Summary Report

FUNDING OUR FUTURE BLUEPRINT

FOR AN ALTERNATIVE HIGHER EDUCATION FUNDING SYSTEM

n u s
national union of students

We wish to gratefully acknowledge the work done by the Centre for Economics and Business Research in carrying out economic modelling during the development of this report.

The policy direction behind these proposals is the sole responsibility of NUS.

FOREWORD

Recent years have seen the steady introduction of market forces into our higher education system, culminating today with the demand by some for the cap on tuition fees to be removed so that different institutions can charge different fees. We should be in no doubt – this means the wealthiest and most socially exclusive institutions would get more resources, and the rest will lose out.

Government must now listen to the voice of those who use and pay for higher education, and ensure that the review of fees and funding will consider more equitable and sustainable alternatives to top-up fees. The review must not just ask the question of 'the cap: how high?' but should find a lasting solution to enable those who want to access higher education to do so without penalising them by generating bad debts for them and the country.

We have been challenged to propose a better solution to the market logic of variable fees. This blueprint does just that. Our proposals would end the very notion of a course fee or price, and shut the door on a market in fees. Graduates should contribute to the future costs of higher education according to their actual future earnings, so that those who benefit the most from university by earning more will contribute more, in order to give future students access to higher education. This contribution would be paid into an independent fund – **a People's Trust for higher education** – which would be built up over time and eventually deliver considerable additional resources to the universities of the future.

The system for personal contributions would be designed to ensure considerable flexibility in the way higher education works. By establishing payment related to the amount of higher education studied and abolishing all up front fees for part-time students, our system would initiate a new era for non-traditional learning and continuing education through life. Routes would be opened up for voluntary employer contributions, so that employers could support far more employees to study than ever before.

No system is perfect, and we don't claim that our proposals can solve every problem. We do believe that this work should be seen as proof that a viable alternative could be found. We urge leading figures in the higher education sector and in government to look closely at what we propose and use their imagination to consider how a reformed higher education funding system might look, and how it could be turned into a reality.

Wes Streeting
National President

Aaron Porter
Vice-President (Higher Education)

A BRIEF REVIEW

In September 2008, we published *Broke and Broken: A Critique of the Higher Education Funding System.* The main conclusions were:

- A narrow focus on the fees 'cap' during the forthcoming review will not address the current failures in the system.
- The system as designed – based on the principle that the market better delivers what students pay for – is faulty and has a range of unintended and negative consequences.
- Inside the market system, assumptions about the ability of educational 'consumers' to navigate choices effectively are misplaced and unsupported.
- The system ensures that the richest institutions financially benefit most from poor performance in widening participation – and vice versa.
- As a result, rather than act as an engine of social mobility, the current system's 'diversity' acts to reinforce existing social inequality in both opportunity and outcome.
- The system fails to ensure that those who enjoy the greatest financial benefit from higher education will contribute more to its costs.

In March 2009, we published *Five Foundations for an Alternative Higher Education Funding System for England*. In this document, we outlined our approach to higher education funding, and set out the key principles that would underpin a better system. These were:

- The way 'student support' is funded should be considered independently from the way that the 'individual contribution' to the costs of higher education is collected.
- Students should be provided for according to their true needs while they study, and should make a contribution to the costs of higher education according to the true benefit while they work. We would define this as a progressive approach.
- There should be significant flexibility for students, so that they can move between stages in the structure with ease and without penalty. As part of this, the system should make more use of flexible units of academic credit.
- The higher education funding system should be made more efficient to ensure that maximum resources are applied, either in support for teaching and learning or in direct financial support for students. Unmanageable levels of debt, in particular, are bad for both the borrower and the lender and should be avoided wherever possible.
- The financial compact between the state, individuals and employers, set out in the 1997 Dearing Review, should be re-established. Each should play a role within any new, fair and progressive funding structure.

In this report, we will explain how a better funding system could be structured to resolve the problems with the current system for undergraduate level higher education funding, and meet our policy aims.

