General Election Policy Briefing

Reforming student maintenance

MARCH 2024

OVERVIEW

- Students living away from home outside of London can currently receive a maximum maintenance loan of £9,978 per year. However, the average student in this group spends £11,400 per year on essentials. Essential costs are higher than the maximum loan for 57% of students, and for 19% of students, housing costs alone are higher than the available loan.[1]
- For the 2024/25 academic year, students will be £2,000 worse-off than if rises in maintenance support had been in line with inflation since 2021/22.[2]
- For the 2023/24 academic year maintenance loans in England have only increased by 2.8%, despite recent high levels of inflation. This compares to a 11.1% increase for the worst-off students in Scotland, a 9.4% increase for all undergraduates in Wales, and a substantial 40% increase in Northern Ireland (although it should be noted this was from a much lower base level). England is the only UK nation which currently does not offer maintenance grants.[3]
- Over a quarter (28%) of undergraduates have skipped meals to save on food costs, with a third (33%) of students from working class families doing so. Others have taken on extra part-time work, with almost a quarter of students reporting they had missed a course deadline because of a job.[4]
- Parental income thresholds, used to determine the income levels at which parents are expected to contribute financially to their child's living costs at university, have remained frozen. If these thresholds had increased with inflation since 2016, families on £32,535 or less would be eligible for the maximum loan, compared to the current much lower threshold of £25,000.
- Since the abolition of maintenance grants, students from lower income backgrounds have been leaving university with the highest levels of debt. New analysis by London Economics for the Sutton Trust estimates that poorer students could graduate with £60,100 of debt, 38% higher than the £43,600 for those from wealthier families.
- Students from disadvantaged backgrounds are also the most debt averse,[5] with the risk that in the current system, poorer students will feel limited to options closer to home, or will be put off from attending university altogether.
- Young people in school are increasingly concerned about the cost of living as a student. Of those with financial worries about university, the proportion citing cost of living increased from 17% in 2014 to 29% in 2023.[6]

RECOMMENDATIONS FOR THE NEXT GOVERNMENT

- The next government should **re-introduce maintenance grants for poorer students** and **increase the overall amount of maintenance** available to better reflect students' costs. They should also **widen eligibility for support**, by increasing the parental income thresholds used to determine the level of support, which have been frozen since 2008.
- We suggest a model which does all of the above, alongside changes to repayment terms to make the system more progressive, with higher income students paying back more than under current terms, and lower repayments for lower income graduates. Such a system would make £11,400 per year in maintenance support available to students from the poorest homes, £4,121 of which would be in the form of a non-repayable grant. This system would cut the debt gap at graduation between students from richer and poorer families in half, from £16,500 to £8,100, extend eligibility to tens of thousands more students, and and **would come at no additional cost to the Exchequer.**
- Other options explored here include a more generous student grant system (which would equalise the maintenance loan available to all students, with grants making up the difference), and an increase in overall maintenance levels achieved entirely through an increase in maintenance loans.

CONTEXT

While the tuition fee system has had a large amount of political and media attention in the last two decades, far less attention has been paid to the student maintenance system – the amount of funding students have access to for day to day living expenses. But for many students, this funding is of more immediate importance, and can have a major impact on whether they can afford to move away from home, how much paid work they need to undertake during their studies, and even whether they can afford to go to university at all. With the cost of living crisis accelerating these challenges for students, it is vital that the maintenance support available moves up the political agenda ahead of the next general election.

Looking across the UK, the student finance system has now diverged substantially between UK nations. While this briefing focuses on the student finance system for maintenance support in England, it also outlines the systems used across each of the UK nations.

Then, focusing on England, this briefing examines how the system has changed over time, including evidence on the sufficiency of maintenance support, particularly for young people from lower income families. Finally, several options for reform are outlined, including costings based on new economic modelling work undertaken by London Economics for the Sutton Trust.

"In the ongoing cost of living crisis, it is vital student maintenance moves up the political agenda."

