireland will be treated in the same way as other students for the first four years of their courses. In year five and beyond they will not have to pay tuition fees and non-repayable bursaries, assessed against family income, will be available to help meet living costs.\textsuperscript{81} The maximum tuition fees contribution, subject to assessment against family income, will be £500 in a year when a student spends the entire year of a course on a sandwich placement or in full-time study abroad.\textsuperscript{82}

\textsuperscript{77} ibid
\textsuperscript{78} DfEE press notice 322/97, 15 October 1997
\textsuperscript{79} DfEE press notice 256/97, 13 August 1997
\textsuperscript{80} Investing in the future: Supporting Students in Higher Education, DfEE, September 1997
\textsuperscript{81} ibid
\textsuperscript{82} ibid
The Scottish Office has announced that Scottish undergraduates will not be charged the contribution to tuition fees in the additional (Honours) year of their courses. However, on the question of non-Scottish students studying in Scotland it has stated: ‘It will be a matter for the Student Support Agencies elsewhere in the UK whether they give comparable treatment to their students coming to study in Scotland. Many of those with A levels, could be admitted into the second year of Scottish courses and complete their degrees in three years. At present, only 10 per cent of this group take up the option.’

Access Funds are to remain in existence and a supplementary loan of £250 a year is to be introduced. This will be available on a discretionary basis to students in particular difficulty. From 1998/99 the disabled students' allowances that help to meet course related costs arising from a disability will no longer be income related. This assistance will continue to be in the form of a grant. The Government is 'also considering what other special provision should be made for students in certain circumstances in order to make the arrangements as fair as possible.'

In 1998/99 LEAs will retain responsibility for means testing students to determine the level of contribution, if any, to tuition fees; the administrative arrangements for later years are still under consideration.

The Government has stated that 'fee income raised from students in 1998/99 will be reinvested in colleges and universities, to improve quality, standards and opportunity for all in further and higher education.' On the question of expected savings from the abolition of student grants the Government has said:

Mr. Willis: To ask the Secretary of State for Education and Employment what estimate he has made of the annual saving to his Department from the abolition of mandatory student grants; and if these sums will be applied to higher education.

Dr. Howells: Under the proposals announced by my right hon. Friend the Secretary of State on 23 July, mandatory student grants will be replaced with increased loans. In the short term, therefore, public expenditure on student support will not be reduced and there will be no savings on the basis of current accounting rules. Savings will be realised in the longer term as graduates begin to make repayments and will be used to improve quality, standards and opportunities for all in further and higher education.

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83 Scottish Office press notice 1581/97, 27 October 1997
84 ibid
85 *Investing in the future: Supporting Students in Higher Education*, DfEE, September 1997
86 ibid
87 HC Deb 27 October 1997 c.680W
88 *Investing in the future: Supporting Students in Higher Education*, DfEE, September 1997
89 HC Deb 27 October 1997 c.678W
VII Responses

A. Access to higher education

Opposition to the introduction of tuition fees and the abolition of maintenance grants has focused on the impact that this is likely to have on access to higher education. It is suggested that the means testing of tuition fees will not make up for the loss of maintenance grants to students from less well off families. A *Guardian* article assessed the impact of the proposed changes as follows:90

>'The net effect of these grant and fee changes is that richer students will graduate after a typical three-year degree course with a state-organised debt worth £8,055 (£9,255 in London). This will be £3,000 more than under the present arrangement. But for the poorest student outside London, the state-organised debt after a three-year course will be £10,320 - £5,265 more than it is now. And for their counterparts at universities in London, the 'official' debt will be £12,735 - £6,480 more than now. In practice the debts may be larger. Some students will have taken the extra £250 hardship loans being offered by the Government. Others will have run up additional debts with the commercial banks. And the sums will be commensurately greater for many on courses lasting longer than three years unless they benefit from concessions mooted for trainee doctors and teachers.'