This is a summary report, and therefore some detail has been excluded. The full report, along with a set of 'frequently asked questions' about this work, can be downloaded from the NUS website at www.nus.org.uk/educationfunding

THE ALTERNATIVE MODEL EXPLAINED

The five key benefits of our alternative model are:

- It is fairer, more progressive and supports widening access
- It prevents variable top-up fees so all students are treated fairly in the future
- More money for higher education in the long-term
- An end to up front fees and a better deal for part-time students
- Greater flexibility and focus on lifelong learning

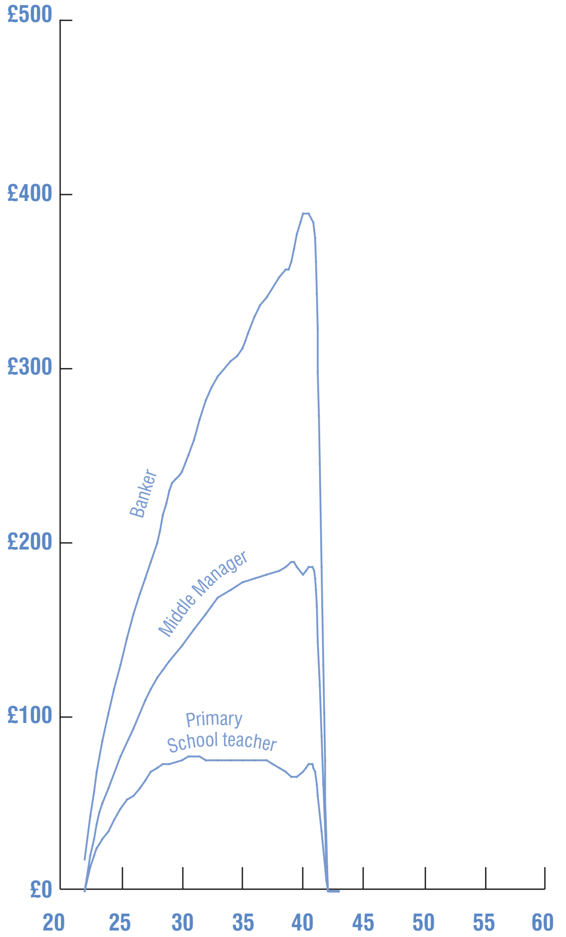
In greater detail:

- A new **People's Trust for Higher Education** should be established. This would **prevent truly variable fees and an open market** within undergraduate higher education.
  - A stakeholder fund, built mainly on contributions by former undergraduate students and their employers, and the employers of current students
  - Independent of government and controlled by a board including representatives of universities, students and employers
  - Funds from the Trust would be channelled to higher education institutions via the Higher Education Funding Council (HEFCE) through existing formula-based systems
  - Main government spending on higher education would continue as it is now, and would not be directed through the Trust

- Former students would make contributions to the Trust for a **fixed period** of twenty years after they complete their courses, **instead of paying fees fixed when they start their courses**. This means the total contribution a person makes would be linked to the benefit they obtain from higher education over a longer period, leading to a much higher total contribution from very high earners. **But this would not be a simple 'graduate tax'**.
  - Full-time and part-time fees would be abolished; no up front payment at all, for either full-time or part-time students
  - The actual proportion of earnings sought in contributions would be variable and progressive; rates of contribution would range from 0.3% of earnings for the lowest quintile in the graduate workforce, to 2% for the middle quintile and 2.5% for the top quintile
  - Payments would be spread over a longer period and would therefore be more affordable; for example, a person earning £30,000 would be £37 better off each month than under the current system
  - A lower threshold would be put in place to ensure no contribution is sought from very low earners
  - The payment time limit of twenty years would ensure people do not contribute for their whole working lives

- Far **more flexibility and support for lifelong learning** through the use of credit-related structures, and a **major boost of employer funding and support**.
  - Contributions would also be related to the number of higher education credits that people have studied
  - People would be able to build up their credits over time, moving in and out of higher education and between full-time and part-time courses
  - Contributions during periods of paid work would reflect the total amount of studying they have done
  - Equivalent and lower qualifications would be treated in the same way as other undergraduate courses, because they would simply add to the total of credits a person has studied
  - A voluntary scheme for employer contributions would operate in parallel with the main personal contribution system, supported through the tax system
  - Employers would be able to help their employees to study by paying for some of their credits up front, or by 'paying off' credits they have already taken