STUDENT FINANCE OVER TIME

As shown in Figure 1, from the 1960s young people from lower income families could apply for grants to help cover their living expenses. These grants started to be gradually replaced by loans during the nineties, and the remaining partial grant was abolished by the then Labour government in 1998.[7] Maintenance grants were then re-established by Labour in 2006, awarded through a means-tested system, but were then scrapped again under the Conservatives in 2016.[8]

After 2016, students in England could seek support for their living costs through maintenance loans, again awarded through a means-tested system.[9] Maximum loan support for those living away from home outside London was £8,200 in 2016/17, up from around £7,400 (which had been provided through grants and loans) in 2015/16.[10]

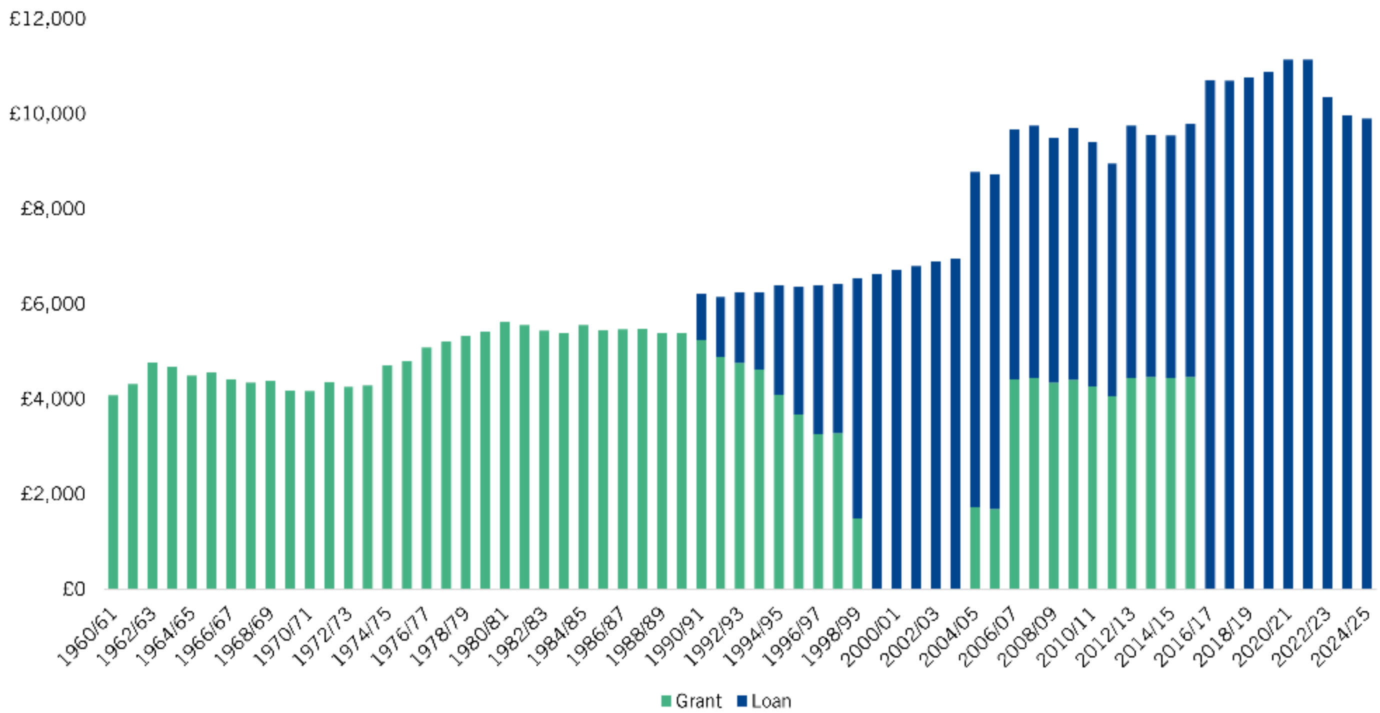
Tuition fees were first introduced by Labour in 1998, and initially set at £1,000 per academic year (paid up-front although means tested).[12] In the years since, fees have risen substantially, first to £3,000 under Labour in 2006 (backed by loans), to a maximum cap of £9,000 under the Conservative and Liberal Democrat coalition in 2012, and have been frozen at £9,250 since 2017.[13]

When fees were first introduced, means-tested waivers were available, which removed tuition fees entirely for students from families earning less than £23,000 a year and put fees on a sliding scale for families earning between £23,000 to £35,000 a year.[14] Such waivers were abolished in 2006.