The authors of the article went on to conclude that 'it is clear that students from working class homes will graduate owing a lot more than those from middle-class backgrounds. This is a fundamental departure from past policy objectives and it does not fit snugly with the Government's aim of increasing access to higher education for the disadvantaged.'91

The Government's proposals on student support differ from Dearing's recommendations in so far as the Committee recommended the retention of a 50 per cent means tested grant and a 50 per cent loan, the latter to be repaid on an income contingent basis. The Committee noted that it 'would be particularly reluctant to see any reduction in public subsidies being concentrated on students from the poorest families, and even more reluctant to see the funding being released by this, and more, being used to increase the subsidies for others.'92

The reported 'scramble' for places in higher education for the current academic year has been cited as evidence that the Government's proposals will deter potential students from entering higher education in the future.93 University admissions statistics reportedly show a huge increase in the number of people applying to join courses in the 1997/98 academic year; it is

90 'A learning curve too steep', John Carvel and Ewen MacAskill, 30 September 1997
91 ibid
92 *Higher Education in the learning society* (summary report), para 108
93 'Lessons on fees', *Guardian*, 24 September 1997
assumed that they are trying to avoid the imposition of fees. By September 1997 over 312,000 people had gained university places, up 39,000 on September 1996.\textsuperscript{94} By comparison, the Universities and Colleges Admissions Service (UCAS) is reported to have stated that applications for 1998/99 in all academic subjects except agriculture have fallen.\textsuperscript{95}

Recently published Government funded research by the Policy Studies Institute (PSI) into student loans found that female and Asian students were less likely than other groups to take out student loans.\textsuperscript{96} The PSI’s report, which is based on a 1996 survey of 1,971 students in 72 institutions of higher education, found that many students declined a loan because of fear of debt. This has reinforced the view that the abolition of the maintenance grant will have a deterrent effect:\textsuperscript{97}

‘Now that a much greater proportion of student finances is to come from loans, these negative attitudes towards borrowing may deter some groups of young people from entering higher education.’

However, the researchers also noted that poorer students were more likely than their better-off counterparts to take out a loan and suggested that reluctance to take out loans may not, therefore, be based on income alone.

The National Union of Students (NUS) has stated that it is totally opposed to the introduction of any form of student contribution to fees. On access to higher education the NUS has said:\textsuperscript{98}

‘The Committee found that despite the rapid expansion of higher education, lower socio-economic groups are significantly under represented. Since expansion began rates of participation by higher socio-economic groups (I,II and IIIa) and lower socio-economic groups (IIIm, IV and V) have remained constant, around 75:25 for the pre 1992 universities while the new universities have a mix of 68:32.

The inability to increase the proportional participation of lower socio-economic groups needs to be addressed as this represents the greatest single failure of our tertiary education system.

NUS, along with certain vice-chancellors and many other interested groups, believes that tuition fees will prevent these ratios becoming more equal and may well further deter currently under-represented groups from entering higher education.’

\textsuperscript{94} ‘Race to beat fees continues unabated’, \textit{TES}, 19 September 1997
\textsuperscript{95} ‘Fall in applications’, \textit{The Times Higher}, 24 October 1997
\textsuperscript{96} \textit{Student Loans: who borrows and why?}, October 1997
\textsuperscript{97} ibid
\textsuperscript{98} NUS response to the Dearing Report on the Future of Higher Education, October 1997, paras 16.8-10
Research Paper 97/119

Social class of home applicants accepted to degree courses
1996

<table>
<thead>
<tr>
<th>Social class</th>
<th>number</th>
<th>% of total allocated to class</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Professional etc</td>
<td>35,585</td>
<td>17%</td>
</tr>
<tr>
<td>II Intermediate</td>
<td>93,237</td>
<td>44%</td>
</tr>
<tr>
<td>IIIN Skilled non-manual</td>
<td>26,898</td>
<td>13%</td>
</tr>
<tr>
<td>IIM Skilled manual</td>
<td>35,643</td>
<td>17%</td>
</tr>
<tr>
<td>IV Partly skilled</td>
<td>16,356</td>
<td>8%</td>
</tr>
<tr>
<td>V Unskilled</td>
<td>3,901</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>211,620</td>
<td>100%</td>
</tr>
<tr>
<td>Not known</td>
<td>17,065</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>228,685</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: UCAS Annual Report 1996 entry

To put the figures in context, the distribution of the whole population of Great Britain by social class at the 1991 Census was as follows:

<table>
<thead>
<tr>
<th>Social class</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Professional</td>
<td>5%</td>
</tr>
<tr>
<td>II Intermediate</td>
<td>29%</td>
</tr>
<tr>
<td>III(N) Skilled non-manual</td>
<td>23%</td>
</tr>
<tr>
<td>III(M) Skilled manual</td>
<td>21%</td>
</tr>
<tr>
<td>IV Semi-skilled</td>
<td>16%</td>
</tr>
<tr>
<td>V Unskilled</td>
<td>6%</td>
</tr>
</tbody>
</table>

The CVCP supports the principle of graduates making a contribution to tuition fees, as long as this money is invested in higher education (see below) and does not believe that fees will deter participation rates.99

'We share the Government's concern that such contributions to fees should not deter participation in higher education. The safeguards built into the Government's proposal - by which a third of students will pay no fee and a third will pay less than £1,000 - are welcome.'

