Consultation Response:
Review of post-18 education and funding

To: Department for Education

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction

The Intergenerational Foundation (IF) welcomes the opportunity to comment on the review of post-18 education and funding. It should be noted from the start, that whilst IF is pleased this review has been launched, it is rather disappointed at the restrictive terms of reference under which the reviewers are operating. In particular, we feel that the following paragraph, taken from page 3 in the call for evidence's terms of reference, takes most of the really essential policy questions concerning the best means of funding English higher education off the table before the debate has even started:

"Many elements of our current post-18 education system work well and there are some important principles that the Government believes should remain in future. Therefore, the recommendations of the review will be guided by the need to:

- *Maintain the principle that students should contribute to the cost of their studies while ensuring that payments are progressive and income contingent;*
- *Continue with the reforms in train to build a strong technical and further education sector that encourages the skills that we need as a country;*
- *Place no cap on the number of students who can benefit from post-18 education;*
- *Support the role of universities and colleges in delivering the Government's objectives for science, R&D and the Industrial Strategy.*

The review will not make recommendations related to the terms of pre-2012 loans or to taxation, and its recommendations must be consistent with the Government's fiscal policies to reduce the deficit and have debt falling as a percentage of GDP"

It is clear from these terms of reference that the government is not prepared to countenance anything other than minor tinkering around the edges of the present system as a result of this review.

Nevertheless, IF is pleased to see the system is being debated at all, and wishes to submit a response that focuses on making the funding structures fairer to students accessing higher education.

Q 10 How should students and learners from disadvantaged backgrounds best receive maintenance support, both from Government and from universities and colleges?

This review states the need for the student finance system to be “progressive.” To achieve this, it is imperative that maintenance grants are reinstated as a means of supporting students from less well-off backgrounds. As Justine Greening has established, the loss of maintenance grants are felt more significantly by students from low-income households[1], meaning many have to take out larger loans, and graduate with a larger debt than their peers from wealthier families. The NUS have labelled this a ‘poverty premium’[2]; poorer students are penalised by having to pay more, take out larger loans, or balance part-time work to be able to afford studies. That some students leave university with a greater debt than others, because they are unable to access finance options that were previously available hardly suggests a progressive system.

The cost of living at university has soared to the extent that existing maintenance support barely covers it. Rent in university halls, often assumed to be the most cost-efficient accommodation, has become almost unaffordable for many. The extent of this has been highlighted by the University of East Anglia’s student union, who found that in over 20 higher education institutions, more than £1,000 profit per bed was generated per year[3]. Such high costs and minimal financial support have forced many students into part-time work during the term. This has been proven to negatively impact student success[4], and enforces a concerning class divide, as working-class students are the most likely to be employed for more than the recommended 15 hours per week[5].

Furthermore, the financial burden inflicted on students as a result of the loss of maintenance grants appears to be adversely affecting mental and physical health. In a survey of over 2,300 students, it was found that financial worries had negatively impacted the mental health of half the respondents[6]. It can also be assumed that physical health is negatively impacted, as 61% stated their diet suffered as a result of trying to balance their finances[7]. IF believes that action must be taken to reinstate maintenance grants under a revised means-tested system, and to ensure that they truly do cover the real costs of university living.

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[1] Coughlan, S. (2018) Justine Greening calls for return of student grants. *BBC*
[2] NUS Press Team (2018) Poverty Commission Press Release. *NUS*
[3] Weale, S. (2018) University costs working-class students more, says NUS report. *The Guardian*
[4] Atherton, G. and Naughton, M. (2016) Does Cost Matter? *National Education Opportunities Network.*
[5] NUS Press Team (2018) Poverty Commission Press Release. *NUS*
[6] Butler, J. (2018) Student Money Survey 2017 – Results. *Save The Student*
[7] ibid

Q 13 How should students and graduates contribute to the cost of their studies? What represents the right balance between students, graduates, employers and the taxpayer?

There is no doubt that graduates should contribute to some of the cost of their studies, and it is important this system works for everyone involved. In addressing how graduates should contribute to the cost of their studies, IF calls for the current repayment rate to be lowered.

