



**Impetus**  
Private Equity Foundation

# Funding for the future

Post-18 funding and widening participation

Policy briefing 5  
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## Executive summary

- Only 24% of young people eligible for free school meals go to university, compared to 41% of their better-off peers – **an access gap of 17% points**.<sup>1</sup>
- While 16% of young people in England eligible for free school meals now attend university, just 2.5% attend the most selective universities, a quarter of the rate of their better-off peers.<sup>2</sup>

The ongoing debate about post-18 education, and how to fund higher education (HE), usually treats students as a single group. This isn't helpful. It disguises the specific needs of young people from disadvantaged backgrounds.

We think their needs should be one of the central concerns policymakers address, particularly when considering who accesses post-18 education and how it's funded.

We believe that:

1. However the post-18 education funding system is structured, there should be a fair distribution of costs between graduates and non-graduates and the system should be progressive – the graduates who benefit most from higher education (HE) should pay the most
2. Supporting widening participation (WP) work, especially when started young and focussed on attainment, is the single most important thing the government can do to ensure more young people from disadvantaged backgrounds access HE
3. There is a strong case for funding reforms that better support students with their living costs while at university
4. There is scant evidence that many of the most popular ideas for funding reform – for example on tuition fees and interest rates – are effective ways to either boost access for disadvantaged students or support low earning graduates
5. We urgently need to transform the way that financial support is described and presented to young people – moving away from highly-charged and misleading notions of 'debt'

## Overview

The benefits of a university education are well known, but as the figures at the beginning of this briefing show, they are not equally distributed.

We're proud of the role our charity partners [The Access Project](#) and [IntoUniversity](#) have played in this progress, and our collective efforts through the [Fair Education Alliance](#).

But this progress, and the prospect of eliminating the university access gap once and for all, is under threat.

The government's post-18 review is a well-intentioned and timely opportunity to tackle issues around access, fairness and funding – but there is a risk that the baby is thrown out with the bathwater.

It is vital that, whatever the review specifically recommends, it secures the future of WP.

We believe the existing £800 million pot of funding devoted to WP in higher education agreed through access agreements<sup>3</sup> should be protected, and directed towards the most effective interventions.

Of course, all of this discussion centres on higher education – most young people, and particularly most disadvantage young people, take other routes. We cover the reforms needed to technical and vocational education in our briefing [Skills for success](#).

## **1. However the post-18 education funding system is structured, there should be a fair distribution of costs between graduates and non-graduates and the system should be progressive – the graduates who benefit most from higher education (HE) should pay the most**

We believe that irrespective of *how* we fund HE, a fair balance needs to be struck between the contributions made by graduates versus non-graduate taxpayers, and between higher and lower earning graduates.

An important factor underpinning any reform to the current system, which is broadly progressive, is the balance between taxpayer contribution and graduate contribution.

We believe the best criteria for judging this balance is to consider the balance between the private and public benefit of HE. For example, education up to Level 2 is free because society benefits enormously from ensuring that people are qualified to a level that enables them to access the labour market. PhDs and MBAs are not generally paid for from the public purse, as the benefits accrue largely to the student themselves or the organisations that demand those skills.

Our charities work with many disadvantaged young people who do not go to university, and who earn less than most graduates. It is unfair to expect them to pay as much towards university education as those who will benefit. This is why some sort of split between the public purse and the graduates who directly benefit from higher education is generally accepted.

## **2. Supporting widening participation (WP) work, especially when started young and focussed on attainment, is the single most important thing the government can do to ensure more young people from disadvantaged backgrounds access HE**

Why don't more disadvantaged young people access HE?

Answering this question ultimately comes down to understanding what factors influence young people's choices, and their ability to make those choices. The biggest barrier they face to accessing HE is that they are less likely to get the grades they need. But raising their attainment is not enough. We know that young people from disadvantaged backgrounds are still less likely to go to university than their better-off peers, even when they have the grades. So more needs to be done to help them get the grades, and understand what options are open to them.

This is where widening participation comes in.

