Proposal for a Graduate Contribution Scheme in England

A report by University Alliance

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UNIVERSITY ALLIANCE

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University Alliance proposes the reform of 'top up fees' in England to introduce a Graduate Contribution Scheme

1. These proposals build on the best features of the existing student finance system whilst addressing the need for immediate reform in some areas. The Alliance report 'Impact of Fees: a review of the evidence'[1] outlines the case for these proposals based on a thorough analysis of the current system.

2. The broader issues for higher education funding (how to reach a sustainable funding position and the balance of contributions between Government, business and individuals) are addressed in our first submission to the Browne review. Domestic fee income is one, relatively small, income stream amongst many.[2]

Priorities for implementation

3. There are two priorities in implementing a Graduate Contribution Scheme (GCS):

   - getting the system right (ensuring the detailed proposals deliver an affordable and sustainable system that meets the shared principles)
   - getting the message right (there need to be clear communication messages and a name that accurately describes the system)[3]

4. These are not competing priorities but will require different language and emphasis. This outline of a Graduate Contribution Scheme is focussed more heavily on how to communicate or describe the proposals rather than the details of such a system. We hope this complements the detailed modelling of proposals already undertaken by experts.[4]

5. Two related priorities for Government should be:

   - To re-establish progression towards the target of 50% participation in higher education in line with other developed countries. To limit growth in higher education will have severe long-term consequences for the economic competitiveness of the UK. Achieving an affordable and sustainable student finance system should allow the Government to do so.
   - To maintain the average unit of funding per student to ensure the quality of UK higher education, the international competitiveness of the sector and the additionality of income from the GCS.

[1] We make reference to specific sections of this report throughout this proposal. The report can be downloaded from our website http://www.university-alliance.ac.uk/UA_impact_of_fees_Jan_2010.pdf
[2] See 'The impact of fees: A review of the evidence', Section 7, Figure 15
[3] Ibid. Section 4, Market failure and misinformation regarding the 2006 variable fee system
[4] We make particular reference to the work of Professor Nicholas Barr at the LSE

Any student finance system should ensure the following principles are met

For Students

- the system should maintain access to university for all qualified students
- no up-front cost, making HE free at the point of supply
- the system should drive quality and value for money

For Graduates

- there should be a maximum liability of repayments for graduates
- contributions should be on an income-contingent basis so that they relate to earnings and not maximum contribution level
- low earners and low lifetime earners should be protected

For Universities

- the system should bring genuine additional income to universities[5]
- further investment possible to improve the student experience[6]

For Government

- the system must be both affordable and sustainable[7]

For Business

- the system should enable investment in future high-level skills needs

For the Public

- the system should be easily understood and well communicated[8]

Main features of Graduate Contribution Scheme[9]

How the GCS works for students

- no up-front cost for students,[10] higher education is free at the point of use[11]
- either universities could set the 'maximum graduate contribution' for each course[12] or there could be a standard maximum across the sector
    - to maintain a regulated market for higher education, the Government could set a limit on the maximum graduate contribution set by any university
    - international experience would suggest that standards of transparent information are required to allow maximum GCS levels to find an appropriate level below a regulated ceiling[13]

[5] A baseline should be established, see 'The impact of fees: A review of the evidence', Section 7
[6] Ibid. Fee income has been invested in ways that improve the student experience
[7] Ibid. Section 8
[8] Ibid. Section 2
[9] This paper is a summary of the proposal for the introduction of a Graduate Contribution Scheme. For details of proposals on the reform of the repayment system (interest rates, repayment rates, targeted subsidies) please see submissions from Professor Nicholas Barr (LSE), Professor John Craven (Portsmouth), and Institute for Fiscal Studies.
[10] Except for those who choose to pay the graduate contribution upfront.
[11] See 'The impact of fees: A review of the evidence', Section 4, Net upfront cost does matter
[12] The process of setting a maximum graduate contribution for any course could be up to the university. It would be likely to involve considerations of cost, market value and competitor pricing. Cost and market value vary considerably by course (as well as institution).
[13] In South Africa (where fees are set by individual universities and there is no fee cap) fees have tended to converge. In Australia, the Government is setting out standards of transparency of information in advance of lifting the cap on fees.

