Reforming Higher Education Student Finance in the UK: The Impact of Recent Changes and Proposals for the Future

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Background to recent changes in student finance

The last thirty years or so have witnessed enormous changes in higher education (HE) in the UK, particularly with regard to increases in student numbers and in the number of universities, together with radical changes in methods of financial support. Participation in HE by students aged eighteen and nineteen has increased from about 5 per cent of this age group in the early 1960s to about 36 per cent now (see Greenaway and Haynes, 2000). As the resources available to HE institutions to teach these increased numbers have not kept pace, student/staff ratios have escalated significantly: while the average student/staff ratio in 1980 was 9:1, by 1998 this had increased to 17:1. Many more university institutions have been created with the upgrading in 1992 of former polytechnics, hitherto regarded primarily as teaching institutions, to universities, with emphasis on research and publications added to their existing roles.

The inevitable consequence of this unprecedented expansion in student numbers has been a shift in the relative burden of finance away from the state towards the students themselves and their families, in recognition of the perception that taxpayers in general would not be prepared to carry the burden of a sixfold increase in the cost of student support. This perception has intensified in the light of the fact that attainment of a university degree leads on average to a substantial increase in the lifetime earnings of graduates, in comparison with school leavers of A-level standard, and the perhaps surprising finding that this graduate premium has not been significantly eroded by the vastly increased supply of graduates. Research for the Cubie Committee in Scotland (Independent Committee of Inquiry into Student Finance, 2000b: 358) estimated that on average male lifetime earnings were some £296,000 more for a graduate than someone with just an A-level qualification, while the equivalent female figure was £267,000. Work commissioned for the so-called Russell Group of top universities in the UK[1] (Greenaway and Haynes, 2000) suggested an even higher differential of about £400,000. Not all graduates do equally well, however, as evidenced by research from the University of Warwick (quoted in Pollard, 2001) which shows that, while a male law graduate can expect to earn an average lifetime gross salary of over £35,000 a year, a female graduate in agriculture can expect only £18,000.

In the last decade, the student support system moved gradually away from means-tested grants towards a complete dependence on loans administered by the Student Loans Company (SLC), albeit at a zero real rate of interest. In 1997, the incoming Labour government went further when, following the Dearing Report (National Committee of Inquiry into Higher Education, 1997) recommendations, it introduced a tuition fee contribution of up to £1,000 a year (now increased to £1,075) which, although far from covering the full cost of tuition, further added to the private cost of HE. The Russell Group wished to go further and charge top-up fees to their students, confident that the demand for places would not be affected by the increased cost. These days, most students rely on a mixture of family support, loans from the SLC and banks and part-time employment during term time as well as holidays. In addition HE institutions have funds (so-called hardship funds) available to assist impoverished students.

Against this background, the Minister for Education and Lifelong Learning in the Welsh Assembly, Jane Davidson, set up an Independent Investigation Group on Student Hardship and Funding in Wales (IIGSHFW) which deliberated during the first part of 2001 and presented its report in June of that year (IIGSHFW, 2001)[2] During the course of the investigation, which took evidence from a wide range of individuals and organizations from all parts of Wales, it became apparent that there were widespread misconceptions about the principles of student funding, such as the belief that all students were required to pay tuition fees irrespective of family income, and misunderstanding of the fact that loans from the SLC are effectively interest free in real terms. There was also the belief, employed in the argument for the abolition of tuition fees, that a distinction could be made between the costs of learning (tuition fees and costs of books etc.) and the costs of living (maintenance etc.) when in fact no such distinction can usefully be made. The parent who pays out to a student child may feel aggrieved at having to pay tuition fees as well as maintenance but in reality the money typically comes out of the same bank account. There is also little justification in the argument that tuition fees breach the principle of education 'free' at the point of consumption. Economists recognize that, even in the absence of fees, the student faces a substantial private cost of university education in the form of income forgone whilst studying, the *opportunity cost* in economic jargon. In reality, tuition fees are just another cost to be added to this opportunity cost and in total to be weighed against the benefits of university education in the form of the previously mentioned higher lifetime earnings. Another less than useful distinction was made between the economic interest of the student and that of the parent or spouse, an argument being made that, as it was the student who benefited from enhanced lifetime earnings, levying the cost of tuition on the parent was unjustified. But the same can be said of maintenance payments and, as it seems highly unlikely that many families take such a narrow view of the economic interests of the individual members, for the rest of the discussion it will be assumed that the economic unit is that of the family. For reasons of space the focus of this present article will be on full-time HE students under the age of twenty-five being financed by parental contributions.