## Widening participation

Widening participation – a cornerstone of HE policy – aims to address the discrepancies in the take-up of HE opportunities between different social groups.

Universities and colleges charging the higher level of tuition fees must enter into an ‘access agreement’ with the Office for Students (OfS), detailing what measures they are taking to increase the university access, progression and completion rates of young people from under-represented groups: this is known broadly as WP.

To close these gaps, universities and colleges undertake a range of WP activities: offering financial support (scholarships, bursaries, hardship funds); running their own outreach activities with schools and communities; and funding third party organisations undertaking a range of programmes (awareness and aspiration raising programmes, summer schools, tutoring, careers advice, university application support and interview prep).

The OfS estimates that in England, universities and colleges will invest £860 million in WP under the 2017-18 access agreements.

This is a considerable sum which can be deployed towards eliminating the university access gap. But this can only be deployed effectively if universities prioritise spending money on the activities and organisations which have a demonstrable impact on overcoming the barriers to access.

Our charity partners The Access Project and IntoUniversity work to overcome the main barriers faced by young people from disadvantaged backgrounds. They focus on three ‘A’s: raising attainment; providing high quality advice; and improving awareness.

## Raising attainment

The most significant barrier that young people from disadvantaged backgrounds face is that they are simply less likely to get the grades they need to get in to university. The attainment gap at age 16 between disadvantaged young people and their better-off peers stands at 27% points. Fewer disadvantaged young people go on to study A-levels and even among those who do, fewer apply and get accepted into university.

Therefore, interventions which target attainment support at those young people underachieving at school, like The Access Project’s tutoring programme and IntoUniversity’s centre-based model, are extremely effective at WP. 75% of the young people IntoUniversity works with progress to university, compared to 24% of young people in a matched comparator group. In 2017, 53% of The Access Project’s students get a place at a top tier university.

But gaps persist between similarly qualified disadvantaged young people and their better-off peers.<sup>4</sup> Improved attainment is a necessity, but not a sufficient condition for WP.

## Providing advice and guidance

Advice and guidance takes two forms.

One is advice around what options are open to young people and how to access them, including how to construct a strong UCAS application. Each of The Access Project's students gets 16 hours of dedicated application support, underlining the importance of this element of access.

The second is understanding and managing the funding system. It is important that young people understand that support is available, for example advanced learner loans or tuition fee loans, and how this benefits them. This information is especially important to disadvantaged young people, who are less likely to have previous HE experience in their family or networks.

The Access Project has found that choices are largely driven by parental expectations and peer destinations. Schools can make a difference, but only through strategic engagement, ideally from primary school, and at least from the start of year 7. Students will not access the wealth of information available to them unless they are directly supported to do so, so we need to resource this activity appropriately and not simply rely on young people to 'self-direct' their research on post-18 routes. This underlines the importance of WP work, and the money which funds it.

## Improved awareness

Advice and guidance is inevitably focused on specific moments of choice, but major educational choices are formed over years, rather than at educational crossroads. Young people need to be inspired from an early age to see what is possible for them and be supported in exploring possibilities.

The Behavioral Insights Team has noted that, "*Career advice is often focused on 'moments of choice' when a young person is facing a decision that will set pathways or close down options. However, 'moments of inspiration' when young people are building an understanding of what types of jobs they would like to do, are arguably equally important.*"<sup>5</sup>

This is part of the reason that even when young people from disadvantaged backgrounds get the grades, they don't necessarily apply or get in to university. If they come from a family or geographical area where university isn't the norm, they may not think it's for them.

IntoUniversity works with 30,000 of the most disadvantaged young people in England and has pioneered the 'early and often' approach to university access. Young people in primary school need to understand that their learning is part of a journey that winds through to adult life and important choices. In particular, the poorest young people (who are most likely to take vocational routes) need to be made aware that university and professional careers can also be a real choice for them.

The experience of our charities shows how important WP work is in addressing the barriers disadvantaged young people face, and crucially addressing them from a young age. The issues are fundamentally far broader than the finance system. They are to do with whether university is a viable option and whether young people can get the grades to make it one.