- **More funding for the higher education sector** would be available, bringing long-term **security and sustainability**.
  - After twenty years of operation, we estimate the total revenues from personal contributions would be £6.4bn each year, after thirty years it would be £7.9bn each year, and after forty years it would be £8.5bn each year
  - This compares with estimated revenue of £6bn each year from fees under the current system, if the cap was set at £5,000
  - There would be a need for government support in the short-term, while personal contributions build up; but this would be a redistribution of funds currently used to support tuition fee loans, not new public expenditure
  - Eventually, the system we outline would allow government to make considerable savings compared to lifting the cap in the current system
- There are no proposals here to reform the arrangements for student financial support. This is because we believe that reform of students' support should be kept separate from the question of how top-up fees might be replaced with an alternative system. General students' support issues should nevertheless form a central part of the forthcoming higher education funding review, and NUS will produce separate proposals on student support reform in due course.
- Because the funding model we outline here would generate far more revenue for higher education in the long term, its implementation should be **conditional on new measures to monitor and improve the quality of the student experience and the impact of higher expenditure** in the higher education sector. We believe this should be focused on the outcomes of higher education and the extent to which it actually changes people's lives.
- As an illustration of how progressive the system would be, we have modelled the monthly contributions, over time, for three graduate professions: a primary school teacher, a middle manager, and a banker. The payment projections are shown in this graph:



PROJECTED MONTHLY CONTRIBUTIONS BY AGE AND OCCUPATION

(Assumes median earnings: Primary School Teacher, £30,586; Middle Manager, £44,267; Banker, £59,348)

A FIRM FOUNDATION: BUILDING A PEOPLE'S TRUST FOR HIGHER EDUCATION

1. A new People's Trust for Higher Education should be established. This would be a stakeholder fund designed to collect together, and hold in reserve, contributions from people who have completed higher education courses (a majority of whom are degree graduates), and from their employers where appropriate. The government would also be empowered to pay lump sums into the fund for particular purposes.
2. The funds provided through the Trust would replace those funds currently raised through tuition fees at undergraduate level, and would supplement the block grants for undergraduate teaching currently provided by central government in the same way that fees do today. The key difference is that the collection and distribution of funds would be centralised; individual fees at the institutional level would be abolished.
3. The Trust would be established by Act of Parliament, and would be controlled by an independent board. The board would include representatives of higher education institutions, students and employers. The chair of the board would be appointed by the Secretary of State. The board would be accountable directly to Parliament through the Committee for Public Accounts.
4. The board would be charged with the sound and secure management and investment of the Trust and with managing the release of funds to support the needs of the higher education sector in England, on a strategic basis. In raising funds, it would be required to operate contribution schemes defined in legislation and ministerial guidance. In releasing funds, it would be expected to have regard to changing economic conditions, changing demographics, and the developing shape and structure of the higher education sector; it would have an explicit duty to create stability in funding for the higher education sector by controlling the flow of new resources.
5. Once sufficient funds were built up, they would be released from the Trust annually, and would be passed directly to HEFCE for distribution to institutions according to the standard formula-based funding method already used by HEFCE and reviewed from time to time. From the institution's point of view, the amount of funding per student they receive from HEFCE would simply increase as new funds were released from the Trust.
6. The advantages of this approach would be:
   a. Additional stability created through the controlled release of new funding and the holding back of some funds to maintain, over time, a substantial reserve;
   b. Independence from government established by law, preventing any future government from 'raiding the coffers' set aside for higher education;
   c. Supplementary funding passed to institutions on an objective, formula based system that already enjoys high confidence within the sector;
   d. Prevention of an open market within undergraduate higher education, which would have a range of negative consequences.

A SUSTAINABLE FUNDING SYSTEM: SECURING A FAIRER PERSONAL CONTRIBUTION

7. A large proportion of the funds going into the Trust would come from people who have completed programmes of higher education in England. These people will no longer have paid tuition fees, or taken up student loans to pay those fees (though they may still have taken up loans to pay, in part, for their living costs while on their course). Most, but not all, of these people will be degree graduates; despite this, we want to establish a system that can work equally well for people who have completed shorter higher education courses.