The Government has rejected the argument that the abolition of grants will deter students from lower-income families from entering higher education.100

Mr. Jim Cunningham: To ask the Secretary of State for Education and Employment what measures will be taken to address student hardship among poorer students following the introduction of tuition fees; and what assessment he has made of the impact of the introduction of fees on the composition of the student intake and on the level of educational attainment.

99 A new partnership, CVCP's agenda for action following the Dearing Report, October 1997, para 150
100 HC Deb 31 July 1997 c.501W

38
Dr. Howells: Under the Government’s preferred approach to the future funding of higher education announced by my right hon. Friend on 23 July, students from poorer families will not have to pay fees. They will continue to receive free tuition. They will also have access to larger subsidised loans than students from better off families. The Government’s proposals are designed to widen access to higher education and to encourage those from under-represented groups, such as lower-income families, to undertake higher education.

Baroness Blackstone, Minister of State at the Department for Education and Employment, responded to a *TES* editorial on the impact of the abolition of the maintenance grant with the following letter:

>'Your editorial headed 'Poor will pay most' (*TES*, July 25) expressed surprise that this government had decided to abolish the maintenance grant.

As David Blunkett made clear in announcing his proposals for reforming higher education funding, the present system is not working. Students from poorer backgrounds continue to be seriously under-represented in higher education. There is inequality in the availability of support for living costs as between students in higher and further education and as between full-timers and part-timers. And graduates have to pay back loans on a fixed mortgage-type repayment basis, which is particularly hard on those at the beginning of their careers.

Our proposals have been guided by the following key principles: that access to HE should not depend upon ability to pay; that the repayment of graduate contributions to maintenance costs should be related to income; that access to high-quality HE should be improved; and that the system of funding should be made more efficient.

Under our proposals students from poorer families will have access to larger subsidised loans than those from better-off families and will not have to pay fees. It is hard to see how you can describe this system as one that 'looks set to benefit the well-off most'.

Nor can I see how you arrive at your conclusion that 'wider participation now looks less likely than it did this time last week'. By keeping education free for the less well-off, while extending existing maintenance loans, we want to encourage those groups who are currently under-represented in HE, not just the better-off, to participate in the expansion of HE, including through studying closer to home or undertaking distance-learning courses.

Our proposals are based on future earnings, not present circumstances. Repayments will be made on an income contingent basis over a considerably longer period of time than at present and without any real rate of interest. Students at the lower end of the earnings scale will not be unduly penalised as they are under the present scheme. Rather, their repayments will be related to their income.

You quote Stephen Dorrell’s comments with apparent approval, overlooking the fact that the Conservatives have been eroding the student grant since 1990. This Government has faced up to the reality that, if access is to be expanded, the present system of funding HE needs to be reformed. Our proposals will raise the money needed to widen access and participation into the 21st century while exempting the less well-off from tuition fees, avoiding any increase in parental contributions and introducing an income-contingent loans repayment system.'

101 'Student reforms will not penalise the poor', *TES*, 8 August 1997
Research Paper 97/119

The Government has also cited in its support the results of a MORI poll that was carried out on behalf of the Committee of Vice-Chancellors and Principals (CVCP) in September. The poll found that 69 per cent of adults now agree that students and parents should contribute to some of the costs of higher education compared with only 42 per cent in 1991. The poll also found that 83 per cent of parents are prepared to contribute to their children's tuition compared with 38 per cent in 1991. CVCP Chief Executive, Diana Warwick, reportedly commented that: 'This poll shows a remarkable shift in opinion. People now accept it's only fair that those who benefit from a university education should make a contribution as the Government has proposed.'

Particular concern has been raised about the impact of tuition fees on the recruitment of graduates to certain subjects such as science and engineering. These subjects usually involve four year degree courses and will result in students paying more in tuition fees than students studying for degrees in arts subjects. The Government's assumption that students on longer degree courses will get better jobs and receive higher financial rewards in the long-term has been questioned. There is also concern that the extra financial burdens placed on undergraduate students will deter them from pursuing postgraduate qualifications for careers in research or teaching.

