RUSSELL GROUP

Russell Group evidence to Treasury Committee student loans inquiry

1. Summary

- Sustainable funding for higher education needs to work in three ways: for students, for universities and for the taxpayer. The current debate on higher education funding is a timely reminder of the need to keep the balance between these three actors. Ultimately, decisions about the correct balance between the public and private contribution to the cost of funding the higher education system are political ones.

- In reviewing the approach to higher education funding, Government should ensure the following principles remain at the core of the system:

    - students from all backgrounds have access to a wide range of courses recognising skilled graduates provide the future professional workforce to meet the needs of industry and society; to achieve this student numbers should remain uncapped

    - overall funding for teaching (whether through fees or grants) is sufficient to support high quality, research-intensive learning environments across the full range of disciplines, recognising the need for the UK to foster a broad and adaptable skills and knowledge base to remain competitive

    - funding is predictable and enables universities to plan and make long-term strategic capital and human resource investments

    - the contributions expected of students and of taxpayers are affordable and broadly reflective of the public and private benefits associated with higher education.

- In addition, it would be helpful to consider how the benefits of the system could be better communicated to students and taxpayers. This could help to build greater understanding of the balance between the contributions made by students and taxpayers, and the progressive nature of the income-contingent loan system. Improvements to information and advice for students could also encourage more students from disadvantaged backgrounds to consider applying to university.

2. Context

2.1 The purpose of The Russell Group is to provide strategic direction, policy development and communications for 24 major research-intensive universities in the UK; we aim to ensure that policy development in a wide range of issues relating to higher education is underpinned by a robust evidence base and a commitment to civic responsibility, improving life chances, raising aspirations and contributing to economic prosperity and innovation.

2.2 We welcome the opportunity to respond to the Select Committee's call for evidence on student loans. The inquiry is timely following the announcement that the Government will undertake a review of university fees and funding. Sustainable funding for higher education needs to work in three ways: for students, for universities and for the taxpayer.

2.3 Higher Education is a national success story for the UK. Universities are one of this country's major assets, teaching over two million students per year, with an international reputation for quality and student satisfaction. Russell Group universities in particular deliver significant economic, social and cultural value to the UK and their local communities, injecting nearly £87 billion into the national economy every year through their teaching, research and export activities, and supporting over 261,000 jobs (full-time equivalent) – more than the entire population of cities like Aberdeen and Plymouth. In order to continue to deliver this wide range of benefits to students, taxpayers and local communities, universities need a sustainable and sufficiently predictable base of funding.

3. The benefits of the current system

3.1 The existing fees and loan system has been highly beneficial to students, taxpayers (and the Government) and universities alike. The system:

- is affordable for students as they do not have to pay upfront for tuition costs and all are able to access at least some maintenance support - with additional help from individual universities through bursaries and fee-waivers

- has enabled record numbers of students to enter higher education including more students from lower socio-economic backgrounds[1]

- is progressive, ensuring graduates are not required to pay back more than they can afford with repayments in proportion to their salaries over the new minimum repayment threshold of £25k. Many students also have at least some of their debt deliberately written off after 30 years ensuring that there is a balanced contribution between the student and the taxpayer

- is starting to provide a sustainable base of funding for universities meaning they can offer a diverse range of courses with high quality teaching and learning experiences, cutting-edge facilities and opportunities for students to do everything from hands-on research to international placements and collaborative work with local communities and business

- recognises the public returns to the UK from higher education through the government subsidy with the proportion of student loans which the government expects to be written-off naturally higher amongst low earning graduates as these individuals pay less of their student loan back

3.2 It is a common misconception that the move to a £9k fee cap in 2012 resulted in universities becoming substantially better off than under the previous system. Before fees were introduced universities were historically underfunded with the unit of resource per student declining over time: growth in student numbers between 1989-90 and 1997-98 resulted in a significant decline of 30% in the unit of resource.