8. We consider that a fair personal contribution system will seek a contribution that would vary according to these criteria:

   a. Ability to pay
   b. Sustained income, over time
   c. Amount of accredited higher education undertaken

9. This should not be set up as a simple graduate tax, often conceived in terms of 'an extra penny on the basic rate of income tax for graduates'. Such a system is far too blunt an instrument, because it starts to take money from the basic rate tax threshold (around £6500), and this clearly does not represent a graduate benefit; it takes money for an entire working life, and this is not reasonable due to the diminishing benefit of higher education compared to growing work experience; and it cannot cope with variations for people who have studied higher education courses of different lengths and intensities.

10. A better system must therefore have a reasonably high threshold in place, so that no contribution is sought from people whose income is low. It must have a mechanism within it that links the contribution sought to the number of higher education (undergraduate level) credits a person has obtained. Most importantly, it must seek a contribution related to a person's income over a sustained period, but not an indefinite period.

11. The current fees system effectively requires contribution of a fixed amount, once the person has joined a particular course – the amount is determined by the fee level for that course. Once this amount has been paid, either up front or retrospectively through student loans, the contribution ends. Our proposed system seeks a contribution for a fixed period after a person has finished their course.

12. The result is that people who leave higher education and enjoy high incomes thereafter will make a more sustained, and ultimately greater contribution, because their incomes will continue to rise after they would have paid off their debt under the current system. Those people who leave higher education and have average incomes thereafter will make a similar total contribution as they do today, but spread over a greater period of time. Those who leave higher education and, for whatever reason, have only a very low income for the rest of their working lives, may pay nothing at all, and will have relatively little debt compared to today.

13. Because the system we propose would allow for continuous variation of contributions depending on the amount of higher education a person has undertaken, it would allow much greater flexibility for people to move in and out of study, and move between part-time and full-time study. Most crucially, up front fees for part-time study would be abolished, removing the most important barrier to access for part-time study. The credit-related structure would also mean that people who study extra undergraduate credits will simply pay higher contributions thereafter, accommodating courses of different lengths and resolving the Equivalent and Lower Qualifications problem so that all undergraduates are once again treated equally.

14. There are many ways to design a contribution system that would meet these aims, and to a large extent it would be for the board of the Trust to design an appropriate contribution scheme, within

the requirements of ministerial guidance. However, it is incumbent on us to outline a possible contribution scheme.

15. The system would work by establishing a hypothetical 'reference case person', for which the expected total contributions would be defined in advance; the actual contributions of all the people in the scheme would be related to this reference example. The reference case would be based on some fixed (or at least relatively firm) values, such as the number of credits in a standard honours degree, a lower payment threshold, and the higher rate income tax threshold.

16. The formulae involved in relating real people to the reference case are complex, and we will not present that level of detail here. The key features, however, are:

a. A lower payment threshold of £15,000 per annum, below which no contributions would be taken, to protect low earners.

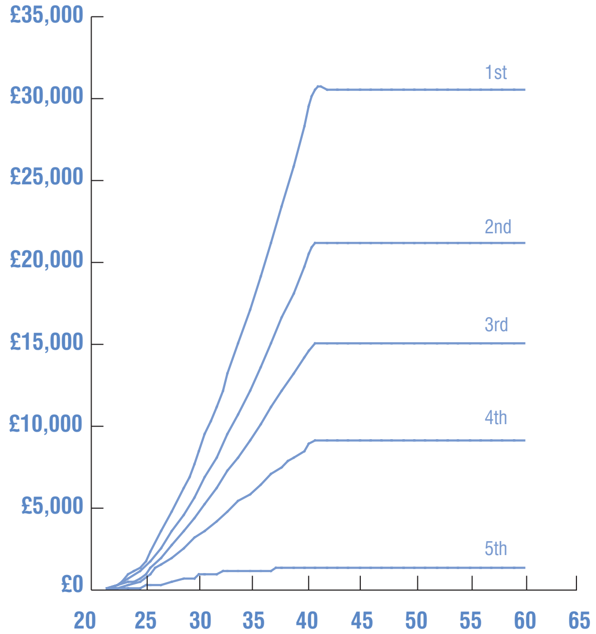
b. A 20 year payment period that commences at age 22 (or when their course ends, if that is later than their 22nd birthday). This means that no contribution is taken from people in the last half of a normal working life, when they might be planning to reduce their level of work or take early retirement.

c. In addition, as we have said, the number of higher education credits a person has obtained at undergraduate level would be taken into account.

d. The actual payment rate for an individual, at any given time, would be variable and calculated through formulae. The intent of this is to produce a progressive structure for contributions, so that the proportion of earnings taken in contributions rises with income.