B. Graduate incomes

According to the Association of Graduate Recruiters (AGR) the median graduate starting salary in 1996 was £14,750. The AGR's survey allows some analysis of graduate pay progression as it also questions those who were recruited one and three years previously. In 1996, for example, the current median salary of a graduate recruited in 1995 was £16,080, an increase of 12% over the median starting salary in 1995. This compares with an increase of 3.7% in median earnings for all full-time employees. The 1996 median salary of a graduate recruited in 1993 was £20,000, an increase of 54% over the median starting salary in 1993. This compares with an increase of 10% in median earnings for all full-time employees.

These figures back up the Government's claim that graduates can expect to benefit financially from their education; however, if the number of graduates expands substantially one may question whether this trend will continue.

102 DfEE press notice 322/97, 15 October 1997
103 'Poll backs paying for tuition', The Times Higher, 5 September 1997
104 'Staying the course', Guardian, 7 October 1997
105 ibid
106 AGR Graduate Salaries and Vacancies 1997 Survey
C. The Australian experience

Some commentators have cited the Australian experience as evidence that the introduction of tuition fee contributions need not act as a deterrent to study. Australia introduced a Higher Education Contributions Scheme (HECS) in 1989 under which all students, including those from lower income families, were required to pay 20 percent of the cost of their tuition. Repayment takes place through automatic deductions by the Australian Tax Office with amounts dependent on income. Up-front payments originally attracted a discount of 15 per cent; this has now been increased to 25 per cent. In an article for the *Guardian Higher* 107 Meredith Edwards, Deputy Vice-Chancellor of the University of Canberra and a member of the Wran Committee which designed HECS, noted that: 'The empirical evidence is that it [HECS] has made a contribution to revenue without significantly deterring students - until the changes introduced in the last Budget'. In the 1996/97 Budget the Australian Government made the following changes to the HECS:

- differential charges for courses;
- repayment threshold reduced from A$28,000 to A$20,000;
- repayments increased from 2 to 3 percent;
- universities permitted to charge up-front fees from next year for up to one in four enrolments.

Meredith Edwards commented that: 'One lesson from our experience is the danger of changing the rules mid-stream, and the impact that can have on student uncertainty and, potentially on enrolments…The recent changes arising from the 1996/97 Budget may have had some impact on mature students, who made 10 per cent fewer applications this year. Next year, for the first time, some universities will charge up to a quarter of their students fees up-front. This is a big departure from the principles of HECS and it will be important to monitor closely the impact on participation rates.' 108

The NUS has also pointed to changes in the Australian system as a warning as to what may happen to UK tuition fee contributions in the future: 109

> 'From 1998, Australian universities will be permitted to charge up-front fees for under graduate places for up to 25% of enrolment. These changes are partly due to a change in Government. However, at the time of the introduction of fees, similar reassurances were given to Australian students as have been given to UK students over the past few months.'

107 The wonderful wizardry of Oz', 9 September 1997
108 ibid
Edwards has suggested that the British Government should consider:  

- Not exempting students from lower-income families from the scheme, but instead introducing an income-contingent loan repayment arrangement for students that would cover both the tuition and living costs.
- Increasing the proportion of costs to be covered by students to 40 per cent, perhaps gradually so long as income-contingent arrangements are in place.
- Setting an up-front discount on fees of 25 per cent.

### D. Higher education funding

The Dearing Inquiry estimated that an additional £350 million would be needed in 1998/99 and £565 million in 1999/2000 in order to alleviate proposed cuts in funding per student, carry out infrastructure requirements, make changes to student support levels and resume the growth in student numbers. The Inquiry concluded that none of the options it considered for reforming student support would provide the necessary additional funding for higher education in the longer term. It felt that any option that would place unacceptable burdens of graduates and on families of modest means, or would lead to unacceptably high levels of graduate debt.

The estimated savings associated with the introduction of tuition fees and the replacement of grants with loans are given in the Parliamentary Answer reproduced below:

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**Lord Whitty:** The following table shows the estimated savings associated with the introduction of tuition fees and the replacement of grants with loans, along with the associated costs of extending loans, under the Government's preferred approach to the future funding of higher education announced on 23 July. Figures are shown for the financial years 1998-99 to 2000-2001 and are at 1995-96 prices. The net savings are therefore notional and have been derived independently of current expenditure plans. They are also dependent on the phasing of the introduction of the new loans arrangements.

