

## Higher Education Finance and Cost-Sharing in the United Kingdom

### 1. Background

Higher education in the United Kingdom is a devolved matter (since 1999 for Scotland and 2004 for Wales) and each constituent country sets its own policy and decides its own funding methodology via its individual funding council (Higher Education Funding Council for England, Scottish Funding Council, Higher Education Funding Council for Wales and the Department for Employment and Learning in Northern Ireland).

Nineteenth-century British higher education was fundamentally a private endeavor. British universities were converted into state dependencies in the 20<sup>th</sup> century and are now generally considered public. Despite fiscal dependency on state funds, higher education institutions in the United Kingdom are legally independent and determine their own admissions policies. Each institution has a funding agreement with its funding council that lays out student number targets.

In the late 1960s, following the famous Robins Report, the Government began an expansion of higher education that depended mainly on the creation of polytechnics: a new, distinctly non-university sector, locally-controlled and financed, featuring more practical and technical subjects, and granting degrees only through the centrally-chartered National Councils for Academic Awards. Through the 1980s, the Polytechnics were separated from local governmental control, given more autonomy, and generally brought close to the British university model. In 1992, the binary line between the universities and what had been the polytechnics was officially abolished (Universities UK, 2005).

**Table 1**  
**Breakdown of Higher Education Institutions in the United Kingdom (2007)**

	<b>Number of universities</b>	<b>Number of university institutions</b>
<b>England</b>	88	132
<b>Wales</b>	3	12
<b>Scotland</b>	13	13
<b>Northern Ireland</b>	2	2
<b>Total</b>	<b>106</b>	<b>159</b>

Source: Universities UK 2007

There has been a rapid expansion in UK higher education sector during the last three decades. Full-time undergraduate student numbers increased by almost 70 percent between 1989 and 1995 and by 21 percent between 1994/95 and 2003/0 (Eurydice, 2006 and Universities UK, 2005). In 2005/06 there were more than 1.7 million students studying in higher education institutions (broken down by country in Table 2 below) and the participation rate was about 44 percent (Universities UK, 2005).

During the rapid expansion period of the higher education sector between 1989 and 1997, public per student funding fell by around 36 percent (this trend was only reversed in 2000/01), putting considerable pressure on universities and colleges. In other words, expansion in student numbers in the last decade was not matched with increased funding (Eurydice, 2006). By 2005-06, total government spending on higher education reached £6.5 billion (Universities UK, 2006).

**Table 2**  
**Higher Education Students by Country of Institution, 2005/06**

	<b>Undergraduates</b>	
	<b>Full-time</b>	<b>Part-time</b>
<b>England</b>	976,815	505,165
<b>Wales</b>	64,780	39,175
<b>Scotland</b>	125,535	36,310
<b>Northern Ireland</b>	31,690	11,270
<b>Total</b>	1,198,820	591,920

Source: Universities UK, 2007

Against this background and the other related issues, in May 1996, the National Committee of Inquiry into Higher Education was established by agreement between the main political parties, to make recommendations on how the purposes, shape, size and funding of higher education, including support for students, should develop to meet the needs of the United Kingdom over the next 20 years (Eurydice, 2006).

The Committee made a number of recommendations on higher education funding in its report, *Higher Education in the Learning Society – The Report of the National Committee of Inquiry into Higher Education*, including a proposal that full-time students in higher education should pay some of the costs of their tuition fees (Eurydice, 2006). In response to the Dearing Report (named after the Chairman of the Committee), in 1997, the Government announced means-tested contributions to the costs of instruction -- or tuition fees -- by full-time home and EU undergraduates, the introduction of a new system of income contingent loans and the abolition of maintenance grants. Revenue generated from student fees and maintenance was destined to be spent on supporting improved access and higher standards in further and higher education (Eurydice, 2006).

Consequently, in the 1998/99 academic year tuition fee of £1,000 was introduced to full time UK and EU undergraduate students. How much of the tuition fee a student paid depended on assessed family residual income and students from the lowest income families did not pay tuition fees.

A new level of regional autonomy was granted to Scotland in 1999 and the new Scottish Parliament began to work immediately to roll back tuition fees in Scotland. By 2001, up front tuition fees were abolished in Scotland and replaced with an income contingent loan (referred to as a graduate contribution) that would be paid after graduation (see Scotland below).