17. We have run a simulation based on the scheme raising £4.5bn each year within approximately fifteen years of operation. This is the same level of total revenue raised by tuition fees at present. We assume the scheme begins with the 2011 entry cohort, and that cohort will start to make contributions in 2015. This simulation is based on 'mainstream' graduate earnings patterns for people who follow the normal route through higher education (i.e. who complete undergraduate degrees between the ages of 18 and 22). For these people, the projected contributions over the 20 year payment period, would be:

Earnings quintile	Contribution as proportion of total earnings over the period	Estimated monthly contributions
1st (Top 20% of earners)	2.5%	£125
2nd	2.3%	£86
3rd	2.0%	£62
4th	1.5%	£37
5th (Bottom 20% of earners)	0.3%	£5



ESTIMATED TOTAL CONTRIBUTIONS BY AGE AND EARNINGS QUINTILE

18. We have not extensively modelled the impact on people who take fewer than 360 credits of higher education, or those who move in and out of higher education over a long period, as there are no reliable lifetime earnings data for people with foundation degrees or intermediary HE qualifications. The total contributions would be proportionally lower, as this is a built-in feature of the scheme, but they would also probably be generally low because people in this group are less likely to reach the equivalent level of earnings for honours graduates in the upper earnings quartiles. The scheme could therefore be expected to work especially well for people taking shorter HE courses to re-skill and to meet specific learning needs they may encounter during their career.

19. It should be stressed that although the contribution projections may seem high, the system would raise £7.5bn each year when it reaches maximum capacity, in contrast to the £4.5bn each year currently raised through fees, and an estimated total revenue of £6bn from the current system if the cap was raised to £5,000. These contribution estimates must therefore be seen as an alternative to tuition fees at a much higher level than at present.

20. There are some other essential aspects of the scheme to note:

a. This could have additional beneficial effects. For example, if during a period of study, a person's income from work was to fall below the payment threshold (if they switched temporarily to a pattern of part-time work, for example), then their contributions would automatically be suspended.

b. When a person over the age of 45 joined the scheme, they would be required to pay a certain ratio of the credits they intend to take in advance. This is because they would be unlikely to complete the full 20 year contribution period before they reach retirement age. The proportion of credits that would need to be paid in advance as the entry age rises.When people are not earning over the lower threshold, they do not make a contribution.

c. Individuals and their employers would be able to pay off a proportion of their credits in advance, or at any point during the payment period, thereby lowering their contributions in the future. The amount of credits that could be paid off in this way would be capped at 120. This particularly benefits people who take shorter higher education courses or single modules could have the study funded entirely at the point of use, and not enter the long-term personal contribution scheme, but it also allow everyone in the scheme a degree of flexibility. In addition to this, it opens an important route to bring revenue into the Trust more quickly.

d. To accomodate these features, the board controlling the Trust would be empowered to set a nominal price for a credit of undergraduate higher education, and vary this from time to time. They would be required to set a price that balances the desirability of bringing in advance revenue with the risk of suppressing future revenue.

A NEW COMPACT: BUILDING SUPPORT FOR EMPLOYER CONTRIBUTIONS

21. We believe that a move towards academic credit-related structures, combined with the abolition of up front fees for part-time study, would drive a shift in the higher education sector towards an even higher proportion of courses being provided on a part-time basis. This will particularly help people who would otherwise not go into higher education at all, because it would create more opportunities to study part-time at an institution close to them. In particular, the system would help those students who wish to study part-time at a younger age, while also working. Presently the assumption is that all young students will study full-time and incur significant debts through living costs.

22. The outcome would be a higher education system with the additional flexibility needed by employers and those in employment. It would stimulate a new kind of relationship between the higher education sector, employers and students, in which many more people in the workforce are continuously developing themselves though long-term part-time study, taken through one or several institutions.

23. These developments would also open the way for additional funds to be raised for the Trust from employers. This is very important, because while the personal contribution is by definition raised after the people involved have completed their studies, the employer contribution can be made up front – adding immediately to the funds available.