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110 The wonderful wizardry of Oz, Guardian Higher, 9 September 1997
111 Higher Education in the learning society (summary report), paras 84-85
112 ibid para 110
113 HL Deb 31 July 1997 c.103WA
### Table: Additional loans expenditure and Tuition fee savings

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional loans expenditure*</td>
<td>(400)</td>
<td>(750)</td>
<td>(1,100)</td>
</tr>
<tr>
<td>Grants savings</td>
<td>250</td>
<td>600</td>
<td>850</td>
</tr>
<tr>
<td>Tuition fee savings</td>
<td>150</td>
<td>250</td>
<td>400</td>
</tr>
<tr>
<td>Net savings</td>
<td>0</td>
<td>100</td>
<td>150</td>
</tr>
</tbody>
</table>

* Costs are shown in brackets

The CVCP is concerned to ensure that money raised from the introduction of student fees and the abolition of the maintenance grant will reinvested into higher education as additional funding: 114

> 'Our acceptance of the principle of graduates contributing to tuition is conditioned by the overriding requirement for the fee income to be reserved for meeting the investment needs of higher education, as recommended by Dearing. It would be indefensible to expect graduates to make a contribution to tuition fees unless this was reinvested as genuinely additional funding to protect the quality of teaching'.

Although the Government has made it clear that universities will be responsible for collecting the fees contribution from students and will retain these funds, 115 it is also been made clear that their grants from the Higher Education Funding Council will assume this new source of income. 116 When questioned on whether the savings from the abolition of student grants would be applied to higher education Dr Howells responded thus: 117

> 'Under the proposals announced by my right hon. Friend the Secretary of State on 23 July, mandatory student grants will be replaced with increased loans. In the short term, therefore, public expenditure on student support will not be reduced and there will be no savings on the basis of current accounting rules. Savings will be realised in the longer term as graduates begin to make repayments and will be used to improve quality, standards and opportunities for all in further and higher education.’

There is a fear amongst some vice-chancellors that if the funding crisis in higher education is not solved they will be left with extra responsibilities over standards and more demanding students but no resources with which to make the necessary improvements. 118

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114 *A new partnership*, CVCP’s agenda for action following the Dearing Report, October 1997, para 151
115 HC Deb 27 October 1997 c.680W
116 HC Deb 30 October 1997 c.867W
117 HC Deb 27 October 1997 c.678W
118 ‘V-cs split on stand over fees’, *The THES*, 19 September 1997
On financing the deficit in higher education the Secretary of State has said: 119

Mr Blunkett: I agree with the hon. Gentleman that there is a shortfall and that arises from the previous Government’s settlement for higher education in the next two years. As part of the fundamental spending review undertaken by the Government, we shall address how best to meet that deficit and how to ensure that, between now and the resumption of a revenue stream for higher and further education, we can sustain standards and quality.

The NUS welcomed the Government’s announcement of an extra £165 million for higher education in 1998-99, particularly the £36 million for access funds, 120 but stated that ‘the Government must look to other major stakeholders in higher education for extra funds. It is a scandal that business and industry, who profit enormously from graduates, play no formal role in the funding of higher education.’ 121

The manner in which student loans are treated under the current Government Accounting rules has been widely questioned; the Dearing Committee commented: 122

‘A fundamental problem with the Government providing loans for students is their treatment in the national accounts. Under conventional Government Accounting a loan is treated exactly like a grant in the year in which it is made. The planned introduction of a new form of accounting, resource accounting, will make clearer the fact that grants and loans are not equivalent. There will still, however, be a problem in that loans will continue to count against the Public Sector Borrowing Requirement in the year that they are advanced. This is not the approach adopted in all other countries.’

The Committee recommended that the Government should ‘look urgently at alternative and internationally accepted approaches to national accounting which do not treat the repayable part of loans in the same way as grants to students.’ 123 Dr Nicholas Barr, Senior Lecturer in Economics at the LSE and a research associate of the LSE’s centre for educational research, has advocated the reform of public accounting rules in order to lift public expenditure restrictions on higher education spending: 124

‘Australia has solved this problem; so has New Zealand. Students borrow public money, but the presentation of loans in the public accounts recognises that most lending will be repaid. What appears as public spending is not total lending to students, but only bad debts. That is exactly the way private firms account for debt.