Current student support arrangements in England and Wales

The present system (for the academic year 2001–02) is set out in an official booklet (DfEE, 2001). Students have access to finance from the SLC in order to pay a contribution of up to £1,075 per annum to tuition fees. For students with parental residual income (to be defined below) of less than £20,000, the full tuition contribution of £1,075 is covered by the SLC. At a residual income of £19,999 no parental contribution is required, whereas for a residual income of £20,000 a contribution of £45 is required and for every subsequent £9.50 increase in residual income an additional contribution of £1 applies (the DfEE booklet quotes a figure of £9.20 rather than £9.50 although the English-language web version has the correct figure) until at an income of £29,785, the parent is responsible for the whole of the £1,075 fee. If parental income exceeds this figure, he or she also has to make a contribution to the maintenance of his or her child which reduces the eligibility of the student for the means-tested element of the student loan. (A similar system, albeit with a somewhat different threshold and sliding scale, applies to spouse/partner contributions.)

Access to student loans for living costs, which vary depending on whether students are living at home or not and whether they are studying in London or elsewhere, is based on a means test of students' own income and those of their parents or spouses/partners, although 75 per cent of the maximum loan is available to all students regardless of income. Further hardship loans of up to

£500 per annum, as well as access to hardship funds administered by HEIs, are available to students in financial difficulty during their courses.

Detailed figures for English and Welsh students living away from home, but outside London, are given in columns 2 to 7 of Table 1.

Loans incur interest at the current rate of inflation as measured by the Retail Price Index and repayment must begin in the April following graduation provided that the graduate is in employment and earning more than £10,000 gross per annum. Repayments are collected through the tax system at the rate of 9 per cent of marginal gross income in excess of £10,000. For employees, the deductions are made by the employer through the Pay As You Earn (PAYE) system; for the self-employed, deductions are made through the tax self-assessment system.

Analysis of the impact of the Scottish reforms

Following the Cubie Inquiry into student finance, the Scottish Executive implemented a number of changes in their HE student support system to take effect in the academic year 2001–2. These changes applied to Scottish-domiciled and EU students studying at Scottish universities, but not to students from other parts of the United Kingdom. Separate measures were introduced for students aged twenty-five and under and mature students aged over twenty-five, but the present discussion will be confined to young students and will compare the current system in England and Wales with that in Scotland after the reforms. The comparison will be based on the rates for students living away from home (outside London) and assumes that a university course lasts for three years – the typical pattern in England and Wales, although Scottish courses generally last for four years.

The main features of the new Scottish system[3] are:

1. The abolition of up-front tuition fees (henceforth to be paid to HE institutions by the Student Awards Agency for Scotland) to be replaced with a flat-rate contribution of £2,000 to be paid after graduation into a graduate endowment fund to be used in future for assistance to students from lower-income families. This £2,000 is to be paid by all graduates, with certain exceptions, irrespective of graduate or parental income, which contrasts with the Cubie recommendation that the amount of the payment should be £3,075 (then equivalent to three years' fees) and that it be payable once the graduate's income had reached £25,000. The exceptions to the requirement to pay £2,000 include students such as lone parents,