24. A single employer contribution scheme would be created, where employers could fund a proportion of the credits involved in a programme of study on an up front basis. In recognition that by paying for credits up front, employers are supporting the Trust, these contributions would then attract a tax deduction through a partial offset with employer's National Insurance Contributions. In time, it would be hoped that this would promote the idea of higher education partially supported by employers as a long-term employment benefit across the workforce.

25. For more traditional students, who completed a normal three-year honours degree, there would be an additional scheme would allow employers to 'pay down' the existing credit balances of new employees on the same basis as that outlined above. This would therefore be similar to a 'golden hello' scheme, but with considerable tax benefits for both the employer and employee. Employers could choose to pay off a proportion of their employees' credits at a defined number of credits for each year of service, creating an additional retention device for employers.

26. These schemes would establish a standard route for employers to support part-time study and gain in tax efficiencies, and would over time allow a wider choice and more flexibility to meet the needs of businesses and organisations. For employees, the scheme would offer stability and a high level of confidence that they could give priority to the learning they need instead of the costs involved.

27. As with any system that relies on tax incentives, there would be a cost to the exchequer in providing these schemes, but this must be seen in the context of stimulating investment by employers, thereby reducing the overall need for additional public expenditure to meet the upfront costs of the overall structure.

BALANCING THE BOOKS: OVERALL COSTS, REVENUES, AND ADDITIONAL RESOURCES

28. This section briefly explains how the overall revenue of the system would grow over time, adding additional resources to the Trust. We have projected the annual revenue through the first forty years of operation, based on personal contributions only, and assuming the system was put in place to begin with the 2011 entry cohort.

29. During the first fifteen years of operation, the system would not raise sufficient revenues to replace the income currently secured through tuition fees. At present, however, the source of most of that income effectively comes from the exchequer in the form of loans for fees. To make the new funding model work, this public expenditure would be converted into deposits that the government would make into the Trust.

30. There would be three years of transition while the 2008 cohort completed their studies under the current system, and during these three years the government deposits would grow by £1.5bn each year to compensate for the loss of fee income. The deposits would remain essentially static at around £4.5bn for a further three years. They would then continue, but reduce in size, as the personal contributions revenue grows. After around fifteen years of operation, the personal contributions would have grown to the point where they can replace entirely the revenue from fees, and government support would then end. Revenue from personal contributions would continue to grow after this point, eventually reaching around £8.5bn per year after 40 years of operation.

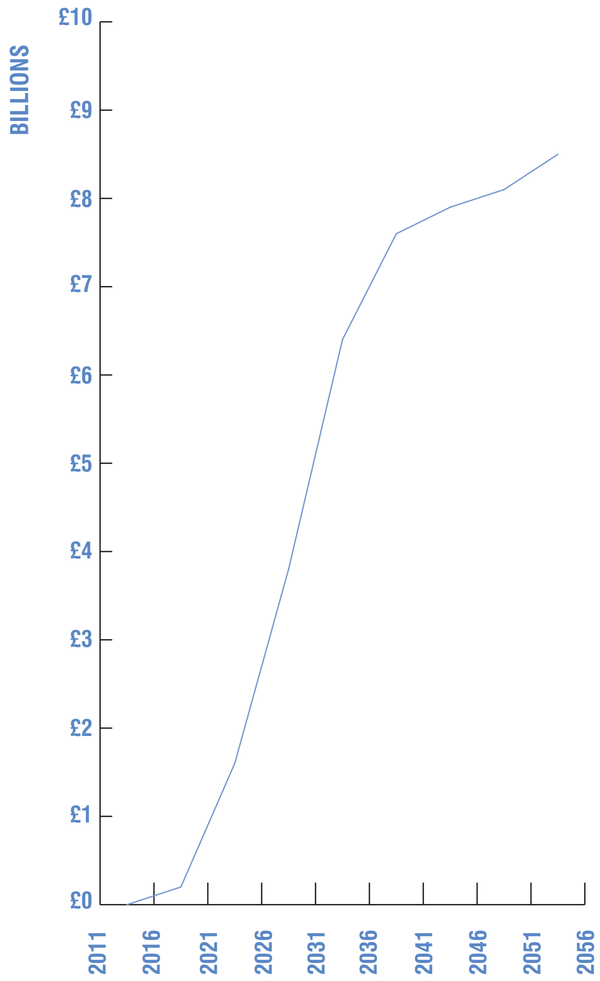
31. It is important to stress that the government support involved is not additional public expenditure. The expenditure is currently made on the basis that the amounts lent will be recovered later, but this is very inefficient, it takes very long time to recover the funds, and in any case not all the funds are recovered. Furthermore, to sustain the current tuition fee system, new loans must be issued every year and thus the level of public expenditure on loan issues actually grows. In our model, by contrast, the government makes a non-recoverable investment over fifteen years, but during that period there are increasing savings, eventually amounting to £4.5bn per year. These savings would eventually result in a commensurate reduction in public borrowing.