119 HC Deb 24 July 1997 c.1027
120 DfEE press notice 289/97, 23 September 1997
122 Higher Education in the learning society (summary report), para 115
123 ibid
124 ‘Australian mantra to ward off (at least some) evils’, The THES, 3 October 1997
Alongside income contingency, therefore, the big lesson from Australia is a better system of public accounts.'

The CVCP 'strongly endorses' Dearing's recommendation on the Government Accounting rules.125

'Unless this issue is resolved, the full benefits of the Government's funding reforms will not be realised. A resolution to the problem would release more funds and thus contribute significantly to extending opportunities and financial help, for example, to part-time and postgraduate students. It would help meet the medium to long term funding needs of higher education, which Dearing calculates as rising to £2 billion by 2015-16, exclusive of the proposed review of staff pay and conditions. It might also fund some of the new initiatives recommended by Dearing, for example in information technology.'126

E. 'Top-up' and 'flat rate' fees

The Government has stated that top-up fees play no part in its proposals and that no university or colleges should proceed on the basis of introducing such additional fees.127

The issue of charging students top-up fees first came to the fore in the universities' reaction to the 1995 Budget when there was a reduction in capital spending for 1996/97. It was hotly debated between November 1995 and January 1996. However at the Main Committee Meeting of the CVCP on 2 February 1996 no vote was taken on proposals to charge university entrants £300. Instead, the CVCP warned that if the immediate crisis in university funding precipitated by the 1995 Budget was not addressed in the 1996 Budget, some universities might be forced to charge students an admissions levy. The previous Government's reaction to the universities' concern was to appoint Sir Ron Dearing to chair the National Committee of Inquiry into higher education.

Universities have the power to charge 'top-up' fees if their governing bodies agree the adoption of such a policy. Any students that may be affected by such a change in policy must be pre-warned. The Court of Governors of the London School of Economics agreed by a two-to-one majority in December 1996 that fees could be charged from September 1998 if financial circumstances required it. Seventeen other universities reportedly included disclaimers in their 1997/98 prospectuses stating that students starting in 1998 may have to make a contribution towards their fees by the end of their three year courses.128

125 A new partnership, CVCP's agenda for action following the Dearing Report, October 1997, para 161
126 ibid para 162
127 Investing in the future: Supporting Students in Higher Education, DfEE, September 1997
128 'Top universities to charge students', Sunday Times, 29 December 1996
Following the publication of the Dearing report universities have not ruled out the possibility of charging top-up fees and/or introducing facilities charges for the use of computers and library books if students' flat rate contributions to tuition fees do not raise the necessary funding.

There is a body of opinion that believes that certain universities should be able to charge additional fees in order to maintain levels of academic excellence:

‘There is an emerging internal consensus that the people who should fix fee levels are the universities themselves, albeit within a strongly regulated framework. The best institutions face higher costs - not least of staff and research facilities such as laboratories and libraries. The universities themselves are best-placed the assess their costs and determine appropriate action to maintain quality. If the Government is not prepared to pay the real cost of the best institutions, students will have to make up the difference. Given the enhanced earning potential of a graduate from a top university and universal availability of generous income-contingent loans, each student could decide how much to invest in his or her future.’

Recent press reports indicate that the Government will not legislate to ban the imposition of top-up fees in the near future but that such legislation has not been totally ruled out. The rationale for imposing a uniform fee for all higher education students regardless of course or institution chosen is given in the PQ below:

Baroness Blackstone: My Lords we believe that it would be against the best interests of both students and institutions if different levels of fees were charged for full-time undergraduate courses according to the subjects studies, qualification sought or institution attended. That might encourage students to opt for particular courses or institutions because of the level of fee rather that the suitability of the provision offered. In particular, it would be neither fair nor educationally desirable if the annual tuition fee for students were higher for more expensive subjects than others.

F. European students

Under the Government's proposals students from other European Union countries will be charged tuition fees on the same basis as home students, i.e. they will make an annual contribution to fees assessed against family income.