- universities would be obliged to provide information on agreed indicators around quality, student experience and graduate outcomes for each course (work in this area is currently being progressed)[14]

Financial support system for students

- single, simplified financial support system of grants and maintenance loans based on financial need
- available to all students in proportion to their study load to ensure that high-intensity part-time students have access to financial support[15]
- financial support for Post-graduate students would be affordable to government due to the up front finance model (see figure 2)[16]

How the GCS works for graduates

- graduate contributions are made on an income-contingent basis once a graduate reaches a minimum earnings threshold
- there is a limit to the liability for repayment in a graduate's lifetime[17]
- the interest rate covers the full cost of borrowing – this is not a commercial interest rate[18]
- raising the interest rate increases the length of repayment, not the level of repayment – the optimum balance should be sought between the interest rate and repayment rate to ensure that repayment is affordable and the full cost of borrowing is covered by each cohort of students[19]
- targeted subsidies to protect low-earners from accumulating debt[20]
- debts are written off after 25 years to protect low life time earners[21]

How the GCS works for universities

- new Graduate Contribution Agency[22] delivers up-front payments to universities in relation to their 'maximum graduate contribution' levels and student numbers

How the GCS is financed upfront

- bring in private finance upfront through a model of wholesale front-end funding[23] – this would be undertaken by the Graduate Contribution Agency

[14] Some information is already available at course level for prospective students on the Unistats website (www.unistats.com), proposals for reforms to the quality assurance system include more emphasis on public information (http://www.hefce.ac.uk/pubs/hefce/2009/09_47/09_47.pdf)
[15] The minimum threshold could be a study load of 30 (25%) or 60 (50%) credits for example. See 'The impact of fees: A review of the evidence', Section 3, Impact on demand for part-time study. Proposals should give consideration to the transition period for those part-time students from low-income households who currently receive fee grants.
[16] Although we recognise that there would be a number of issues to work through, such as who would have access to this support, we note growing concerns about access to postgraduate study as highlighted in Alan Milburn's report on fair access to the professions and as part of Professor Adrian Smith's review of postgraduate provision
[17] The university's maximum graduate contribution plus repayment to cover maintenance loans
[18] See N Barr, Paying for Higher Education: What policies, in what order?, Submission to the Independent Review of Higher Education Funding and Student Finance, February 2010
[19] See N Shephard, Higher Education Funding and Student Finance, Submission to the Independent Review of Higher Education Funding and Student Finance, January 2010
[20] There are some interesting models to consider. The New Zealand model that prevents debt accumulating for those contributing a low amount. Another model would be the 'graduate premium' as proposed by Professor John Craven
[21] IFS have shown this is a highly progressive subsidy that protects low life time earners
[22] Reformed Student Loans Company (SLC)
[23] See Figure 2

Figure 1: From fees to graduate contribution

2006 System	Graduate Contribution Scheme
For students	
No up-front cost	No up-front cost
A variable fee capped at £3,225 a year with income-contingent fee loans	A 'maximum graduate contribution' set by the university
A system of grants, bursaries and loans to help with living costs for FT students	A single system of grants and loans to meet living costs, based on study load
Restriction of student places due to high cost of student support system	More places could be funded because up-front cost to government is reduced
No student support available for part-time and postgraduate students	Financial support available to all students in proportion to their study Support for postgraduate students a possibility as system more affordable
For graduates	
Single system of repayments	Single system of contributions
No real interest rates on loans (loans are indexed to the RPI)	Interest rate covers the full cost of the deferral and subsidies of contribution system (not a commercial interest rate)
Repayment linked to earnings not loan value	Contribution linked to earnings not value of total contribution Adjustments to interest rate effect length of contribution, not monthly contribution rate
For universities	
Additional fee income received up-front through the SLC	Graduate contribution received up-front through the reformed SLC
Compulsory bursary payments for student in receipt of grant	Single system of grants and maintenance loans for students (Universities could contribute) Universities would remain free to offer institutional scholarships
For government	
Cost of fee loans and maintenance loans (up front costs)	The (small) government guarantee is not paid upfront so no cost in the early years
Cost of loan subsidies (receives approximately 50% of the cost back)	Government may wish to make targeted subsidies (relatively small percentage cost)
Cost of government grants	Cost of government grants

Advantages in comparison to previous system

Easily understood

- would dispel myths of an up-front cost and language of 'debt'[24]

Simplifies the financial support available for students

- grants and bursaries integrated into a single system[25]

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[24] Ibid. Section 4, Market failure and misinformation regarding the 2006 variable fee system
[25] Ibid. Paragraph 140