Table 1
Two systems of student support

England and Wales							Scotland			
1	2	3	4	5	6	7	8	9	10	11
Residual income (£)	Fee contribution by parent	Fee contribution by SLC	Total fees	Maintenance	Total parental contribution Cols 2+5	Available loan	Bursary	Loan	Parental	Total
10000	0	1075	1075	0	0	3815	2000	2315	0	4315
15000	0	1075	1075	0	0	3815	1174	3141	0	4315
20000	45	1030	1075	0	0	3815	627	3143	45	3815
25000	572	503	1075	0	572	3815	81	3133	601	3815
29785	1075	0	1075	0	1075	3815	0	2682	1133	3815
30000	1075	0	1075	23	1098	3792	0	2659	1156	3815
35000	1075	0	1075	549	1624	3266	0	2103	1712	3815
38857	1075	0	1075	955	2030	2860	0	1675	2140	3815
40000	1075	0	1075	1076	2151	2860	0	1548	2267	3815
45000	1075	0	1075	1602	2677	2860	0	821	2994	3815
50000	1075	0	1075	2128	3203	2860	0	750	3763	3815
55000	1075	0	1075	2655	3730	2860	0	750	4532	3815
60000	1075	0	1075	3181	4256	2860	0	750	5302	3815
65000	1075	0	1075	3707	4782	2860	0	750	6071	3815

Scotland v England and Wales

Total changes over 3 years

12 Fees	13 Bursary	14 Maximum loan	15 Endowment loan	16 Overall effect (Cols 12 to 15)
-2000	6000	-4500	2000	1500
-2000	3522	-2022	2000	1500
-1865	1881	-2016	2000	0
-284	243	-2046	2000	-87
1225	0	-3399	2000	-174
1225	0	-3399	2000	-174
1225	0	-3488	2000	-263
1225	0	-3554	2000	-329
1225	0	-3936	2000	-711
1225	0	-6117	2000	-2892
1225	0	-6330	2000	-3105
1225	0	-6330	2000	-3105
1225	0	-6330	2000	-3105
1225	0	-6330	2000	-3105

Sources: Cubie 2001; DfEE 2001; own calculations.

disabled or those studying for an exempt course such as a HNC/D course. The full list is given on page 13 of the document referred to in note 3 at the end of this article.

2. The introduction of means-tested bursaries to supplement the existing loans, with an increase in the total support package available for the lowest income groups in bursary and loan combined.
3. A reduction in the loan package available to students from well-off families, to a maximum of £750 per annum in the first two years.

The essentials of the Scottish system are summarized in columns 8 to 11 of Table 1 for a range of parental residual incomes from £10,000 p.a. to £65,000 p.a. and refer to annual amounts. Figures in columns 2 to 7 refer to the current system in England and Wales and are also for annual amounts. Columns 12–16 seek to compare the two systems over a three-year period by, in effect, asking how a student from England or Wales would fare in aggregate terms over the three years under the Scottish system. The impact of the abolition of fees, the introduction of bursaries and changes in the maximum size of loan and payment of the graduate endowment contribution are shown separately in columns 12–15, and the cumulative effect of all the changes is shown in column 16.

As can be seen from column 12, the effect of abolishing fees and introducing the graduate endowment is to make richer students *better off* by £1,225, whereas the poorest students and their families – those with residual incomes of £19,999 and below – are substantially *worse off* since they now have to contribute £2,000 whereas previously they were exempt from fees. Moreover, the total loans available to them for maintenance have fallen (column 14), though they can access a further loan of £2,000 at the end of their course in order to pay the £2,000 flat-rate graduate endowment contribution. However, the effects on low-income families are ameliorated by the granting of a maximum bursary of £2,000 a year, a total of £6,000 over three years. The overall cash flow effects over three years are shown in column 16.

This shows that, in terms of cash flow, the combined effect of the changes is that students from poorer backgrounds are better off, though this is because the introduction of bursaries more than compensates for the extra costs associated with the graduate endowment. It must also be remembered that the quality of the support is better at the lower end as it replaces an element of loan with non-repayable bursaries, although students from poorer families in England, Wales and Northern Ireland can already apply for bursaries from hardship funds administered by universities before they arrive and also obtain hardship funds during the course of their studies. In principle, if a student currently receives non-repayable hardship money of at least £500 a year for three years, he or she would be worse off under the Scottish system.

