Taking out a loan
All undergraduates, irrespective of their parent’s income, can take out a tuition fee loan which will cover the full cost of their fees, and is paid by the government directly to their university or college. However, maintenance loans, which are designed to meet the cost of living faced by young people, are dependent on parent’s income. For the current academic year, the maximum amount of maintenance loan a full-time student studying away from home can ‘earn’ is £7,751 in London, and £5,555 outside of London. Students whose parents are on a joint income of £25,000 or less can also apply for an extra grant of £3,387, however, this is reduced if parents earn more than this sum, and no grant is available for students whose parents earn over £42,620 between them.

Funding gap
All of this adds up to a significant shortfall in cash for the average student, unless the bank of mom and dad are willing to step in. The National Union of Students (NUS) calculated that the cost of living for students in the 2013/14 academic year was £13,521 in London and £12,160 outside of London. This left students of that year with an average funding shortfall of £7,654 for those living inside London, and £7,693 for those outside. Yet the Student Income and Expenditure Study, which is done every year by Natcen, an independent social research agency, shows that the average income among full-time first year students fell by 14 per cent in real terms between 2007/08 and 2011/12.

What this means for the taxpayer
Although parents are increasingly expected to contribute towards the costs of sending their children to university, a report in April 2014 by the Institute of Fiscal studies suggests that the taxpayer is still footing a large part of the bill. Both maintenance and tuition fee loans are provided to students at subsidised interest rates, which means that the interest paid by the borrower is actually lower than what the government has to pay on its own debt. In other words, even if all student loans were repaid in full, the government, and tax payer would still lose out. However, not all student loans are repaid in full. Since 2012, students begin repayment when they have a job earning them over £21,000. Payments are 9 per cent of their income over this amount, which equates to £30 a month for someone on a wage of £25,000 and £67 a month for a salary of £30,000. This means that low income earners will likely never pay back what they owe (a person on a £25,000 salary would take over 110 years to repay their average loan of £40,286 in £30 a month installments). Loans can also be cancelled before they are fully repaid under certain circumstances. Those who took out a loan from 2012 onwards will have their debt written off after 30 years of being eligible to repay, whilst those who took out a loan between 2006-2012 will have their loan cancelled after 25 years. Unlucky students who took out their loan before 2005 will have to wait…
Student loans and tuition fees

until they are 65 before their loan is cancelled. This all adds up to the fact that the government do not get back all of the money that they lend to students.

Report
The report by the Institute of Fiscal Studies calculated that if all students took out the full amount of the loan that they were entitled to, for each £1 loaned out to cover the costs of tuition and maintenance, on average the long-run cost to the government would be 43.3p. As the average loan to students is £40,286, that means an average subsidy per student of £17,443. Considering an average of 300,000 students enrol at university each year, this works out as a total of £5.2 billion subsidy for just one year’s intake of students. Of course the degree of subsidy varies considerably for different students: while the lowest-earning 10 per cent of graduates receive a subsidy of 93 per cent (£36,481 on average), the highest-earning 10 per cent of graduates receive a subsidy of just 1 per cent (£475 on average).

Why change things?
So why did the government need to change tuition fees anyway? After all a system which puts so much crippling debt on young people, but which is still heavily subsidised by the taxpayer seems to make little mathematical sense. Before 2012 the government subsidised higher education by providing universities with teaching grants. These were abolished, and replaced with the higher cap on tuition fees to make sure that universities did not lose out. The IFS report shows that the 2012 changes reduced the taxpayer subsidy of students by just 5 per cent (£1,254 per student). However while the average total taxpayer contribution has not fallen very much as a result of the reforms, the resources available to universities for teaching have, on average, increased significantly, from £22,143 per student under the previous system to £28,250 per student under the current system.

Better funded universities are of course a good thing, but what if students can’t afford the day to day costs of attending them? If the student maintenance loan is not enough to make ends meet then further reforms may be needed. Increasing the maintenance loan may be the answer, but it would mean pushing up the overall debt level. This would likely be politically unpopular and not the message that politicians would want to send out.

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