

# Moving toward a single combined grant for higher education

This paper considers the merits and issues to be addressed in moving from an up-front HE grant and a separate fee remission grant toward a single combined up-front grant for students from poorer backgrounds.

## Introduction

On 8 January 2004, the Secretary of State for Education and Skills made a statement to Parliament about student support arrangements for 2006/07. He made clear the Government's intention that every student from a poorer background should have the resources to avoid incurring additional debt when variable fees are introduced. He announced a package of at least £3,000 a year of non-repayable support to be available to the poorest students on the most expensive courses. This is to be made up of:

- A fee remission grant of £1,200 a year, paid in full to all students with parental or family income of below £22,560 and in part to those with incomes between £22,560 and £33,533<sup>1</sup>.
- An up-front grant of up to £1,500 a year, paid in full to those with parental or family incomes below £15,970 and in part to those with incomes between £15,970 and £22,270<sup>1</sup>.
- A bursary from their universities at least high enough to cover the remaining £300 of their fees<sup>2</sup>. Some will offer more than this. Cambridge and Exeter universities have already announced their intention to offer up to £4,000.

In the same statement, the Secretary of State accepted in principle that there was a strong case for combining the two grants to create a single up-front grant of up to £2,700 a year. He said that if the financial and practical issues surrounding the policy could be resolved "we will adopt that approach".

This paper describes the issues involved in merging these two grants.

## A single combined grant system

Under a single combined grant system, students from the poorest backgrounds on courses charging the full £3,000 fee would still receive at least £3,000 but paid in a different way.

- A single combined up-front grant of up to £2,700.
- Bursary support from their universities, which we would still expect to cover a minimum of the remaining £300 of fees for those on the most expensive courses.

This would be in addition to:

- A maintenance loan reduced by £850 (i.e. around £3550 instead of £4400 for those living away from home outside London) for those receiving the maximum amount of the new grant.

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<sup>1</sup> Assuming income threshold rates are uprated annually by 2.5%.

<sup>2</sup> For courses where the full £3,000 fees are charged

- A loan of up to £3,000 for fees, repayable on graduation according to their own income.

### **Principles of student support**

Both these models – the current and a single combined grant - are consistent with the following guiding principles:

- Higher education should be free at the point of entry.
- Contributions to tuition costs together with any loan for maintenance should be made after graduation, with monthly repayments based on the earnings of the graduate.
- It is vital to have a system with the maximum support targeted at those who most need it, so that students can study the courses that are best for them, regardless of cost.
- We should have a system that encourages students from disadvantaged backgrounds to continue into higher education.

### **The merits of moving to a single combined grant**

The Education Select Committee and a number of MPs, notably Peter Bradley and Alan Whitehead, have argued that it would be more logical to combine the two grants.

The advantages of this approach include:

- Once we have fee deferral arrangements, there is no need to continue with a fee remission grant as well. It is better to use the money to give bigger grants to students from poorer backgrounds, for social policy reasons.
- A single, larger grant and the added flexibility it provides is a more effective incentive for poorer students to enter higher education than two smaller amounts with different entitlement criteria.
- Greater simplicity and cost effectiveness with just one grant to administer rather than two.
- While they are students, young people from poorer backgrounds:
  - Get more up-front cash. This would remove barriers to application and retention by increasing the attractiveness of staying in education.
  - Have greater choice over how they use the money they get. They could put it towards fees, use it for maintenance, use it to reduce the maintenance loan they need to take out, or they could do a combination of these things.

- Once they have graduated:
  - They pay back whatever fees they owe according to their own income – with a single rate of repayment covering both maintenance and fee loans.

### **Funding a single combined grant**

Merging fee remission into a single combined grant means that all students, including those from the poorest backgrounds, will need to have the option of taking out a larger fee loan to cover their course fees. This additional loan creates a further cost to Government.

Since the Government has to give those students more fee loan, to keep the package cost neutral we would have to reduce these students' entitlement to maintenance loan. There are different ways of configuring this:

- At one end of the spectrum, we could cut the grant while keeping the current level of loan availability.
- Another option, which we think strikes the right balance and consider in detail in this paper, would be to keep an overall grant of £2,700 but have a lower rate of maintenance loan to offset the cost (as Peter Bradley and Alan Whitehead suggested, and in accordance with the arrangements in Scotland).
- At the other end of the spectrum, we could raise the level of grant further, but this would mean a dramatic reduction in the level of loan support available.

We illustrate here the option whereby there is a grant rate of £2700 as under the Government's current proposals, so that the two are easily comparable with each other. The necessary reduction in maintenance loan to finance that is up to £850<sup>3</sup>. The amount of the loan reduction is lower for those on lower levels of grant.