This is why the government must ensure that whatever the HE funding system, the £860 million pot agreed through access agreements for WP is protected.

This is not to say that the money could not be better spent. It should be directed towards interventions with proven impact, as opposed to less effective provision, like bursaries. However, it would be a mistake to cut the WP budget because not all of the money is spent effectively. It would be better to ensure that it is, through better evaluation and enforcement by the OfS.

Reducing the WP spent through access agreements to fund a cut in tuition fees would take resources away from an area where it can improve access, to one where there is no evidence around improving access (the rise in tuition fees has had no impact on access).

The OfS may have statutory duties around widening participation in HE, but will struggle to make an impact without the access agreement spending. Protecting the WP funding and ensuring it is spent more effectively must be a cornerstone of any reforms.

### **3. There is a strong case for funding reforms that support students better with their living costs while at university**

We believe full-time students should be funded to cover their basic costs such as food, rent, transport, and course materials. They should also be funded to a basic level to participate in other elements of student life, e.g. social. We are concerned that the current maintenance arrangements do not do this. Many students will wish to supplement this level of support, for example by working part-time or during holidays.

The government should be transparent about how the level of maintenance support is calculated, what it is expected to cover and what assumptions it makes about students' other financial resources. This would support students to plan and budget better. We are particularly concerned that there is no clear indication as to what extent the current arrangements assume a level of parental contribution. This is something that is challenging for young people from disadvantaged backgrounds.

We support the government increasing maintenance support. Increased loans would be fairest, as only high earning graduates would pay them back, but we understand the concern about loading more ‘debt’ on students. We are particularly aware of the concern that disadvantaged young people end up with the highest ‘debts’. We believe these issues are best dealt with by addressing misconceptions, for example through WP work, and in particular not referring to student loans as ‘debt’, given that they do not function like debt in any normal way.

An alternative option would be to introduce maintenance grants in addition to the current loans. This would add cost to the system, which may need to be balanced out with savings elsewhere. We would expect these to fall on higher earning graduates.

Though there is a case for grants *in addition* to current loans, there is no case for grants to *replace* part of the current loans. This makes no difference to the amount of money students have to pay their bills. And, given that most graduates are not expected to pay off their loans in full, it would have no impact on most students’ overall repayments – except higher earning graduates, some of whom would move from not paying off their loans to paying them off before they expire, and thus pay less overall. We do not see this as a good use of public money.

## **4. There is scant evidence that many of the most popular ideas for funding reform – for example on tuition fees and interest rates – are effective ways to either boost access for disadvantaged students or support low earning graduates**

Funding post-18 is disproportionately directed towards higher education options. For example, while many people are calling for reforms that would reduce the costs of higher education to graduates (thus increasing the costs on non-graduate taxpayers), the DfE has already reduced by 17.5% the funding at 18 for those taking Level 2 and 3 courses. Only 60% of 19 year-olds reach Level 3 yet the system puts significantly more money into higher education for the part of that group that goes to university, and not towards quality provision for the other 40%.

Differences in maintenance support for students are particularly stark. Financial support for higher education students adds up to £2 billion in government support for maintenance loans, £0.4 million in university bursaries (top-sliced from university fees) and £0.3 million in direct grants (disabled student allowance, etc.) Meanwhile, financial support for adult FE students adds up to £0.1 billion in grants with no loans available. That money in FE could be repurposed after skills budget devolution comes into effect in the coming years.

This briefing explores finances more fully in the next section, but a consistent concern is that many popular proposals would effectively require non-graduate taxpayers to pick up a higher share of the costs than at present. Our view is that any financial reforms should ensure higher earning graduates pay most, and should ensure graduates as a whole pay the majority of the costs.

In terms of the graduate contribution to the costs of higher education, most students are not in a position to pay for all or part their studies upfront. Some form of post-graduate payment is inevitable, whether repaying a notional loan as at the moment or through a graduate tax.

One of the best features of the existing student loans system is that the larger the private benefit a graduate gets in the form of higher salary, the larger the contribution they make towards their education. Graduates who earn only modest amounts pay back far less than their original borrowing – and none therefore of the “interest” applied, regardless of the interest rate. We want to see this feature preserved.

