RUSSELL GROUP

Policy options for the post-18 review: maintenance grants

Summary

1. When considering whether to go to university, one of the biggest questions facing prospective students and their families is upfront cost – can we afford it? Tuition loans (paid to the HE provider) may cover the academic and wider student experience side, but there are often real concerns about the cost of living while studying and whether maintenance loans (paid to the individual) will be enough. This is particularly so for those from the most disadvantaged backgrounds, but also a worry for anyone hoping to study in a high-cost location such as London. There is also the concern that taking out a maintenance loan adds to the overall debt level for students on graduation.

2. A solution could be to reintroduce means-tested maintenance grants in some form. Such a policy would reduce notional Student Loan Company (SLC) debt for students from lower socio-economic backgrounds and so could help level the playing field between disadvantaged students and their more advantaged peers. However, this would require additional upfront spending by Government and the cost could be substantial: we estimate a full reintroduction of the pre-2016 system would add nearly £1.6bn to the deficit each year under current Government accounting rules[1].

3. A more targeted reintroduction of maintenance grants could be more cost-effective, for example:
    - Providing the 3% of students previously eligible for Free School Meals (FSM – a key measure of deprivation used by the Government) with a grant of just under £3,500 per annum would only add an estimated £87m to the deficit
    - A ‘living wage’ grant of around £8,200 for FSM-eligible students, similar to the latest developments in Wales, would add £205m to the deficit.

4. Other options might also be considered to increase the proportion of students who could benefit - for example an increase in the value of maintenance loans - but it would be important to ensure this doesn’t in turn lead to cuts to other HE budgets that could affect the quality of teaching and the student experience more widely. Moving to a system where disadvantaged students graduate with less notional debt than now could help widen access and support student success. On their own, however, maintenance grants would not fully address cost of living concerns so this is something the Government will need to keep under further review.

Maintenance grant options

5. We have modelled a number of options for reintroducing means-tested maintenance grants to illustrate the effects of possible changes:

(a) Reintroducing the system which operated pre-2016 (i.e. a c.£3,500 grant for those on household incomes <£25,000 and a taper between £25,000 and £45,000)
(b) A £1,500 grant for those with household incomes <£25,000 but with no taper
(c) A £3,500 grant, but only for those who would have been eligible for Free School Meals (FSM)
(d) Providing the equivalent to a ‘Living Wage’ grant (£8,192 p.a.), only for those eligible for FSM[2]

6. The impact of each of these options on the deficit, the cost of borrowing for Government and the total economic cost, as well as the impact on student debt on graduation, is shown below:

[1] All modelling undertaken for the Russell Group by London Economics, 2018. The Office for National Statistics is in the process of reviewing the treatment of student loans in the Government accounts, but this paper assumes the continuation of the current system for the accounting of tuition fee and maintenance loans.
[2] This would be pro-rated to reflect 30 weeks of 37 hours rather than full time throughout the year. Care would be needed to ensure this level of grant didn’t restrict other benefits individuals may be eligible to receive.

Table 1: Costs and impact for various forms of maintenance grant

Grant amount and eligibility *HHI = Household Income	**Reduction in notional SLC debt for eligible students** (on graduation)	**Resource Accounting and Budgeting (RAB) charge[3] reduced by…**	**Impact on deficit** (negative values mean the deficit is increased)	**Total economic cost**
£3,482 (=pre-2016 levels) HHI<£25k, taper to £45k	£11,800	2.4 pp to 43.3%	- £1,583m	£359m
£1,500, HHI<£25k	£5,000	0.8 pp to 44.3%	- £555m	£195m
£3,482 (=pre-2016), FSM	£11,800	0.2 pp to 44.9%	- £87m	£30m
£8,191 ("living wage"), FSM	£27,800	0.3 pp to 44.8%	- £205m	£71m

Financial implications for Government

7. Unlike maintenance loans, grants have an immediate negative impact on the deficit because of Government accounting rules: ranging from £87m for the most-targeted option, up to £1,583m per cohort for a return to the pre-2016 system. However, whilst the deficit would be increased by any move to reintroduce maintenance grants, the total long-run economic cost to the Government could be significantly less. For example, when the reduced level of write-off at the end of 30 years is taken into account, the total cost to Government of a return to the pre-2016 system of means-tested maintenance grants would fall to around £359m per cohort. The RAB charge would also be lower.

8. Given the additional (and immediate) impact on the deficit, reintroducing maintenance grants could lead to reductions in other HE budgets, which might, for example, have repercussions for STEM education and the ability of universities to deliver on the Government's Industrial Strategy priorities. Indeed, the more expensive options may also require budget cuts to other areas of public spending unless additional new money is made available.

Financial implications for students

9. Reintroducing means-tested maintenance grants would reduce notional SLC debt on graduation for eligible students, and potentially by quite large amounts: for example, by £11,800 for those eligible for grants if the pre-2016 system were reintroduced. This might encourage more students from under-represented groups (where living costs may be seen as a barrier) to consider going to university and/or to consider study options that might be away from home. A living wage style grant for students who would have been eligible for FSM could reduce their notional SLC debt on graduation by £27,800 and, as a signalling effect, this could in turn have a positive knock-on for social mobility.

10. Lower headline loan amounts would also mean more graduates would repay more of their loans. However, only those eligible for grants who go on to enjoy relatively higher earnings would actually benefit. This is because most graduates are not expected to pay off their loans in full anyway before the 30-year write-off. For example, if the pre-2016 system were reintroduced, lower and medium earning graduates would see no impact on their lifetime repayments because the current system is already highly progressive.[4] Men would also be likely to benefit more than women given gender pay gaps, which impact on levels of repayment: reintroducing the pre-2016 system would mean men could expect to pay £3,600 less over the course of their lifetimes and women around £1,200 less.

Creating a new fairness balance

11. A future change in the Government accounting rules could mean that total economic costs become more important for comparing grant and loan options, with less of a difference between the two approaches to student support. Until then, there are grant measures that may make the system feel 'more fair' (especially for disadvantaged individuals who might be debt averse), but the Government would have to accept there would be a differential impact by gender and income decile — with higher earners benefiting most and lower earners receiving little benefit in terms of lower repayments.

12. The Government would also have to consider how to deliver these changes without necessitating cuts to other budgets, particularly given the up-front costs of grant provision, and how to ensure grants would not affect the eligibility of students or their families to draw down other state benefits. The cost of maintenance grants could be offset at least partially by a longer-term social mobility premium that this may deliver, although quantifying this benefit would be difficult.

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[3] The RAB charge is the estimated cost to Government of borrowing to support the student finance system.
[4] This applies to graduates in the bottom five income deciles.