At the income level of £20,000 the student is neither better off nor worse off, but as income increases these students become marginally worse off until at £25,000 students are worse off in cash flow terms by £87 over three years in terms of support from the state. It is difficult to believe that a system which treats these students as being deserving of bursaries should actually reduce the total public resources available to them over three years. This surely must be an unintended and unforeseen outcome of the reforms.

Weaknesses in the student support system in England and Wales.

Although we have seen that the Scottish reforms can be criticized on a number of counts, the system in England and Wales is also defective in several important aspects, and several of these defects still apply even to the reformed system north of the border. Particular mention can be made of (i) the concept of residual income which is used to means test parents for tuition fees in England and Wales and access to loans by their offspring in Scotland as well as England and Wales, and (ii) the present arrangements for repaying the loans. There have also been problems in practice in England and Wales with the payment of tuition fees, since universities reported to the Investigation Group considerable problems encountered in chasing up unpaid tuition fees and the effect this had on their already over-stretched budgets.

Residual income

The rationale of the system is to relate access to loans to ability to pay of the parent or spouse through use of the concept of 'residual income'. This is a very poor indicator of ability to pay for a number of reasons:

1. It ignores the existence of wealth. A family with the same income as another but with wealth of say £200,000 in the form of investments, whether income yielding or not, has obviously the greater ability to pay, but this is entirely disregarded.
2. It ignores certain categories of income. In one family the sole bread-winner may pay tax and national insurance contributions on his or her earnings though these are not allowable as deductions for purposes of calculating residual income, the full gross income being counted. In another family, one partner may not be working but have say £150,000

of investments in tax-free form such as Tax Exempt Special Savings Accounts, Personal Equity Plans or Individual Savings Accounts which are totally ignored in computing the parental contribution. Assuming a modest return of 5 per cent of the total fund, an estimated income figure of £7,500 is therefore disregarded. Furthermore, financially astute or well-advised families may get most of their 'income' in the form of capital gains which are not only tax free up to a figure of £7,500 per annum but also entirely left out of residual income.

3. A limited number of outlays such as pension contributions are deductible for the purpose of calculating residual income. The inequity of this deduction can be seen from the following hypothetical example. If one parent (Parent A) saves for retirement through a pension contribution and another (Parent B) saves by investing in a bank or building society account, their treatment in calculating residual income is markedly different. Parent A gets tax relief of between 22 per cent and 40 per cent of his or her pension contribution, has the value of the contribution deducted from residual income so that s/he has to contribute less, and any future income accruing from the pension fund will also not be taken into account. By contrast, Parent B gets neither tax relief on his or her savings nor a deduction from residual income, whereas any future interest accruing on the deposit account is counted as residual income. The logic – or absence of logic – of allowing deductions from gross income can be illustrated by the case of Mortgage Interest Relief At Source (MIRAS). Prior to April 2000, mortgage interest on the first £30,000 of any loan was also deductible in calculating residual income but this has now been disallowed with the consequence that parents are worse off financially and find themselves liable to extra parental contributions to their children's education. If MIRAS were to be restored, parents would find themselves both better off and liable for a lower parental contribution. This is surely illogical in a system which tries to ensure that better-off parents make greater contributions.
4. The calculation of residual income makes no allowance for how earned income is distributed between two parents. A family in which parents have gross incomes of £20,000 each is, other things being equal, treated in exactly the same way as another family in which the main breadwinner earns £40,000 and the other partner nothing. On current income tax rates, the latter family will, however, pay nearly £2,500 more in income tax than the two-income family.
5. The contribution threshold for residual income at which point tuition

fees start to be levied for parents differs from that for spouses or partners: £20,000 compared with £17,200.

6. The parent's residual income is based on gross income before tax while the assessment of that of the student himself or herself is on after-tax income.