3.3 The introduction of higher fees also coincided with significant reductions to teaching grants and the removal of capital grants. This means 96% of up-front government support is now in the form of student loans (fee and maintenance) and that the Government expects universities to fund the full cost of capital investment through fees and other routes such as philanthropy. Russell Group universities have risen to this challenge, investing £1.85 billion in facilities for teaching and student support over the five years to 2017.[2] This investment covers teaching labs, learning hubs, new library facilities, sporting, accommodation and other

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[1] UCAS figures indicate disadvantaged 18-year-olds (POLAR2 quintile 1) were 60% more likely to enter higher education in 2014 than they were in 2006 before higher fees were introduced.

[2] https://www.russellgroup.ac.uk/media/5256/economic-impact-of-the-capital-investment-plans-of-the-russell-group-universities.pdf

facilities and also the IT systems that enable innovations in learning and teaching to be introduced and provided at scale to all students.

3.4 It is also important to remember that with rising inflation and costs of provision, fee caps mean that universities have access to declining resources over time. We estimate that freezing tuition fee caps at £9,250 will cost Russell Group universities around £77 million in 2018/19, £159 million in 2019/20 and £246 million in 2020/21.[3]

3.5 Recent analysis undertaken by London Economics supports evidence that higher education leads to significant public and private returns.[4] UK-domiciled students beginning their studies at Russell Group universities in 2015/16 will contribute £20.7 billion to the UK economy over their working lives through their enhanced skills, productivity and earnings, with around half this impact (nearly £11 billion) delivered directly to the Exchequer through enhanced taxes and National Insurance. Even after deducting the full costs of studying and student loan repayments, and factoring in the opportunity costs of not working while studying, graduates from Russell Group universities can typically expect to earn[5]:

- An additional £177,000 after completing a full-time undergraduate degree (with direct benefits of £88,000 to the individual and a further £89,000 benefit to the public purse) compared to someone whose highest qualifications are A-levels or equivalent

- An additional £140,000 after completing a full-time masters (with direct benefits to the individual of £62,000 and a further £78,000 benefit to the public purse) on top of the benefits associated with completing an undergraduate degree

- An additional £232,000 after completing a full-time doctorate (with direct benefits to the individual of £97,000 and a further £135,000 benefit to the public purse) on top of the benefits associated with completing an undergraduate degree.

3.6 While the current system of higher education funding is not perfect, any reforms to the system should be carefully considered in order to ensure that the range of benefits students, taxpayers and universities currently enjoy are not lost.

4. Concerns about introducing a graduate tax

4.1 The introduction of a graduate tax would present a number of practical challenges for universities, taxpayers and students as follows:

- Increased cost to the taxpayer: In the short-term, this policy change would require Government to replace loans for tuition and maintenance with a full teaching grant. This would negatively impact the deficit.

- Impact on financial markets: Grants would need to be reintroduced for capital investment that universities are currently able to finance through fees and by raising funds through appropriate financial market instruments (e.g. bonds and loans) – Government would now have to take on this role to ensure both strategic and tactical investment plans can be delivered.

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[3] This is assuming a typical 3% per annum student number growth and an expectation tuition fees would have increased by inflation to around £9,500, £9,750 and then £10,000 over three years.
[4] London Economics (2017) The economic impact of Russell Group universities: https://drive.google.com/file/d/0BwTqm7qeqGZNdTc0WHN3V1p0Rlk/view
[5] Note that the actual balance between public and private returns over time will depend on rates of taxation etc. and so are expressed here in terms of present value.

- Impact on financial sustainability for universities: A move to grant funding in the short- to medium-term would likely mean that the cost would need to be controlled through a reintroduction of student number controls, with negative consequences for widening access. Universities would also be vulnerable to cuts in grant funding (which might also come at short notice) which could undermine the sustainability of institutions.

- Hypothecating tax revenues: Over the longer-term, introducing a graduate tax may not provide a stable source of funding for universities. There are very few examples of the UK Government ring-fencing future tax revenues for a specific purpose. Given public pressure to increase funding to the NHS, elderly care and schools, for example, it is unlikely that graduate tax revenues would be ring-fenced for investment in higher education. This would leave universities highly vulnerable to cuts in funding, with knock-on consequences for quality.