On January 22, 2003, Charles Clarke, the Secretary of State for Education and Skills, announced the publication of the White Paper, *“The Future of Higher Education”* that set out the governments’ plans for radical reform and investment in universities and higher education colleges. In terms of higher education finance and the UK’s cost sharing strategy, the White Paper sought to increase resources available to higher education institutions without jeopardizing the government’s access goals.

Accordingly, the White Paper called for the freedom of individual English universities to charge higher fees, called “top-up fees”. This proposal was strongly resisted by the political Left of the Labour Party both for the symbolism of even higher tuition fees, which had always been unpopular with the Left, and for the potential to allow especially high tuition fees at the most elite universities – thus making the “already rich even richer.” The “top-up” controversy was settled by limiting the newly flexible fees to a maximum of £3,000 and by requiring each university to file an acceptable plan for an institutionally funded grant program (i.e., a tuition fee rebate) that would assure continuing financial accessibility.

After extensive public consultation, the Higher Education Act was passed in 2004 that, among other things, gave those English universities that have signed an Access Agreement with the new Office for

Fair Access the power to charge a student contribution of between £0 and £3,000 per year for each program of study starting in September 2006. The Act abolished the up-front payment of tuition fees and replaced such payment with a new income contingent loan scheme that allows every student to defer payment of their fees until after they have graduated and have started to earn a minimum of £15,000. Payment is through the tax system linked to ability to pay. Each Access Agreement identifies the steps that the university will undertake to improve access including the provision of financial help so that students from all backgrounds apply.

The Higher Education Act 2004 also gave the National Assembly for Wales powers to decide what tuition fees and student support will apply in Wales. In order to review policy options, the Welsh Executive commissioned an independent report (the Rees report) on the devolution of the student support system and tuition fee regime in Wales (Rees, 2005). The Rees report proposed the introduction of deferred flexible fees along the lines of the English system accompanied by a National Bursary Scheme that would award means-tested, targeted bursaries to low-income students.

After extensive debate, a cross-party deal in the Welsh assembly concluded the long debate about tuition fees in Wales. In the 2006/07 academic year, higher education institutions charged tuition fees of £1,200 and in 2007, an annual deferred flexible fee of up to £3,000 was introduced for the 2007/08 academic year. Since 2007, all Welsh students (irrespective of income) studying at a Welsh institution are entitled to a fee grant of up to £1,800 to be paid directly to the institution. (See below for more on Wales.)

In Northern Ireland, the Higher Education (Northern Ireland) Order 2005 passed in April 2005 introduced variable deferred tuition fees from 2006 along the same lines as those introduced in England.

**Table 3**  
**Tuition Fees in the United Kingdom**

	Maximum tuition fee charges		
	2006/07	2007/08	2008/09
England	£3,000	£3,070	£3,145
Wales	£1,200	£3,000	£3,145
Scotland	£1,700/4 years	0	0
Northern Ireland	£3,000	£3,070	£3,145

## England and Northern Ireland

### Student Financial Assistance

The higher education reforms also changed the student financial assistance system. Students in England and Northern Ireland may pay their tuition fees up-front or apply to the Student Loans Company (via their Local Authority) for a student loan for tuition fees. The Student Loans Company pays the student fees directly to the college on the student's behalf. The loans accrue interest (4.8 percent in 2008), which is linked to the rate of inflation in line with the Retail Prices Index. The loan becomes due for repayment when the students have left higher education and are earning more than £15,000 per year. Borrowers must pay 9 percent of their income each year that is over £15,000.

Financial assistance is also available for living costs. A means-tested non-repayable Maintenance Grant of up to a maximum of £2,835 (maximum of £3,200 in Northern Ireland) is available for students whose family annual income is below £60,006. All students are eligible for maintenance loans, two thirds of which are non-income assessed. The highest loan (£6,475) is available to needy students living on their own in London.

The means-tested maintenance loans currently carry a 4.8 percent interest rate reflecting current inflation rates and, like the deferred fees, are repayable once the student has left university and starts earning more

than £15,000 per year. Repayments (linked to earnings) are done through deductions made through the PAYE tax system by the employer. Loan balances for both tuition fee and maintenance loans are written off after 25 years from commencement of repayment.

Those English and Northern Irish institutions that charge more than £2,700 per year in fees must provide additional bursaries of at least £300 to students who are eligible for the full maintenance grant of £2,700.