The loan repayment arrangements

As mentioned previously, loan repayments must start in the April following graduation provided that the graduate is earning at least £10,000 gross at that time. Provided any required repayments have been made, all outstanding debts are cancelled in the event of death, permanent disablement or on reaching the age of sixty-five. This means that someone earning not a great deal more than the minimum wage must start repaying his or her loan at the rate of 9 per cent until the debt is cleared. Someone earning £11,000 all his or her life, and with a debt of £9,000, could be paying for well over one hundred years were it not for the fact that all debts are cancelled at the age of sixty-five.

Suggestions for reform

These suggestions are intended to simplify the system, reduce the documentation required by students and parents applying to local authorities for support and relate contributions more precisely to their ability to pay. Moreover, they reduce the burden of loan repayments for graduates on modest incomes while improving the cash flow of universities.

Use family financial wealth as an additional indicator of ability to pay

Parents would be asked to estimate their wealth in the form of investments, shares, deposits, property for rent etc. and be presumed to have a net-of-tax income of say 5 per cent from that wealth. (There is a precedent in the case of social security, for example, in the assessment of the contribution required for purposes of residential care, where, irrespective of actual income received, the applicant is deemed to have an additional income of £1 a week for every £250 of capital owned between the amounts of £10,000 and £16,000, which is the equivalent of about 21 per cent per annum after tax. If the government can condone such an unrealistic figure in this instance, surely a more reasonable figure of 5 per cent should be accepted with alacrity.) No entries would then be required for actual investment income, which at the moment requires considerable documentary evidence, a reform which addresses the first two criticisms noted of residual income.

Disallow pension contributions
Pension contributions are a form of deferred income and are already granted tax relief at up to 40 per cent of their value, as deductions from gross income.

Base residual income on family income after income tax
It is possible to deduct National Insurance Contributions (NICs) as well, but this may add to the complexity of the scheme. Administratively, it is quite easy to construct equations which local education authorities (LEAs) could use to calculate equivalent net-of-tax income from gross income. For example, for the fiscal year 2001–2 income tax system, gross annual individual earned incomes in the range £6,416–33,935 (effectively in the basic rate tax band after deducting the personal allowance) exhibit the following approximate relationship: $Yd = 0.78Y + 1223$, where Yd is income after tax and Y is income before tax. For example, If Y = £20,000, Yd = £16,823 or if Y = £25,000 Yd = £20,723. Equivalent equations can be calculated for higher incomes.

Reform the calculation of parental and spouse/partner contributions
This would be done by:

- Making the thresholds and sliding scales the same for both types of contributor.
- Abolishing the discrete step of £45 at the starting point for contribution since it serves no apparent purpose.
- Raising the threshold to a net-of-tax income of £20,000, which corresponds to a gross income of about £24,000, and increasing the implicit sliding scale 'tax rate' from just over 10.5 per cent to 20 per cent, which is equivalent to just over 15 per cent in terms of gross income. The rationale for doing this is to simplify the system by taking some parents out of the calculations, reducing the contributions required from parents with a gross income of less than about £30,000 and increasing the contribution from those on higher incomes.

The present system can be approximated by the equation:
$C = 0.10526Y - 2060.26 \quad Y \geqslant £20{,}000$
where C is parental contribution and Y is residual income. As residual income rises by £1 the contribution rises by £0.105, or if Y rises by £9.50 C rises by £1, so the implicit 'tax' rate is 10.5 per cent. With the suggested reform, the parental/spouse contribution in pounds would be given by:
$C = 0.20Yd - 4000 \quad Yd \geqslant £20{,}000$.

This reformed system is simpler, easier to administer and understand and fairer to lower income families.