THE CURRENT SYSTEM

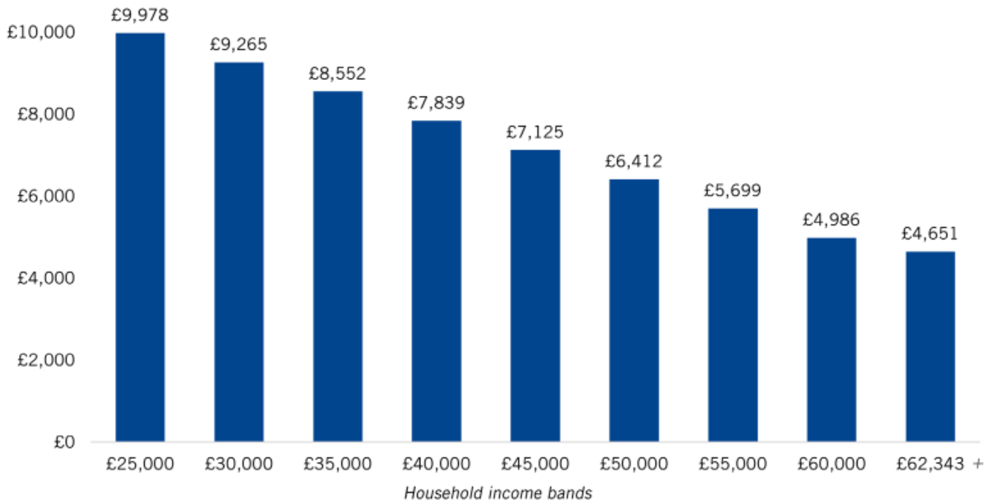
Loans of £9,250 per year are available to full-time undergraduates to cover the full cost of their tuition fees. On top of this, for the 2023/24 academic year, those living away from home outside of London can access a maintenance loan of up to £9,978

Figure 1: Maximum value of maintenance support in England over time, at September 2023 prices



Source: Re-created using data from House of Commons Library.[11]

Figure 2: Maintenance loan amounts for 2023/24 academic year, for those living away from home outside of London



Source: Save the Student.[16]

per year to support them with living costs. Those living away from home in London can access up to £13,022, with lower loans available for students living at home.[15] Amounts available decrease on an income scale, as shown on Figure 2; amounts for students living at home and those living in London can be found in Appendix 1.

The amount students are provided with each year increases based on projected inflation (using the Retail Price Index).[17] This method had meant that maintenance levels roughly kept pace with inflation for many years. However, projections for recent years have been far lower than actual inflation; with the result that maintenance support has fallen in real terms by 11.4% since 2020/21.[18]

Based on these changes, the Russell Group estimates that students will be around £2,000 worse-off than if rises in maintenance support had been in line with inflation since 2021/22.[19] This amount could cover up to 4 months' rent (almost one academic term) for a student on average.[20]

Furthermore, parental income thresholds, used to determine the income levels at which parents are expected to contribute financially to their child's living costs at university, have not been increased for several years. If these thresholds had increased with inflation since 2016, families on £32,535 or less would be eligible for the maximum loan, compared to the current much lower threshold of £25,000. If parental thresholds had been increased to this higher threshold for 2023/24, London Economics estimate an additional 30,000 students starting university would have been eligible for this maximum level of support.[21]

This issue is devolved, with each UK nation setting their own policy on student support. Following devolution, student funding policies have diverged substantially, with England now the only nation without any maintenance grants. Differences in maintenance support between UK nations are examined in the box overleaf, with a summary shown in Figure 3.

As a result of the maintenance system, in England, it is students from the poorest backgrounds who graduate with the most debt. London Economics estimates that poorer students could currently graduate with £60,100 of debt, £16,500 more than the £43,600 for those from the richest families.