Eliminates regressive subsidy

- zero rate of interest was a highly regressive blanket subsidy[26]
- new system has targeted subsidies to protect low-earners[27]

Sustainable and affordable to Government

- reduces up-front cost[28] and long-term cost to the tax-payer[29]
- would allow the expansion of financial support to part-time students[30]
- would correct the disproportionately high amount spent on student support at present and allow the Government to fund more university places for the growing un-met demand from qualified applicants[31]

Other features

- maintains link between the university and the amount contributed by the graduate
- continues to deliver a source of genuine additional income to universities (assuming average public funding per student does not reduce by the same amount)[32]
- incorporates many of the elements outlined in the proposals put forward by the National Union of Students in their 'Funding our future blueprint'[33]

Squaring the circle – a solution to the upfront cost to government

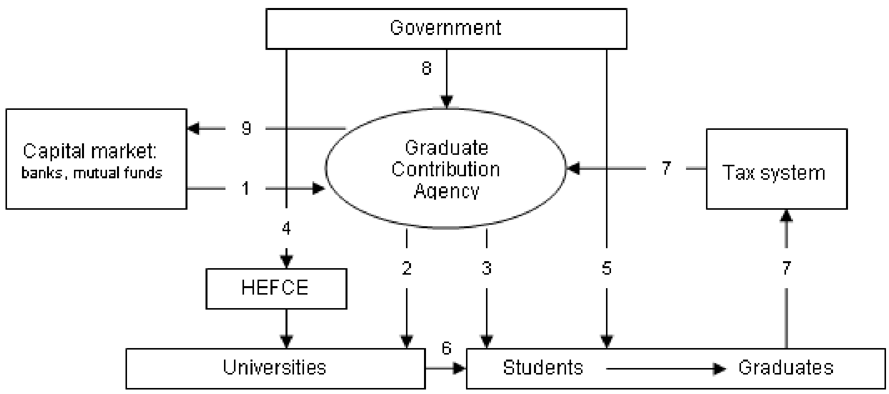
6. How is it possible to have a system where there is no upfront cost to students, where universities receive the money up-front, but which is still affordable to government? The answer is to bring private money in up-front through a 'wholesale front-end funding model'.

7. With real interest rates to cover the full cost of borrowing, including the cost of any subsidies, the reformed SLC could sell student loan bonds to private buyers raising upfront private finance – this deals with the upfront cash-flow costs.[34] This model has been working successfully without direct state subsidy for nearly 10 years in Hungary.[35] A study in 2009 found that 'even in the ongoing financial crisis, the Hungarian student loan system shows impressive stability and robustness. It seems that the scheme was well designed and implemented'[36]

[26] Ibid. Section 8, Table 15
[27] See N Barr, Paying for Higher Education: What policies, in what order?, Submission to the Independent Review of Higher Education Funding and Student Finance, February 2010
[28] See Figure 2
[29] Ibid and also N Shephard, Higher Education Funding and Student Finance, Submission to the Independent Review of Higher Education Funding and Student Finance, January 2010
[30] Open University and Birkbeck University Submission to the Independent Review of Higher Education Funding and Student Finance
[31] See 'The impact of fees: A review of the evidence', Section 8, Paragraph 212
[32] Ibid. Section 7, Genuine additional income but still not sustainable funding
[33] NUS 'Funding our future blueprint' proposes that students contribute to the costs of their degree once they have graduated http://www.nus.org.uk/PageFiles/5816/NUS_Blueprint_Summary_report_final.pdf
[34] Nicholas Barr, Funding higher education: policies for access and quality, House of Commons Education and Skills Committee, Post-16 student support, Session 2001-02, http://www.framtid.is/files/bahjdaacfe/Barr_Selcom020424.pdf
[35] The Hungarian system, introduced in 2001, has four main attributes: universal access and universal conditions; income contingent repayment; private funding; and zero-profit operation without direct state subsidy. See Berlinger, Edina 'An Efficient Student Loan System: Case Study of Hungary', Higher Education in Europe, 34:2,257-267, 2009
[36] Ibid.