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<sup>3</sup> Based on our latest estimates. Further modelling will be required to confirm the figure of £850, and it is possible the amount required to offset costs might rise. Effectively, this means that £850 of the standard basic maintenance package comes in the form of grant. The rest is a maintenance loan. Then on top of that, the student has an additional £1,850 grant.

**Table: Illustration of implications of the current system and single combined grant for students from the lowest income backgrounds**

Current system (£ per year)		A single combined grant (£ per year)	
Fee remission grant	1,200	Combined grant	2,700
Higher education grant	1,500		
Maintenance loan	4,400	Maintenance loan	3,550
Total maximum cash-in-hand available during course	5,900	Total maximum cash-in-hand available during course	6,250
Maximum loan for fees, assuming a full £3,000 fee	1,800	Maximum loan for fees assuming a full £3,000 fee	3,000
Maximum total annual loan taken out	6,200	Maximum total annual loan taken out	6,550

Under either of these systems, we would still expect universities to offer a bursary of at least £300 for students from poorer backgrounds on courses with a £3,000 fee, meaning that the level of support would reach £3,000 either way.

This table illustrates the situation for those from the poorest backgrounds – but there would as now also be a partial grant for some of those on higher income. This means that it is not just the very poorest who will receive this support. We would expect to maintain the threshold of around £33,000<sup>4</sup> for phasing out any entitlement to the new single unified grant. This means that no student should lose out from combining the grants. We would expect around 30% of students will get a full grant, and from 50-55% a full or partial grant.

<sup>4</sup> For 2006/07, assuming rates are updated annually by 2.5%.

What students would get under a single combined grant system is illustrated as follows<sup>5</sup>:

Family income of student (£)	Current system (£ per year)		A single combined grant (£ per year)
	HE grant	Grant for fees	
15,000	1,500	1,200	2,700
20,000	570	1,200	1,770
25,000	0	900	900
30,000	0	370	370

Further detail on how this system would work for students from families with different levels of income is illustrated by the chart in annex A.

### **Possible downsides of a single combined grant**

Despite the practical and in principle advantages of a single up-front grant, there are potential disadvantages.

First of all, prospective students could perceive this change as all support for fees being removed. Retaining grants specifically to reduce fees does provide real help in dealing with the perception and fear of debt that some students associate with course fees.

Secondly, because under this system students are eligible to take out higher loans, their total amount of loan owing at the time they graduate could be higher than under a dual grant system. This makes no difference to the graduate's rate of repayment, since their monthly payments will be based on what they earn, not what they owe; but they would pay for longer (though not for more than the maximum of 25 years).

Before moving to this position, we would therefore need to ensure that prospective students understood:

- That the removal of fee remission went hand in hand with the ability to take out loans for fees.
- That the loan for fees is offered on extremely generous terms that are nothing like commercial debt.
- A larger grant for living costs would be available for the poorest students, and their debt for maintenance would be reduced.

<sup>5</sup> Estimated figures assume inflation of 2.5% from 2004/5 to 2006/7. We estimate that the combined grant figure would be approximately the sum of the two separate grants.

## **Legislative implications**

The Higher Education Bill contains measures amending existing legislation surrounding the provision of grants that would be necessary in order to combine the higher education grant and the existing grant for fees. This means that this change could not take place before the enactment of the Higher Education Bill.

## **Detailed practical and technical issues**

There are other, more technical, issues that would also need to be resolved prior to introducing this system. These include:

- Considering how the grant would interact with the benefit system.
- How the system would interact with those in Scotland, Wales, and Northern Ireland, and what the position would be for cross-border students.
- How the grant should work for courses that currently get particular support. For instance, students studying for the Post-Graduate Certificate of Education (PGCE) receive the current fee remission grant on a non-means tested basis, and we would need to consider the position under the single combined grant.
- How it might affect institutions' pricing policies and the provision of particular courses, if none of the combined grant were specifically earmarked for fees.
- A number of technical issues at a lower level of detail, which would need to be resolved, including for example the previous study rules and the age limit rules, which are different for loans and for grants. The Department regularly works through issues at this level of technicality in the annual student support regulations and we would need to go through the same process to iron out the fine level of detail on a combined grant.
- There are significant lead times in making changes to student support because it is a big operation and large-scale changes have to be planned carefully to make sure that implementation is smooth. The earliest implementation date would be September 2006.

## **Conclusion**

The Government is now working through the detailed and technical issues surrounding a single combined grant and described in this paper. If these can be resolved, they believe that in principle, this is the right way to move the system of student support forward. It is expected that these issues will be resolved before the Higher Education Bill gains Royal Assent, and updates on progress will be provided to the Standing Committee which considers the bill during its progress. We would welcome views on the issues raised by this

paper and the merits of a single combined grant for higher education.  
Comments can be sent by email to: [he.comments@dfes.gsi.gov.uk](mailto:he.comments@dfes.gsi.gov.uk).

**A Single Combined Grant and Loan Package in 2006/7**