Repayment

How much students pay back on their loans depends on which repayment plan they are on, with details available here. For today's students (on "Plan 5" student loans, which were introduced from August 2023), students will repay 9% on any earnings above £25,000 a year. Someone on this plan earning £28,000 a year would pay back £28 per month, and if earning £33,000 a year they would pay back £60 per month. Students on Plan 5 loans will be eligible for repayments for 40 years (up from the previous cut-off of 30). Graduates under previous plans (students who took out loans between 2012 and 2022), are charged interest rates between Retail Prices Index (RPI), and RPI + 3% - dependent on their earnings. However, Plan 5 students will now only be charged interest at RPI, with no interest paid at all during their degrees (currently, RPI + 3% is charged while students are studying).[33] This change will disproportionately benefit higher earning (and largely male) graduates, who will pay off their outstanding debt earlier, resulting in a lower overall repayment level.[34]

The IFS estimate that, for a student starting university in 2023, those who have earnings which fall in the third lowest decile of lifetime earnings (classed as 'lower middle') will use 3% of their gross lifetime earnings to pay off their student debts.[35]

Attitudes to student debt

There is evidence that young people from lower socio-economic backgrounds are more debt-averse. A 2017 study compared students' attitudes to debt over time, and between different socio-economic backgrounds. The research found that while in 2002, only 52% of students pre-university agreed with the statement "borrowing money to pay for a university education is a good investment", this figure had risen to 74% by 2015. The same research found lower-class students were more likely to be debt averse than upper-class students, and that there is evidence that this high level of debt aversion contributes to lower rates of higher education participation by lower-class students.

"Student maintenance has failed to keep up with inflation, falling in real terms by 11.4% since 2021/22."

STUDENT MAINTENENCE IN DEVOLVED NATIONS

Maintenance support is highest in **Wales**, where all students can access £11,720 a year in support.[23] For those from the poorest families, £8,100 is provided as a grant, alongside a loan of £3,620. Those from wealthier backgrounds receive a £1,000 grant. With this system, due to maintenance grants, students from the poorest families graduate with the lowest levels of debt. Higher education fees were £9,000 in 2023/24, but from September 2024 they will match England's fees at £9,250.[24]

In **Scotland**, Scottish-domiciled students do not pay fees for their degree; the only loan they access is for maintenance. Those with household incomes of £20,999 or less can access a loan of £7,000 and a grant of £2,000 (£9,000 total), while those with household incomes of £34,000 and above can access a loan only of £6,000.[25]

In **Northern Ireland**, those with household incomes of £19,203 or below can access the maximum grant of £3,475 and a loan of £4,661.[26] Those with the highest household incomes (£41,540 and above) are ineligible for a grant, but can access a maintenance loan up to £6,776. Course fees are considerably lower than England and Wales, at £4,710.[27]