- Breaking the link between repayments and price: A key difference between graduate contributions and taxation is that a tax breaks the link between repayments and the costs of study. Under a graduate tax system, high-earning graduates would repay far more than the cost of their tuition, and would continue to pay a graduate tax for as long as they are working (unlike the 30-year cut-off which is applied in the current system).[6]. In addition, unless a system of varying tax rates linked to income thresholds was introduced, low earners could have to pay more under this system than under the current one.

- Breaking the link between price and quality: A graduate tax could provide little incentive or adequate resource for universities to drive up quality, as the proceeds of a graduate tax would be revenue for the Exchequer, rather than income to universities.

- Tax avoidance: A graduate tax could encourage students to either study outside England, or re-locate outside the UK after graduation to avoid paying this tax. This could undermine the tax system and lead to the loss of high earners from the UK.

- Double taxation jeopardy: High earning graduates will in any case contribute more to the exchequer through the tax system so adding another layer of tax would make the UK tax system increasingly uncompetitive internationally. In turn, this may affect the attractiveness of the UK as a location for multinational businesses, creating further knock-on consequences for the economy.

- Loss of charitable contributions: It is likely that the ongoing expense of a graduate tax would reduce levels of voluntary gift giving from alumni, which in recent years has become a valuable source of income for universities.

5. Recommendations for the review of university fees and funding

5.1 Higher education in the UK is a devolved issue, and there a number of ways in which it can be financed. Ultimately, the correct balance between the public and private contribution to higher education is a political decision. In reviewing the approach to higher education funding in England, Government should ensure the following principles remain at the core of the system:

[6] A cap on lifetime payments of graduate tax could be introduced in order to make the system fairer to high earning graduates. However, how this could be applied in practice is unclear as the tax system would need to monitor, record and uprate cumulative payments over the working life of an individual and compare them to the maximum payment cap. A cap on payments could also increase the costs to the taxpayer.

- students from all backgrounds have access to a wide range of courses recognising skilled graduates provide the future professional workforce to meet the needs of industry and society; to achieve this student numbers should remain uncapped

- overall funding for teaching (whether through fees or grants) is sufficient to support high quality, research-intensive learning environments across the full range of disciplines, recognising the need for the UK to foster a broad and adaptable skills and knowledge base to remain competitive

- funding is predictable and enables universities to plan and make long-term strategic capital and human resource investments

- the contributions expected of students and of taxpayers are affordable and broadly reflective of the public and private benefits associated with higher education.

5.2 It would be helpful for the review to consider how the details of the system are communicated to students and the wider public. In particular:

- Greater transparency and communication around the taxpayer contribution to the system would help build public awareness of the balanced contribution between students and taxpayers, and so would lead to a better understanding of the progressive nature of the current system. There are two key elements here that are not widely appreciated:

  - The value to students of the Research Accounting and Budgeting (RAB) charge, which is the cost of writing off loans after 30 years – and which makes the current loan system substantially different from either a commercial loan offer or an open-ended graduate tax model

  - The remaining teaching grant contribution the Government makes to universities for teaching high cost subjects such as science, technology and medicine. Essentially this additional upfront investment means that the real tuition fee for such subjects is currently hidden from most students

- The Government should also consider how to improve information and advice for students to encourage more students from disadvantaged backgrounds to consider applying to university. This could include articulating the generous terms of the student loan repayment system (when compared to the terms of a traditional commercial loan), and creating a “student debt calculator” to help young people to quantify the repayments they would make on a monthly basis across a range of chosen professions.

5.3 Another crucial element of a sustainable higher education system is the ability of UK universities to attract overseas students. They bring a wide range of social and cultural benefits to the UK and our universities, which give home students a significant advantage, enriching the research and learning environment and helping them develop internationally-relevant skills. International students also play a key role in the sustainability of UK universities and our world-class higher education system: we estimate that international students at Russell Group universities in 2015/16 alone generated £4.8 billion in immediate export value to the UK in the form of net tuition fee and other studies-related income.

5.4 Any future immigration system must support efforts in this area as international students play a vital role in driving economic growth and productivity gains and are essential in supporting the sustainability of UK higher education for home students.

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