

Abolition of up-front fees

Many have argued that up-front tuition fees place an unfair burden on families. So we will enable all students to defer paying fees until they graduate and are earning after university. The fees will be paid back through the tax system, in the same way as the current student loans. Like them, they will rise by inflation so that they keep their real value.

What does this mean in practice? From 2006 you can go to university without having to pay any money up-front, or while you are studying. Payments will be collected through the tax system after you graduate, and once you are earning a certain amount. How much you pay each month will be linked to what you earn. You pay 9% of any income you earn above the threshold where repayment starts.

Different Fees for Different Courses

University courses cost far more than the present annual tuition fees of £1,100. But we have rejected calls for students to contribute as much as £15,000 a year to the cost of their higher education. Instead, we propose that universities be allowed to set their own fees between £0 and £3000 – so some fees might go down. We will keep the cap on fees at £3000 throughout the next Parliament, only raising it to take account of inflation. The Government will continue to fund most of the cost of a student's higher education.

What does this mean in practice? No one knows how universities and colleges will react to this new freedom. Some will, undoubtedly, raise tuition fees for popular or more costly courses. But we expect other course fees to stay at their present level while others may be reduced or even abolished. At present, 40% of all students get their £1,100 standard fee paid for them, and around 60% get some of it paid, on a sliding scale. This will continue, but any costs above the £1,100 level will have to be paid by the student, either up-front or after they graduate – whichever they choose.

Safeguards for Students

To make sure that access to university stays fair once universities are allowed to change their fees, there will be tough safeguards to protect students:

- There will be a cap of £3,000 per year, set for the whole of the next Parliament;
- Universities will only be permitted to raise fees if they sign up to tough Access Agreements with a new Access Regulator, showing how they will take action to make sure

that access to their courses is fair and that they are reaching out to students from all backgrounds.

- As we have said above, no student or parent will have to pay any up-front fee.
- We will encourage university bursary schemes, and will consider whether we could work with universities to help pay more of the fees for some students.

Making Repayment Easier

Every student will pay less each year, because we will raise the repayment threshold at which payments start being made from £10,000 to £15,000, beginning in April 2005. This will particularly help those on low incomes when they first graduate. If graduates choose to, they can make extra payments, so as to pay off their debt more quickly.

What does this mean in practice? From April 2005 all new students and existing students who took out loans from 1998 onwards will not have to pay anything back until they are earning £15,000. This means that a graduate earning £20,000 would make annual payments of 9% on £5000 (£20,000-15,000) – a reduction in the repayments by half, from £900 a year to £450 a year. This means the payments are more manageable, particularly for those on lower incomes, but repayment will be phased over a longer time. This new threshold will apply to payments for deferred fees once they are introduced, after 2006.

Independence at 18

The abolition of the current up-front fee, so that graduates themselves are responsible for paying for the cost of their course, is an important step towards treating students as independent adults. We do still ask parents to contribute to living-costs. But in the future we will think carefully about whether we could take more steps to treat students as independent at 18.

We will also be carrying out a survey into how much students need to live on. We know that choices about lifestyle affect how much people spend, and we think that it is reasonable for students to work to pay for extras; but we want to make sure that we are giving students enough for the basics while they are at university.

TIMETABLE OF CHANGES: WHAT HAPPENS WHEN?

Phase One: 2004 - 2006

- For new students starting courses in autumn 2004, we will introduce a new Higher Education Grant of up to £1000 per year for students from households with family incomes of £10,000 or less. Some grant assistance will also be available to those whose families earn up to £20,000 a year.
- From April 2005 the earnings threshold at which you will pay back loans will be raised from £10,000 to £15,000. This will apply to all new students, and, from this date, to all past students who took out loans from 1998 onwards.
- Repayments are already and will continue to be linked to salary and therefore the individual's ability to pay.
- The Government will continue to meet the full £1,100 cost of tuition fees for students with family incomes of up to £20,000, and pay part for those whose family incomes is between £20,000 and £30,000.

Phase Two: From 2006 onwards

- From 2006, universities will be allowed to charge different fees for different courses, between £0 and £3000, but only if they have tough Access Agreements in place.
- No-one will have to pay any fees up-front – they will be able to choose to pay them back through the tax system once they are earning. The new, higher repayment threshold will be used.
- Student grants will continue, though we will consider whether the money could be targeted better by helping poorer students with fees.
- Student loans for living costs will still be available for everyone (with students from richer families, as now, getting 75% of the full loan)
- The Government will continue to meet the first £1,100 of the cost of tuition fees for students with family incomes of up to £20,000, and pay a smaller amount on a sliding scale for those whose family income is between £20,000 and £30,000.

WHAT WILL I PAY BACK? CASE STUDIES

These case studies are illustrations of how the student finance system operates currently, and how it might work under the proposed system from 2006 onwards. The case studies are based on 2002/03 grant and loan rates, and graduate income levels are estimated. They do not include the inflation element of the loan – because that just keeps the real value of the loan steady – so all these figures are at 2002/03 prices.

PETER

Peter lives with his mother, a single parent on benefits with an income of less than £10,000, and is the first person in his family to go to University. He plans to attend a university in the Midlands to study English.

Current System

Under current arrangements Peter would be entitled have his £1,100 tuition fee paid by the Government. He would also be entitled to a loan of up to £3,905 for living costs in years 1 and 2 of his course. In his final year he would be entitled to a loan of up to £3,390. He would graduate with a student loan of up to £11,200.

Repayments begin when his income is over £10,000. Peter becomes a civil servant on graduation, with a starting salary of £18,000, rising to £30,000 after ten years. He repays:

- £60 per month in year 1;
- £98 per month by year 5, when his salary is £23,000;
- £135 per month by year 9 when his salary is £28,000.

He repays his loan in 10 years.

Proposed System from 2006/07

If Peter were a new student in 2006/07 and his university charged £2,000 per year for his course, he would be entitled to the HE Grant of £1,000 a year, the full loan of £11,200 for the duration of the course, and a grant for fees for up to £1,100. He can choose either to take out a loan for the balance of tuition fees or to use his HE Grant to offset some or all of the cost. If he defers the extra cost of tuition, but uses the HE Grant so that he doesn't have to take out the whole loan for living costs, then he will graduate with student loans of £10,900.

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