Figure 2: Wholesale front-end funding model

- Maintenance loans and deferred graduate contributions (that are paid upfront to the university) are financed privately, not publicly, reducing the cost to government.
- Interest rates on graduate contributions cover the full cost of financing the loans / deferred contributions and also include a small increase to cover the private cohort risk premium and administration costs – i.e. the cohort covers its own risk.[37] Note that the cohort carries the financial risk, not the individual.
- Because the interest rates cover the full cost of borrowing plus a small risk premium, only a small government guarantee is needed to make the bond attractive to private buyers.[38]
- The SLC (or a reformed body) could sell student loan bonds on to buyers such as the European Investment Bank (EIB).[39]
- This is a national graduate contribution scheme and a national pool. Private buyers could purchase a proportion of the total portfolio but would not be able to 'cherry pick' particular groups of graduates.
- Government may wish to make social policy contributions (through targeted subsidies) but this would be a small percentage cost in comparison to paying the total upfront cost.[40]



1. Borrowing money from capital markets (sale of bonds)	6. Investment in teaching and high quality student learning experience
2. Graduate contribution received up-front through GCA	7. Income contingent repayments through tax system
3. Maintenance loans for living costs	8. Small state guarantee
4. Investment in high-level skills needs	9. Repayment to capital market
5. Grants	

[37] In Hungary, 'the interest rate of the loan equals the financing cost (slightly above the Treasury Bond rate) plus a risk premium (of 2 per cent) and administration costs (1%). Hence the average borrower is expected to fully repay in twelve to fifteen years after graduation. The efficiency of the collection mechanism has been impressive: more than 98 per cent of the scheduled repayment cash flows have come in, while administration costs have stayed around 1 per cent of the outstanding debt.' Ibid.

[38] The ONS regulates at what level of subsidy this switches from being a private to a public scheme. The government subsidy would have to stay below that level in order for this to remain a privately financed loan system.

[39] Front end funding is different to the debt sale approach http://www.framtid.is/files/bahjdaacfe/Barr_Selcom020424.pdf The attempted sale of current loan books are not a helpful comparison because these were heavily subsidised loans (zero real interest rate) that did not cover the cost of borrowing and are likely to have to be sold at a considerable loss to the public purse.

[40] In the Hungarian system there is no direct state subsidy, with the exception of some targeted child care subsidies.

8. The suggestions contained in Figure 2 are not fully worked up proposals. We recommend that the government commission a team of experts to design a model that brings in private finance for student loans through wholesale upfront funding. The European Union has recently tendered to design an EU-wide system.[41]

Mutual investment in driving a high quality student experience

9. As with the 2006 system, the importance of driving quality should be a prominent feature of the GCS. It has always been in the mutual interest of students and universities to foster a high quality, research-informed student learning experience. This is at the heart of a successful academic community in any university.

10. As co-contributors to the university students are key partners in the delivery of a high quality student experience. Not only are they mutual investors along with the university[42], the nature of the university experience means that they are active participants in their learning experience as part of the wider academic community.[43] Universities recognise the value of this relationship and have sought to embed student engagement and feedback in the development and delivery of a quality student experience.[44]

11. Alongside establishment of the GCS, the wider system should continue to drive a high quality student experience by:
    - reforming the quality assurance system to include a greater focus on relevant information for students and the wider public, incorporating a stronger focus enhancement and including the student voice more prominently[45]
    - improving student engagement within universities to review and improve their teaching and learning provision, including through analysis of National Student Survey results
    - ensuring that prospective students have adequate information about different universities and courses to make informed choices

Encouraging business to contribute

12. Alliance universities have strong partnerships with both national and international businesses which contribute both financially and through the joint development of provision. These universities have long histories of shaping their economies and have actively engaged businesses to ensure that their programmes deliver employment ready graduates equipped for the 21st century.

13. Future business income must continue to come through effective partnership and engagement in business and as such will increase gradually over time.

[41] EC feasibility study to examine the potential need for a Student Lending Facility at European Level. Aims: a. Assessment of the feasibility of establishing a pan-European student loans scheme b. Recommendations for the architecture and focus of such a scheme. Public open tender EAC/47/2009: Feasibility study to examine the potential need for a Student Lending Facility at European Level - EAC/B-3-jf Ares (2009) n°275808.
[42] Whether through fees or graduate contribution
[43] See Wes Streeting and Graeme Wise, NUS, 'Rethinking the values of higher education – consumption, partnership, community?, http://www.qaa.ac.uk/students/studentEngagement/Rethinking.pdf
[44] See 'The impact of fees: A review of the evidence', Section 5, Consistently high student satisfaction
[45] See University Alliance response to the Quality Assurance System review, March 2010, http://www.university-alliance.ac.uk/UA_response_to_QAS_consultation_Mar_10.pdf