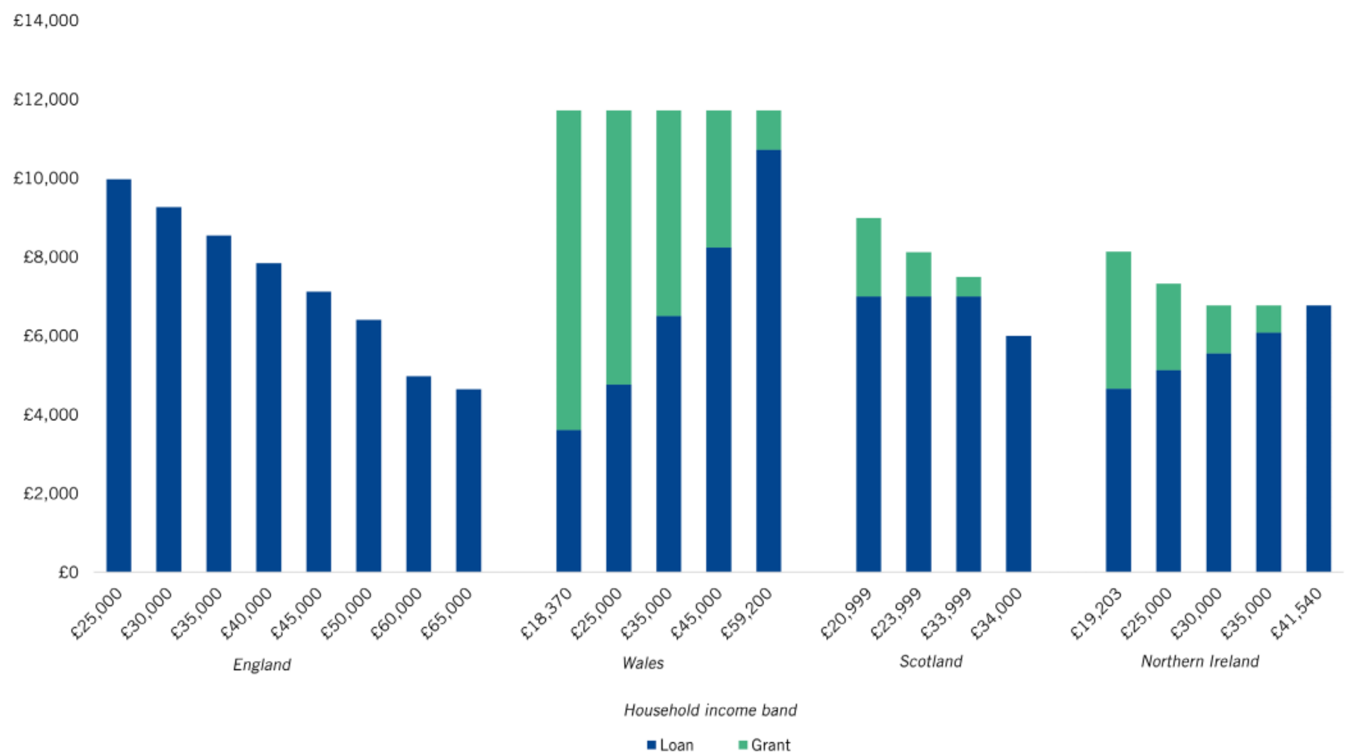
Previous work carried out by London Economics for the Higher Education Policy Institute (HEPI),[28] found that in England, the average Exchequer cost of the higher education system per student in 2023/24 is approximately £1,630; far lower than the £9,130 in Scotland, £3,780 in Wales and £4,810 in Northern Ireland.

Higher education institutions (HEIs) in **England** receive around £10,220 in net income per student, while Scottish universities receive only £7,870 (23% less). This is £9,290 in Wales (9% less than in England) and £7,620 in Northern Ireland (25% less than England).

There is far less funding from the government in England for HE compared to the devolved nations, with more of the funding coming from students themselves. The Exchequer contributes around 16% of the total cost of provisions per cohort in England, while students contribute the remaining 84%. In comparison, the contribution is 113% in Scotland (due to no student course fees), 44% in Wales and 51% in Northern Ireland.

UK nations have also had vastly different responses to the ongoing cost of living crisis and its impact on students. In England, for the 2023/24 academic year maintenance loans have only been increased by 2.8%,[29] compared to a 11.1% increase for the worst-off students in Scotland[30] a 9.4% increase for all undergraduates in Wales,[31] and a substantial 40% increase in Northern Ireland (albeit it from a lower base level).[32]

Figure 3: Maintenance support by household income across different UK nations, 2023/24



Source: The Sutton Trust, data for 2023/24 academic year.[22]

While some argue that young people's fear of debt reflects a lack of understanding of the student loan repayment system, in this research, the vast majority of the young people surveyed understood that future loan repayments change with income and only begin when a certain income threshold is met.[36] More recent data from the COVID Social Mobility and Opportunities (COSMO) study in 2023 found that just 48% of young people believed taking up loans is a good investment. Again, those from working class families were less likely to agree than those with professional/ managerial parents (43% vs 55%).[37]

THE COST OF LIVING FOR STUDENTS

Financial pressures

Recent evidence from the Sutton Trust indicates that current maintenance support levels are not high enough to cover students' basic living costs, as maintenance levels have not kept up with inflation during the ongoing cost of living crisis. Student polling for the Sutton Trust carried out in early 2023 found 63% of students were spending less on food and essentials, with 28% skipping meals to save on food costs. Those from working class families were nine percentage points more likely to have skipped meals, at 33%, compared to 24% of middle class students. Students were also struggling with other costs, with 43% using less fuel (such as electricity or gas) in their homes, 47% stopping or reducing going out with friends socially, and 9% dropping out or reducing their attendance at student societies. 6% reported moving back in with family to save money on rent or bills, 62% said they had spent less on non-essentials, and 18% avoided buying university supplies they needed for their course such as a laptop or textbooks.