Indeed the overall student loans package is very progressive. There are concerns that the system deters young people from disadvantaged backgrounds. Evidence from applications does not bear this out – with the exception of the transition to the new system, university applications and acceptances from disadvantaged neighbourhoods have risen every year.<sup>6</sup> We have covered the actual barriers disadvantaged young people face to accessing higher education earlier in this briefing.

Equally, it seems unlikely that no young person has ever opted against university as a result of the fear of debt, even if this was based on a misunderstanding of the unusual and progressive structure of student loans. There is a trade-off here. The alternatives to some form of debt relationship are likely a cap on student places, which would likely hit disadvantaged young people hardest.

Some of the risk associated with tuition fees can be mitigated by ensuring young people have all the information they need (e.g. no upfront cost, ‘debt’ is written off after 30 years). This again speaks to the importance of WP work ensuring young people are well informed. There is also a point here about communicating about the funding system, covered at the end of this briefing.

There are a number of specific suggestions in the public domain, and we provide our thoughts below. We have considered all these complex questions from the vantage point of what would be best for disadvantaged young people.

## Retrospective changes

Young people deserve some certainty in the terms and conditions associated with their loans. This should not prevent future governments correcting the unintended negative consequences on students of previous governments’ policies – for example, raising the repayment threshold as incomes rise where the threshold hasn’t been indexed. Young people should therefore have a ‘fair fees guarantee’ that ensures changes to terms and conditions will only be made if they benefit them. Sales of the student loan book for government accounting purposes are similarly acceptable if, and only if, they protect students’ terms and conditions.

## Interest rates

Most students will not pay off their fees in full, and so debates around interest rates are largely symbolic – only better off graduates end up paying any interest at all. This does, however, affect the nominal value of the debt. Early in their careers, graduate repayments will be less than the interest accrued in a year, resulting in net debt increase (nominally).

By the early 2030s, nominal debt of over £100,000 will be not uncommon, and nominal debt of £200,000 is likely to occur for some by the end of that decade. We note that lower interest rates will nonetheless not actually benefit most graduates in terms of their overall repayment. This is an area where the focus should be on better communication of how the system works in practice over expensive, arguably popular but ineffective alternatives.

## Write-off

The main progressive feature of tuition fees is that any unpaid fees get written off after 30 years. This means that low-earning graduates get the bulk of the taxpayer subsidy, and thus nominal values of student debt are of limited meaning. However, changes to the write-off period would have a significant impact. Lengthening the write-off period to, say, 35 years, would see most graduates pay more overall. This is probably one of the fairest ways to raise additional money from graduates, as it takes money from them later in their careers when they are likely to be earning more. This may be necessary to increase the upfront maintenance support available.

## Repayment threshold

The repayment threshold, along with the write-off, helps ensure repayments are relatively progressive. It ensures the lowest paid graduates do not contribute towards their education at all, while those who earn more, pay more back. Increasing the repayment threshold increases the cost for taxpayers, but does benefit graduates, especially lower to middle earning ones. The repayment threshold needs to be set in such a way as to be fair to both graduates and non-graduates, in terms of the overall question of who pays for HE.

## Repayment rate

Decreasing the repayment rate effectively causes a decrease in graduate income tax above the repayment threshold. Decreasing the rate would benefit graduates, but increase costs for the taxpayer. As above, the repayment threshold needs to be set in such a way as to be fair to both graduates and non-graduates, in terms of the overall question of who pays for higher education.

It would also be possible to set differing repayment rates for different levels of income, similar to income tax. This would better collect income from those with highly variable incomes when viewed over an extended period of time, and would collect more from graduates when their earnings are higher. Again, this is probably one of the fairest ways to raise additional money from graduates as may be necessary to increase the up front maintenance support available.

## Complex effects

It is worth noting that while outcomes for most graduates are easy to predict (most do not pay off their debt and therefore the only factor to be modelled is monthly repayment), any change to the above criteria causes some graduates to change from either paying off their debt in full to not, or vice versa. The exact progressive/regressive nature of changes among these groups is hard to predict.

