

CAMPAIGN FOR THE PUBLIC UNIVERSITY

FACTSHEET 2: Facts about the Funding System

The Government claims to have introduced a new system of funding that will make university finances sustainable for the long-term. But the new system is more expensive in the longer term than the one it replaces.

The government has reduced the direct public funding of undergraduate degrees by 82% and now only supports 'strategically important' subjects such as science, engineering and medicine. Income to universities is made up by student fees ranging between £6,000 and the current fee cap of £9,000.

Students can take out an income-contingent 30-year loan to meet their fees. This loan does not start being paid back until students earn £21,000 per annum and is then repaid on the basis of a rate of 9p in the £ of additional earnings.

The new student loan system is publicly-funded and its medium and long term costs to the exchequer depends on the level of graduate earnings. Some graduates will not earn above the £21,000 threshold, others will not repay their loans over the 30-year period when the loan will be discharged.

Most commentators estimate that the new system will cost more than the system it replaces. In other words, a saving is made against the current deficit only for it to be shifted onto future taxpayers (including those who graduate with higher debt).

In order to reduce the cost of this system, the government has restricted the number of students entering higher education and able to take out student loans. This is happening at a time of high youth unemployment, meaning that there is unmet demand for higher education.

Because of these pressures, it is likely that future Governments will change the terms of the loan, to increase interest closer to 'real' rates, or to reduce the earnings threshold at which the loans start to be repaid. ***Student loans are the only loans where the conditions applying at the time a loan was taken out can be varied, not just for new borrowers, but also for existing borrowers.***

The Government claims that the introduction of the new fee system has had no real impact on student numbers. But applications are estimated to have fallen by approximately 9%, at the same time that an earlier expansion of places has been curtailed. Moreover, youth unemployment at 25% means that many young people feel that they have no real alternative. More significant has been the collapse in the numbers of mature students and part-time students applying to university after the introduction of the new system of fees – the number of part-time students has fallen by 40%.