**Table 4**  
**England and Northern Ireland**  
**Higher Education Expenses Borne by Parents and Students**  
**First Degree, Academic Year 2007-08**

[National currency (English Pound) converted to \$US by 2007 purchasing power parity estimate \$1 = £ 0.656\*\* ]

		<b>Public (outside London)<sup>1</sup></b>	<b>Public (London)<sup>2</sup></b>	<b>Northern Ireland</b>
<b>Instructional Expenses</b>	Tuition*	£2,900 US\$4,420	£2,900 US\$4,420	£2,900 US\$4,420
	Other Fees	NA	NA	NA
	Books and Other Ed. Expenses	£320 US\$490	£320 US\$490	£447 US\$680
	<b>Subtotal Costs of Instruction</b>	<b>£3,220 US\$4,910</b>	<b>£3,220 US\$4,910</b>	<b>£3,350 US\$5,100</b>
<b>Student Living Expenses</b>	Lodging	£3,500 <sup>3</sup> US\$5,335	£4,000 US\$6,100	£2,500 US\$3,810
	Food	£800 US\$1,220	£1,460 US\$2,225	£1,400 US\$2,135
	Transportation	£320 US\$490	£400 US\$610	£400 US\$610
	Other Personal Expenses	£1,500 US\$2,285	£1,500 US\$2,285	£2,500 US\$3,810
	<b>Subtotal Cost of Student Living</b>	<b>£6,120 US\$9,330</b>	<b>£7,360 US\$11,220</b>	<b>£6,800 US\$10,365</b>
<b>Total Costs</b>	<b>£9,340 US\$14,240</b>	<b>£10,580 US\$16,130</b>	<b>£10,150 US\$15,480</b>	

\*At an interest rate of 4.8 percent compounded over three years of school and 2 years of working (assuming it takes two years to reach earning level of £15,000), a loan of 3,070 at initiation of repayment would be £3,881 present value of which is £2,900.

\*\*OECD (2008). Purchasing Power Parities. Main Economic Indicators.

## Scotland

A new level of regional autonomy granted to Scotland in 1999, including a new Scottish Parliament, began to work immediately to roll back tuition fees in Scotland. Following the Parliament's Cubie Report (Independent Committee of Inquiry into Student Finance, 1999), through a scheme called the Graduate Endowment Scheme, up-front tuition fees for new Scottish students studying in Scotland were abolished starting in 2001/02. In place of the tuition, students were required to pledge to "contribute" after graduation £2,289 (2006-07) to an entity called the Graduate Endowment Fund of Scotland. Students

<sup>1</sup> 8 month calendar like University of Cambridge and University of Liverpool

<sup>2</sup> 9 month calendar London South Bank University

<sup>3</sup> Including breakfast and dinner.

could pay their Graduate Endowment contribution in a lump sum upfront, pay part of it upfront and apply for a student loan for the rest or apply for a student loan from the Student Loans Company for the full amount. Payments toward this "contribution obligation" began as soon as the graduate's annual income reached £15,000, and could then be made on an income contingent basis, conforming to the provisions of the UK income contingent student loan plan (rate of interest of 2.4 percent). Some students, such as mature students (defined as students over 25, married students and students who have been self-supporting for three years) were exempt from paying the Graduate Endowment Contribution. In February 2008, the graduate endowment contribution was abolished by the Scottish Parliament for all students who graduated on or after April 1, 2007. Students from Wales, England and Northern Ireland who study in Scotland will still have to pay an annual tuition fee of £1,700.

Support is also available for living costs. Students may apply for the mean-tested Young Students' Bursary of £2,455 for living costs and for the partly means-tested student loan for living costs (maximum of £4,300 if living away from home and £3,405 if living at parents home). Mature students may apply for partly income assessed student loans for living costs (up to a maximum of £4,300 for a 30 week course) and income assessed non-repayable supplementary grants.