Reform the repayment schedule

I have constructed a loan repayment model (illustrated in Table 2 and Table 3) which has the following assumptions:

- £12,000 of debt at 1 April after graduating.
- Inflation and therefore interest rate constant at 2 per cent per annum compound.
- Starting salary of £17,000 increasing by 5 per cent compound per annum.
- All debt is repaid at the end of each complete year in which the annual salary exceeds the threshold figure. (This marginally increases the repayment period compared with the position where debt is repaid monthly.)

Table 2
Number of years needed to repay student loan

Repayment Rate	4%	9%
Threshold (£)		
10,000	20	12
17,000	26	18

Table 2 shows that with the current repayment system (which requires an annual payment of 9 per cent of the graduate's gross income over the threshold) a graduate with the income stream specified will repay a student loan of £12,000 in twelve years. Increasing the threshold to £17,000 increases the repayment period by six years (from twelve to eighteen years), while reducing the rate of repayment to 4 per cent of gross income with the lower threshold increases the period by eight years (from twelve to twenty years). With a threshold of £17,000 and a repayment rate of 4 per cent the student loan is repaid over twenty-six years – a similar period to a typical mortgage.

If student loans are to be regarded as a means of enabling students to invest in themselves, by enhancing their future earning power by getting a degree, then it could be argued that repayment should be related to above-average earnings. I suggest that the starting point for repayment should be £17,000 gross income, the average current starting salary of graduates in employment, with a repayment rate of 10 per cent of gross income above this threshold.

If we use the recommended repayment rate of 10 per cent, combined with a repayment threshold of £17,000, the debt is repaid in seventeen years rather than twelve in the current regime. If it was desired not to lengthen the repayment period compared with the present system, then the model can be used to calculate the requisite repayment rate, which turns out to be just over 21 per cent. Details of this variant of the model are shown below in Table 3.

Table 3
Student debt repayment model (£)

Year	Income	Debt at end year	Repayment	Remaining debt after repayment	Repayment as % of income
1	17000.00	12240.00	0.00	12240.00	0.00
2	17850.00	12484.80	182.26	12302.54	1.02
3	18742.50	12548.59	373.63	12174.96	1.99
4	19679.63	12418.46	574.57	11843.88	2.92
5	20663.61	12080.76	785.56	11295.20	3.80
6	21696.79	11521.10	1007.10	10514.01	4.64
7	22781.63	10724.29	1239.71	9484.57	5.44
8	23920.71	9674.26	1483.96	8190.30	6.20
9	25116.74	8354.11	1740.42	6613.69	6.93
10	26372.58	6745.97	2009.70	4736.27	7.62
11	27691.21	4830.99	2292.44	2538.55	8.28
12	29075.77	2589.32	2589.32	0.00	8.91

To illustrate the principle, consider the first year, in which no repayments are due because income is just at the threshold. At the end of the year, the accumulated debt has reached £12,240 (the initial debt plus interest at 2 per cent, namely £240), while at the end of the second year the debt has grown to £12,484.80. As income is now in excess of the threshold by £850, at the end of the year a repayment of 21.44 per cent of this is made, which amounts to £182.26 and which reduces the debt carried forward to £12,302.54. If we express the cash repayment of £182.26 as a percentage of total gross income, however, namely £17,850, this amounts to a figure of only 1.02 per cent. Thus although the repayment rate of 21 per cent appears daunting (with monthly repayments the requisite rate falls to about 19 per cent), because it is levied only on income above the threshold, the burden expressed as a percentage of total gross income starts low in the first few years but rises to nearly 9 per cent in the final year. It is also possible to adapt the model to allow for higher repayment rates at greater levels of income, a characteristic which is a feature of the Australian Higher Education Contribution Scheme (see the article by Chapman and Ryan in this issue).

Abolish up-front tuition fees

This was recommendation 3 of the Rees Report (IIGSHFW, 2001: 28), which suggested that up-front tuition fees should be replaced by an end-loaded graduate endowment contribution, equivalent to three years' tuition fees index-linked for inflation, a charge which would be levied on graduates only when their salaries reached £25,000 – the level considered by the group to reflect a graduate premium.

