Ending Student Maintenance Grants
Opposition Day Debate, House of Commons
19 January 2016

Opposition Motion: *"That this House calls upon the Government to abandon its policy on replacing maintenance grants with loans for lower income students."*

Summary

- From 2016-17 maintenance grants will be replaced by maintenance loans. **These changes will affect nearly half the entire undergraduate student population in England from 2016-17.**
- The UK benefits from a strong and diverse university sector, and million+ believes that maintenance grants have been extremely important for many students from lower income households in accessing higher education.
- Whilst an increase in the amount students from low-income households could receive is welcome, we remain extremely concerned that will put off some students from applying for higher education.
- The move to £9000 fees in 2012 means that students and graduates now contribute 75% towards the overall costs of their higher education compared to 25% under the pre-2012 system. The replacement of grants by loans will further increase the contribution of individuals compared to that of government.
- We also have serious concerns about how much money this move will save in the long-term, or if it may end up costing more than the current system of grants.

Background

Currently, students who go into higher education from families with an annual income of £25,000 or less are eligible for the full grant of **£3,387**, and students from households with an annual income of between £25,000 and £42,620 are eligible for a partial grant, which is means tested and tapers depending on household income. However, in the Summer Budget of July 2015 plans were announced to remove the Student Maintenance Grant, citing that the grants had become 'unaffordable'.

From the 2016-17 academic year, therefore, maintenance grants will be replaced with maintenance loans for new students from England, paid back when their earnings exceed £21,000 a year, which the Government estimate will save £2.5 billion by 2020-21.[1]

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1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf p59

The new maintenance loan will be available for students from low-income households, based on the same criteria as before, and be up to the value of £8,200 if you live away from home (or £10,702 if you live away in London). The Government also announced a consultation on freezing the loan repayment threshold for five years.

The Government took these changes by means of a Statutory Instrument and the Legislation Committee passed the motion on Thursday 14th January 2016 by 10 votes to 8. [2]

Key Figures

Minimum debt on graduation from a three-year course would be an **extra £13,500** if full entitlement is taken up (before interest).

The Institute of Fiscal Studies (IFS) has estimated that students from the poorest 30% of households will repay an average of around **£3,000 more** overall (2016 prices) because of the switch from grants to loans – with this cost falling mostly on those from this bracket who go on to be higher earners.[3]

The IFS also expects around **35%** of those previously entitled to full grants to see their loan repayments increase.

The House of Commons Library states that in 2014/15 **42% of students** who entered under the 2012 fees regime were awarded full grant support. A further 14% were awarded partial support. That amounts to over **half a million** students.

Provisional awards of Maintenance and Special Support Grants totalled **£1.57 billion** in academic year 2014/15. **395,000 students**, received a full grant, and just over **135,000** a partial grant.[4]

Will this deter potential students from applying to university?

House of Commons Library analysis suggests that the much larger increase in loan fees in 2012 did not stop the existing year on year trend for higher participation among disadvantaged groups. However, this does not in itself suggest that these changes will have no impact either on younger students or on the participation of older students and those studying part-time where numbers have declined significantly since 2012. A much wider analysis is required as to the link between fees and participation, and just following one set of data could be dangerous for policy makers.

This change could also have a serious impact on post-graduate enrolment since it is clear that the abolition of grants will increase individual student debt significantly.

[2] http://www.publications.parliament.uk/pa/cm201516/cmgeneral/deleg3/160114/160114s01.pdf
[3] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN00916 p7
[4] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7258 p4

It is also worth noting that **tuition fees are likely to rise again** in the near future, and be linked with inflation, as outlined in a recent Government Green Paper.[5]

Will this policy boost social mobility and equality of opportunity?

The Government's own equality analysis of this change has indicated that it will most likely affect women more than men, older students more than younger students, and ethnic minority students more than white students. [6] These issues need to be addressed urgently, otherwise any work towards making higher education more diverse, particularly at postgraduate level, will be jeopardised.

This policy will also have a significant impact on some Muslim students, whose religion prohibits the taking out of an interest bearing loan, and it is worrying that this policy is being announced without any reference to how it will be Sharia compliant.

This policy may harm the Prime Minister's stated aim of boosting social mobility. It will mean that, by virtue of nothing more than household income, some students will be saddled with debts far in excess of their fellow students, which they will almost certainly never pay off in full. The freezing of the earnings repayment threshold for five years will also exacerbate this problem, and will hit lower earning graduates the hardest.

It is also important to note that this policy does not exist in isolation, and the cumulative impact of the rise in tuition fees, the scrapping of maintenance grants, and the freezing of the repayment threshold all points towards a more hostile environment for those thinking about higher education.

Will this save the Government money?

House of Commons Library analysis suggests that, for students who are not expected to pay back the loans in full (which is the majority), the effect will be minimal, as they will still not pay the fees back and it will be written off (as a RAB charge). However, many students may not regard such an approach as 'progressive'. Loans increase with interest (including while students are studying) and this means that many graduates will make repayments on student loans for the full 30 year repayment period with little prospect of ever clearing their debt in full. However, there is a danger that this policy could cost the Government more money than it saves in the long-term.

million+ has previously described the current rules governing student loans as 'smoke and mirrors' accounting. Student grants have to be accounted for in the BIS departmental budget whereas just a proportion of the write-off costs of student loans are booked as an impairment against the BIS accounts. The abolition of grants therefore appears to reduce direct public expenditure on and investment in higher education. However, in the long-run the Treasury and the taxpayer will have to bear the costs of writing-off (i.e. the resource accounting costs or RAB charge) of any loans that are not repaid.

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[5] https://www.gov.uk/government/consultations/higher-education-teaching-excellence-social-mobility-and-student-choice

[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/482110/bis-15-639-student-finance-equality-analysis.pdf p5

London Economics was commissioned by million+ to provide an estimate of the additional RAB charge of increasing student maintenance loans to compensate for the abolition of all student grants. *London Economics* estimate that of the additional maintenance loans to be provided, 64-66% of the value will be written off via the RAB charge. This is likely to be an under-estimate since the individuals most likely to qualify for the grant, and thus need the new loan, are much likelier to have an even higher RAB charge, thus saving even less money for the tax-payer.

Our conclusions:

- Students from lower-income families having access to more support is to be welcomed.
- However, the scrapping of all maintenance loans in one go is extremely worrying, and it sends out a message that runs counter to the Government's stated aim of increased social mobility.
- This policy will impact more on women, ethnic minorities and older learners, and this must be addressed.
- This policy may end up being more expensive than the grants system, and there is a danger that this is an exercise in creative accountancy with the interests of students as purely secondary.
- The Government needs to appreciate the wider benefits of having more people educated to degree level in our country, and the ever growing imbalance in funding for higher education is a source of deep concern for the future of one of the UK's most prestigious and successful sectors.

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