While students from wealthier families struggling with costs are likely to be able to rely on additional funds from parents or from savings, students from lower income families often have few options for additional support. Indeed, lower proportions of working class students reported receiving additional support from their parents (38% vs 48%), or other family members (9% vs 12%) compared to their more affluent peers.[38]

Further polling carried out for the Sutton Trust at the end of 2023 found that 62% spend less than £37 a week on food, which according to analysis by the Joseph Rowntree Foundation and the Trussell Trust, is the minimum needed for a single person to buy essential food items. The research also found median spending for students on essentials is £11,400 a year,[39] far higher than the maximum maintenance loan (£9,978). And indeed, the analysis found essential spending was higher than the maximum maintenance loan for 57% of students polled, with housing costs alone higher than the maximum loan for 19% of students. Middle class students had median spending of £12,153, far higher than the £9,628 a year for working class students,[40] indicating the constraints on spending for students from poorer homes.

"Poorer students can graduate with £60,100 of debt, £16,500 more than the £43,600 for those from the richest families."

Impacts of financial pressures

Financial pressures for current and would-be students can have a considerable impact on the opportunities available to them, from whether students feel they can afford to attend university at all, to where they study, and the activities they can take part in when there.

Recent research from the Covid Social Mobility and Opportunities (COSMO) study found that, when asked about their reasons for not wanting to apply to higher education, young people from working class families were 8 percentage points more likely to report that they could not afford it, compared to those with professional and managerial parents (27% vs 19%).[41]

Young people from working class families (33%) are also three times as likely as their peers whose parents are in professional or managerial occupations (11%) to plan to live at home, and for some, this appears to be an economic decision.[42] These findings mirror those from earlier research from the Sutton Trust, back in 2018, which found students from poorer backgrounds were three times more likely to commute to university from home.[43]

While some students may prefer to live at home not only to save money, but also to remain close to family and friends, doing so can limit the opportunities young people have available to them, for example to go to a highly ranked university, or to study a specific course. COSMO data also found that young people planning to live at home were much less likely to express a preference to study at a prestigious Russell Group university than those planning to move away (37% vs 56%),[44] echoing previous evidence that for students from low income backgrounds, debt aversion is associated with a desire to study closer to home, constraining their university options in a way not found amongst those from higher income household.[45]

The increase in financial pressures is also reflected in the attitudes of young people in school. A new Sutton Trust survey of young people age 11-16 shows that concerns about the cost of living are on the rise. In 2014, of those with worries about the cost of Higher Education, 44% were worried about tuition fees and 17% about the cost of living as a student. In 2023 the latter figure had risen to 29%, almost the same as those worried about fees (30%).

When at university, the need to work alongside studying can impact considerably on a student's university experience. In 2023, Advance HE and the Higher Education Policy Institute (HEPI) found that 55% of students were in paid employment, up by 10 percentage points on the previous year (45%). Those working were undertaking, on average, 13.5 hours of paid work per week.[46] While there can be benefits to undertaking part-time work while studying, Sutton Trust research has found 49% of undergraduate students had missed classes in order to do paid work. Just under a quarter (23%) reported that they missed a deadline or asked for an extension in order to work, with 11% reporting this happened more than once. This impacts those with the least access to financial resources most - 16% of those from the most deprived areas reported this, compared to 8% of those from the least deprived.[47]

As well as the impact on students' academic courses, working long hours can also impact on their wider university experience, including opportunities to take part in student societies or work experience related to their career interests or course. Such opportunities can help develop valuable life skills such as leadership, confidence and communication, and there are also benefits for wellbeing.[48] However, Sutton Trust research carried out before the current cost of living crisis found even then, 1 in 5 graduates from working class backgrounds did not take part in a work placement as a student because they could not afford to, and this group were more likely say they couldn't afford to be in a student society.[49] These findings highlight the need for greater financial support for disadvantaged students, not just to help them thrive academically, but also to facilitate their participation in the wider university experience.