**Table 5**  
**Scotland**  
**Higher Education Expenses Borne by Parents and Students in Scotland**  
**First Degree, Academic Year 2007-08**

[National currency (English Pound) converted to \$US by 2006 purchasing power parity estimate \$1 = £ 0.656\*]

		<i>High Public</i>	<i>Low Public</i>
	<i>Effective Tuition</i>	0	0
	Books & Other Educational Expenses	£200 US\$305	£200 US\$305
	Subtotal Costs of Instruction	£200 US\$306	£200 US\$306
<i>Student Living Expenses</i>	Lodging	£ 4,636 US\$7,070	0
	Food	£685 US\$1,045	£685 US\$1,045
	Transportation (Commuting)	£380 US\$580	£ 380 US\$580
	Other Personal Expenses	£1,400 \$2,135	£ 1,400 \$2,135
	Subtotal Cost of Student Living	£ 7,100 \$10,820	£ 2,465 \$3,760
<b>Total</b>		£7,300 \$11,130	£2,665 \$4,060

*Low public:* living at home with parents

*High public:* living in single room dormitory with board included

\*OECD (2008). Purchasing Power Parities. Main Economic Indicators.

## Wales

Following in the footsteps of Scotland, the Higher Education Act 2004 gave the National Assembly for Wales powers to decide what tuition fees and student support will apply in Wales. In the 2007/08 academic year, higher education institutions in Wales became able to charge annual deferred flexible fees of up to 3,000/year. At the same time that the flexible fee was introduced, all Welsh students (irrespective of income) studying at a Welsh institution became entitled to a fee grant of up to £1,890 to be paid

directly to the institution. A Welsh student who studies elsewhere in the UK is charged fees according to the fee regime in the country of study and is eligible for a loan from Student Finance Wales to cover these fees that will be repaid in the same way as the student's study loan.

Welsh students from families whose annual income is less than £39,300 are entitled to means tested Assembly Learning Grants to meet general living expenses. Students from families with annual household income of £18,370 or less are entitled to the full £2,835 grant while those from families with income between £18,370 and £39,300 are eligible for partial grants. Student loans are also available to cover living costs. The amount a student may borrow depends upon his/her household income as 25 percent of the loan is income-assessed. In 2008/09, the maximum loan rates mirror those in England and Northern Ireland (maximum of £6,480 for students living in London; £4,625 for those living elsewhere in the UK; and £3,580 for those living at home).

Additional financial contingency funds are also available through a student's college or university. The fund allows the institution to award discretionary assistance to students who are experiencing financial difficulties or who would not otherwise be able to afford higher education.

**Table 6**  
**Wales**  
**Higher Education Expenses Borne by Parents and Students**  
**First Degree, Academic Year 2007-08, 9 months**

[National currency (English Pound) converted to \$US by 2007 purchasing power parity estimate \$1 = £ 0.656 ]

		<b>Public *</b>	<b>Public **</b>
Instructional Expenses	One Time Fees	NA	NA
	Tuition***	£1,186 US\$1,810	£1,186 US\$1,810
	Other Fees	NA	NA
	Books and Other Educational Expenses	£250 US\$380	£250 US\$380
	Subtotal Costs of Instruction	£1,436 US\$2,190	£1,436 US\$2,190
Student Living Expenses	Lodging	£2,500 US\$3,810	0
	Food	£1,080 US\$1,645	£720 US\$1,100
	Transportation	£150 US\$228	0
	Other Personal Expenses	£1,650 US\$2,515	£1,600 US\$2,440
	Subtotal Cost of Student Living	£5,380 US\$8,200	£2,320 US\$3,540
<b>Total</b>		£6,820 US\$10,400	£3,760 US\$5,725

\*living in university accommodation.

\*\* living at home

\*\*\* Maximum of £3,145 minus the fee grant for all Welsh students of £1,890 equal to £1,255. At an interest rate of 4.8 percent compounded over three years of school and two years of working (assuming it takes two years to earn earnings level of £15,000), the loan amount at initiation of repayment would be £1,587, the present value of which is £1,186.

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## Resources

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Student Finance England, [www.studentfinanceengland.co.uk](http://www.studentfinanceengland.co.uk)

Student Finance Northern Ireland, [www.studentfinancenir.co.uk](http://www.studentfinancenir.co.uk)

Student Finance Wales, [www.studentfinancewales.co.uk](http://www.studentfinancewales.co.uk)

Student Loans Company, [www.slc.co.uk](http://www.slc.co.uk)

University of Liverpool

University of Cambridge

London South Bank University

Imperial College

Cardiff University

University of Edinburgh

University of Aberdeen

Queens Belfast University

Ulster University