There are also complex effects when changing more than one variable. This is a particular concern given the government's overall desire for any changes to remain broadly cost neutral. While this is progressive in that it means no additional subsidy from non-graduate taxpayers, the risk is that the balance of winners and losers within the graduate group is regressive – for example, lowering tuition fees but lengthening the write-off period, which would benefit high earning graduates at the expense of lower earning ones.

## Dynamic market

As the majority of courses in England charge tuition fees at the cap, there is no dynamic market in price. Some people would prefer it if there were. For such a market to function effectively would depend on would-be students having access to an unrealistic amount of information about their future prospects as graduates of specific courses. Historically, employment outcomes vary dramatically even within the same institution and similar courses. Without good data, there is a risk that the system would change from young people's decisions being influenced by a lack of understanding of how student loans work to being influenced by a lack of understanding of what different prices really mean.

We are particularly concerned that the behavior of disadvantaged young people would be difficult to predict. They could flock to cheaper courses on price grounds; or avoid them, reading the lower price as an indicator of lower quality. Proposals for a dynamic market in price are invariably designed to influence young people's decision making and choices. In our view, there are better policy solutions to this issue. This underlines our point about the importance of widening participation work and the money agreed through access agreements, which can support information and advice to inform young people's decision making and which must be protected whatever else changes as a result of this review.

## More flexible provision

We believe young people from disadvantaged backgrounds would be particularly likely to benefit from more flexible provision. The decline in part-time students is concerning, particularly as the Open University points out, because most of this decline is in part-time students from disadvantaged areas. For the under-20s, HESA data shows that part time first degree numbers have held steady but there seems to have been a sharp decline in students taking sub-degree courses which is unexplained. It is not clear whether these are students who would otherwise have accessed university who now are not, or students who would previously have been on an access course and are now being accepted directly onto first degree courses. This area may require additional research.

## 5. We urgently need to transform the way that financial support is described and presented to young people – moving away from highly-charged and misleading notions of ‘debt’

We understand the concern about loading ‘debt’ on students. We are particularly aware of the concern that disadvantaged young people end up with the highest ‘debts’. But we believe these issues are best dealt with by addressing misconceptions and adopting radically different terminology when describing HE funding.

Terminology should move away from discussing student loans as ‘taking on debt’.

Student loans are not debt in any conventional sense – they are written off if not paid, the debt is not inherited if not paid off, degrees are not demanded back, and they do not make it harder to borrow money.

Indeed, for the 77% of graduates who do not end up paying back their loans in full,<sup>7</sup> the current system effectively functions as a time limited graduate tax of 9% on incomes above £25,000.

The notion that graduates will accumulate ‘up to £200,000 of debt’ is understandably alarming. But it is essentially meaningless. Describing it as ‘debt’ is both inaccurate and carries negative connotations. We need to change the terms of public discourse considerably, including the way in which the student loans company communicates with students.

Crucially, the risks currently associated with tuition fees putting off young people can be mitigated by ensuring young people have all the information they need (e.g. no upfront cost, loans are written off after 30 years). This again speaks to the importance of WP activity ensuring young people are well informed. Post-18 funding reforms must protect this vital work, and not throw the baby out with the bathwater.

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## About Impetus-PEF

Impetus – The Private Equity Foundation (Impetus-PEF) transforms the lives of young people from disadvantaged backgrounds by ensuring they get the right support to succeed in school, in work and in life.

We do this by finding, funding and building the most promising charities working with these young people and by influencing policy and resources.

We support a number of charities helping to give disadvantaged young people a chance to succeed in school, in work and in life.

**Impetus – The Private Equity Foundation**  
183 Eversholt Street  
London NW1 1BU

 [impetus-pef.org.uk](https://impetus-pef.org.uk)

 @ImpetusPEF

 [info@impetus-pef.org.uk](mailto:info@impetus-pef.org.uk)

 0203 474 1000

Company number: 8460519 | Registered charity number: 1152262