32. Over the forty-year period we have modelled, the total revenue from personal contributions would be £205bn and the total government investment directed into the Trust would be £48bn. In the same period, assuming current levels of funding remained the same, the government would have also spent a total of approximately £236bn on higher education (excluding research funding), in the form of core grants. We believe this is a proper balance between public and individual investment to establish a fund that is secure and sustainable in the long term.

33. We do not include projections for employer contributions, because to do so would require us to predict employer behaviour in a way that cannot be sufficiently rigorous. We would expect employer contributions to shift the balance of revenue towards earlier years to some extent, thereby reducing reliance on government deposits in the earlier years of operation.

34. Furthermore, the government could raise some of the funds needed to make deposits into the Trust by selling the existing student loan book to private investors. Legislation passed last year gives powers to the government to do this, but as yet no sales have been made due to the poor economic climate. As the economy improves, however, demand for large-scale secure investments will rise, and sales at a reasonable price will become possible. There would also be efficiency gains associated with issuing lower student loans.

Year	**Revenue (Personal Contributions)** (£bn)	**Governement Support** (£bn)	**Total Available Funds** (£bn)
2011	0.00	1.50	1.50
2012	0.00	3.00	3.00
2013	0.00	4.50	4.50
2014	0.00	4.50	4.50
2015	0.06	4.44	4.50
2016	0.19	4.31	4.50
2017	0.38	4.12	4.50
2018	0.63	3.87	4.50
2019	0.93	3.57	4.50
2020	1.26	3.24	4.50
2021	1.64	2.86	4.50
2022	2.03	2.47	4.50
2023	2.46	2.04	4.50
2024	2.90	1.60	4.50
2025	3.36	1.14	4.50
2026	3.83	0.67	4.50
2027	4.32	0.18	4.50
2028	4.81	0.00	4.81
2029	5.32	0.00	5.32
2030	5.85	0.00	5.85
2031	6.37	0.00	6.37
2032	6.92	0.00	6.92
2033	7.46	0.00	7.46
2034	7.51	0.00	7.51
2035	7.57	0.00	7.57
2036	7.63	0.00	7.63
2037	7.68	0.00	7.68
2038	7.74	0.00	7.74
2039	7.79	0.00	7.79
2040	7.85	0.00	7.85
2041	7.90	0.00	7.90
2042	7.96	0.00	7.96
2043	8.01	0.00	8.01
2044	8.07	0.00	8.07
2045	8.12	0.00	8.12
2046	8.18	0.00	8.18
2047	8.24	0.00	8.24
2048	8.29	0.00	8.29
2049	8.35	0.00	8.35
2050	8.40	0.00	8.40
2051	8.46	0.00	8.46



PROJECTED ANNUAL REVENUE THROUGH THE FIRST 40 YEARS OF OPERATION (BASED ON PERSONAL CONTRIBUTIONS)

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All economic modelling, graphs and tables reproduced or derived from work done by the Centre for Economics and Business Research Ltd, Unit 1, 4 Bath Street, London EC1V 9DX.

Underlying graduate earnings projections based on a cebr extrapolation from Dearden, L., Fitzsimons, E., Goodman, A. and Kaplan, G (2008) *'"Higher Education Funding Policy"'*, Economic Journal February, vol. 118, F100 – F125.

Underlying data on median earnings for different occupations based on the *Annual Survey of Hours and Earnings 2008*, Office for National Statistics.

All monetary values and projections are expressed in 2006/7 prices.

The full report, along with a set of 'frequently asked questions' about this work, can be downloaded from the NUS website at www.nus.org.uk/educationfunding

National Union of Students
2nd floor, Centro 3
19 Mandela Street
London NW1 0DU

t. 0871 221 8221
f. 0871 221 8222
w. www.nus.org.uk

national union of students