Since September 1986, following a judgement of the European Court of Justice (ECJ), students from the European Union attending courses designated for mandatory awards

129 'Universities in the first division should charge top prices', Guardian Higher, 16 September 1997
130 'No ban planned for top-up student fees', The TES, 17 October 1997
131 HL Deb 30 October 1997 c.1127
132 Investing in the future: Supporting Students in Higher Education, DfEE, September 1997
133 Gravier v City of Liege, case 293/83 [1985] 3 CMLR 1
purposes have had their fees reimbursed by the Government if they satisfy the conditions for eligibility corresponding to those which apply to UK students. The principle behind this arrangement is that the UK has an obligation as a member of the EU not to discriminate against nationals of other EU countries in access to vocational training. Vocational training has been given a very wide definition by the ECJ and incorporates university courses.134

The administrative difficulties associated with means testing over 70,000 students from other EU countries in order to assess their liability to contribute to tuition fees has caused concern amongst local education authorities and university vice-chancellors.135 There is also some suggestion that the Government could be open to challenge over this policy if it has the effect of hindering student movement between member states.136 As the loans that UK students will be entitled to will be for maintenance, they will not be available to EU students.

A further potential complication is the fact that the Government intends that European students who study in Scotland should only be liable for tuition fees for three years, i.e. they will be treated in the same way as Scottish students studying at home, while their English counterparts who choose to study in Scotland will be liable to pay fees (subject to the means test) for the full four years of these courses;137

Baroness Blatch: My Lords, given the policy of equal access within European countries, can the noble Baroness say whether legal advice has been taken with regard to allowing students from England, Wales and Northern Ireland to be disadvantaged not only against Scottish students but also against students from other EU countries?

Baroness Blackstone: Yes, my Lords. I can confirm that legal advice has been taken. It is the case that the new system which will be introduced next year will require student in England to pay a fee of £1,000, if their parents’ or family’s income allows it, for every year of the course they are on, up to and including a fourth year. There will be separate and different arrangements for students on courses such as medicine and dentistry for a period beyond the fourth year.

The NUS has reportedly stated that these proposals amount to serious discrimination and that the union will consider mounting a legal challenge.138

G. Part-time students

134 Blaizot v University of Liege, case 24/86 [1989] 1 CMLR 57
135 'EU Students means test sparks cost fear', Financial Times, 29 September 1997
136 'Brussels awakes', The Guardian, 14 October 1997
137 HL Deb 30 October 1997 c.1129
138 'Discrimination as Scots students win cut in fees', The Guardian, 28 October 1997
Under the current arrangements part-time undergraduates have to make a contribution to their tuition costs and are not generally eligible for public assistance towards their living costs. The Dearing Committee found that there were disincentives to part-time study for unemployed people and those on low incomes.\(^{139}\)

Dearing recommended that the Government should:\(^{140}\)

- enable institutions to waive tuition fees for part-time students in receipt of Jobseekers’ Allowance from 1998/99;
- review the interaction between entitlement to benefits and part-time study with a view to ensuring that there are no financial disincentives to part-time study for the unemployed or those on low incomes;
- extend eligibility for Access Fund payments to part-time students from 1989/99 and make additional funding available for this purpose.

The Government has decided to enable institutions to waive the fees of unemployed students on part-time courses and from 1998/99 eligibility for Access Funds will be extended to certain part-time students.\(^{141}\)

'The Government agrees with the Dearing Committee's conclusion that in the light of other requirements for additional funding in higher education, and the fact that many part-time students have access to other resources, extending loans to part-time students should not be a priority. The Committee looked at other ways of securing equity for part-time students, and we are considering its recommendations. In this context, we have already announced that we shall be making funds available for the remission of fees for part-time students who have lost their jobs. We have also indicated that part-time students will benefit from support from increased access funds.'

The CVCP has stated that this response falls short of achieving equity of treatment between full and part-time students.\(^{142}\)

'The Government has designed a funding system that continues to be geared to the need of full-time 18-21 year old undergraduates. This is at odds with its emphasis on lifelong learning, which will increase demand for part-time study. Part-time students now constitute a third of the student population and mature students, 50%. 'Mixed-mode' study, in which students may combine periods of full and part-time study and distance learning, will also grow in importance. Funding systems should be designed to support these new learning patterns.'

\(^{139}\) Higher Education in the learning society (summary report), para 97  
\(^{140}\) ibid  
\(^{141}\) HC Deb 6 November 1997 c.307W  
\(^{142}\) A new partnership, CVCP's agenda for action following the Dearing Report, October 1997, para 156
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