The 9% repayment rate results in a significant marginal tax for graduates. With student loan repayments, added to Income Tax (minimum 20%) and National Insurance (12%), young earners reaching the repayment threshold are facing a marginal tax rate of at least 41%[8]. It ranks as one of the highest marginal tax rates in the world - without even considering the effect of postgraduate loans. Such a high rate is concerning for a number of reasons, not least because it reduces the opportunities for new graduates to save towards traditional milestones such as buying property, and saving to support a family.

The 9% comes straight out of young earner's disposable income. Not only does this have a tangible effect on the daily life of a young person trying to balance multiple other socioeconomic pressures, it is a significant amount which is not put back into the economy in real terms. It is essentially a 'graduate tax' which other generations have not had to pay, and sends a particularly damaging message to young graduate workers.

The government have repeatedly justified high repayment rates on the basis that graduates supposedly enter higher salaried jobs. This justification has been discussed in terms of a 'graduate premium': the idea that graduates earn more across their lifetimes as a result of having completed a degree. However, there are two issues with this concept. Firstly, fewer graduates than ever are actually working in graduate jobs, and instead leave university to find themselves in low-paid, low-skilled roles. Between 2011 and 2016, the ONS estimates that 46% of recent graduates have gone into 'non-graduate jobs'[9]. These young people are certainly not earning any so-called 'graduate premium', which calls into question the unfair balance in the current student finance structure.

Secondly, the 'graduate premium' may not be as high as first thought. It has been estimated to be closer to £100,000 across a lifetime (instead of the previous figure of £400,000)[10]. Besides, one average figure which attempts to quantify the benefits of a university education is an inappropriate measure, and should not be used as the basis to justify a repayment rate which is universally applicable. Many factors play a role in determining salaries post-graduation, including degree, institution, geographical location, gender, and profession. It seems illogical for a universal repayment rate to be justified on the grounds of a concept which is so variable.

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[8] Intergenerational Foundation. (2017) Intergenerational Foundation response to government announcement on student fees and the repayment threshold. *IF*

[9] Burney O'Dowd, R. (2017) Tall Tales: Graduate prospects in the UK labour market. *IF*

[10] Kemp-King, S. (2016) The Graduate Premium: manna myth or plain mis-selling? *Intergenerational Foundation*. *IF*

Q 16 What are the ways the government can increase the value for money of post-18 education?

One clear way the government can increase the value for money of post-18 education is to reform the astronomical interest rates applied to student loans. IF calls for a change from RPI, as the measure of inflation applied to student debt, to CPI.

RPI is a rate that has been labelled as “flawed”, and having “serious shortcomings” by the UK ONS[11], indeed it is no longer the predominant measure of inflation, having been replaced by CPI in 2003. It seems perverse that young people who have invested in both their future and the future of the country, through post-18 education, are facing a higher interest rate. Recently, Mark Carney called for the withdrawal of RPI because of the known errors involved in its calculations[12]. It is concerning that the government knowingly chooses to apply such a skewed index to student loans, effectively profiting off young people who are already struggling against an intimidating amount of debt.

Conclusion

This review has the potential to have a significant positive impact on the funding structures for higher education. As is outlined in the terms of reference, IF urges the government to work with young people and graduates to inform future reforms.

To summarise, IF makes four broad calls:

- To reinstate maintenance grants;
- To lower the repayment rate of the student loan;
- To acknowledge that not all graduates enjoy a ‘graduate premium’, and to continue developing a more nuanced picture of the relationship between university education and earnings using Big Data;
- To alter the rate of interest applied to student loans from RPI to CPI.

Such changes will move towards reforming the higher education funding system to be more progressive, and provide a fairer deal for students, graduates and the taxpayer.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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[11] Khan, M. (2017) Still ‘flawed’: ONS reiterates shortcomings of RPI inflation measure. *Financial Times*
[12] Giles, C. (2018) Mark Carney calls time on RPI inflation measure. *Financial Times*