As has been made clear earlier in this article, I have no objections in principle to tuition fees, but merely to the practical administrative problems involved and inconvenience caused to universities in their collection. One suggestion which might find favour without causing cash flow problems to universities or increasing government expenditure on subventions to the SLC is as follows.

Rather than make parents liable for tuition fees once the threshold income is reached, they should be made liable for maintenance instead, with a corresponding reduction in the student's entitlement to a loan. For example, at the residual income of £29,785, instead of paying the fee of £1,075 to the university, the parent would be required to spend the money on maintenance, with a similar reduction in the student's loan entitlement. The SLC would then be able to pay this amount directly to the university, along with payments currently made for students not liable to pay full fees.

No party is worse off as a result of this reform: indeed, universities are better off because they are guaranteed to receive their fee income and do not have to expend resources in enforcing the payment of unpaid fees. One caveat must be entered: namely that the SLC could be out of pocket to the extent that students did not previously take up their full loan entitlement, although there is evidence that students who do not do so are now in a minority. Moreover, there would be an offsetting increase in the funds available to the SLC as a result of a more effective means test through redefining residual income, together with an increase in the means-tested element of the student loan (see IIGSHFW, 2001: recommendation five, p. 26).

An alternative scheme to that suggested by the Rees Report would be that the graduate endowment contribution would become due in the April following graduation, and could either be paid to the government by the student out of his or her own resources or borrowed from the SLC and repaid along with any other debts accrued up to that date.

Conclusion

Of necessity this article has had to focus on a limited number of issues in the very complex problem of student finance. It has shown that, although the Scottish reforms followed the publication of the Cubie Report, many of that report's recommendations were not implemented. Even though a number of worthwhile reforms were introduced, such as the introduction of bursaries and the restriction of subsidized loans to students from higher-income families, a disaggregated analysis of these reforms shows that they brought about possibly unintended consequences. Much was made politically of the abolition of tuition fees in Scotland, but their replacement – the graduate endowment scheme – made the poorest families worse off than before and the richest families better off. Moreover, although the introduction of bursaries went some way towards redressing the balance, some students deemed worthy of receiving a bursary actually had their total support from the state reduced.

Many anomalies still remain, as the Scottish system has in common many features of the system in England and Wales. Suggestions have been made for reform of the system in England and Wales, currently under review at the Department for Education and Skills, which should result in better targeting of resources for student support and an improved financial outlook for universities, without necessarily requiring more taxpayers' money to finance them. Amending the concept of residual income to make it a better reflection of parental ability to pay, together with restrictions on non-means tested access to subsidized student loans, should divert resources away from better-off families who do not need financial incentives to give their children higher education, towards those from lower-income families whose participation rates are still substantially below those of middle-class households. Furthermore, the burden of repayment on graduates with comparatively low salaries would be reduced, as they would begin to contribute towards their tuition costs only when their salaries exceeded the average starting salary for graduates.

Universities would not have to rely on parental contributions towards tuition fees and would have a much more certain cash inflow than hitherto, without having the extra expense and effort involved in chasing unpaid fees. This would not preclude some universities from charging top-up fees should they choose to do so and if the government were to permit it.

Notes

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[1] This group, so-called because its meetings take place in the Russell Hotel in London consists of nineteen leading universities including Oxford, Cambridge and the old redbrick universities in major conurbations, with Cardiff University the only Welsh member.

[2] See the articles by Teresa Rees in this issue, and by Dean Stroud in issue 10(2), 2001.

[3] Taken from Scottish Executive (2000). There are a number of errors in this document, in particular on p. 7 where students with a net parental income of £45,000 are said to be entitled to a loan of £821 while the entitlement to a loan of only £750 occurs at an income of £45,461. The figures on p. 11 are broadly correct. The final line of the table is given to represent the point that where there is more contribution than the maximum support less the minimum loan, the minimum loan will still be paid in full. The rate given under the table on p. 11, which says that parental contribution over £2,975 will affect other means-tested allowances, should read £3,065.

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