OPTIONS FOR CHANGE

The new modelling work outlined below has been carried out for the Sutton Trust by the economic consultancy London Economics. The analysis covers three potential systems, all of which would increase the amount of maintenance students would have available to them day to day, rising from the current level of £9,978 to £11,400. This is the level that recent Sutton Trust research has found is the median spending on essentials for students living away from home outside of London for 9 months of the year,[50] and which should therefore be covered for students from lower income families by government maintenance support. This would also set maintenance support at a similar level to what they would receive if paid the National Living Wage while studying, a method the Diamond Review in Wales used to set maintenance levels.[51]

Several options are explored on how that maintenance is provided,* from a flat loan for all students with maintenance grants making up the difference for students from low and middle income families (Scenario 1), through to the increased maintenance funding being made up entirely by an increase in maintenance loans (Scenario 3).

Scenario 2 falls somewhere in between, with the re-introduction of maintenance grants for the poorest students similar to the previous grant system, with this support tapering, along with an increase in the maintenance available for students from middle income families coming through higher loans.

Two versions of each of these scenarios are modelled, one in which parental income thresholds remain at their current levels, and one in which the parental income thresholds are raised with inflation since 2016/17.

Scenario 2 (increase overall maintenance, maintenance grants re-introduced under the old system of grants) is also modelled alongside changes to the repayment system, including 'stepped repayments' and changes to interest rates. Together, these changes show that an increase in overall maintenance, a re-introduction of grants, and an extension of eligibility thresholds can be delivered at the same time as reducing repayments for all graduates, while remaining **cost neutral to the Exchequer.**

More details on each scenario can be found in Appendix 2, with full outlines provided by London Economics available [here](#).

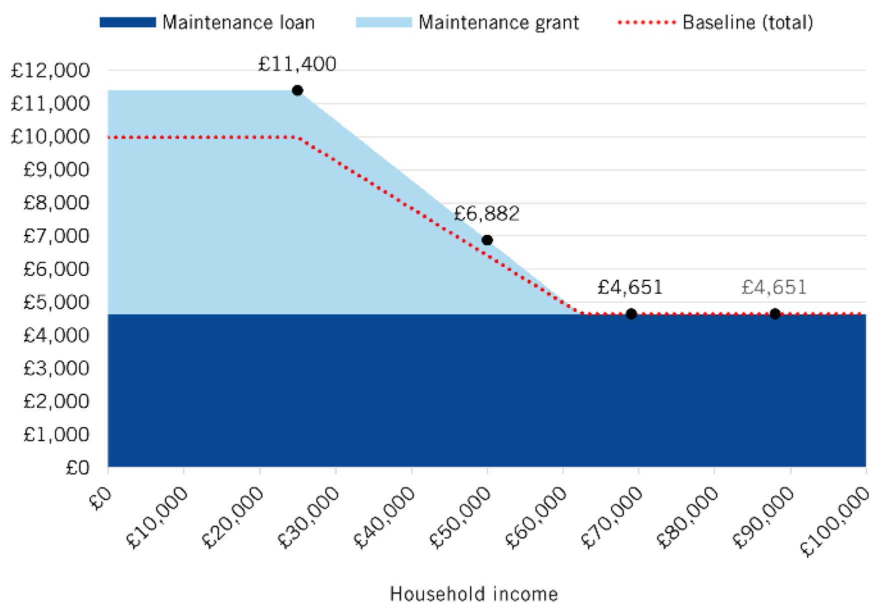
Scenario 1 – Increasing overall maintenance levels, with equal loans for all students and maintenance grants making up the difference.

Scenario 1 sees all students given the same amount of maintenance loan, with a sliding scale of grants dependent on household income to top-up their overall amount of support.

Here, that system is modelled with a universal maintenance loan of £4,651 per student, the current lowest level of maintenance loan available to students from better-off families. The maintenance grants are set at a maximum of £6,749 per year for students from the lowest income families (those on less than £25,000 per year), to bring their total level of support up to £11,400. This grant then gradually decreases with parental income, tapering down to £0 for students with a household income of more than £62,343, the current threshold at which students are only eligible for the minimum level of maintenance loan.

Scenario 1A is shown in Figure 4 below, in which the system outlined above is shown with existing parental income thresholds:

Figure 4: Scenario 1 – 'Flat' loans and top-up grants



Source: London Economics

*Figures shown are for students living away from home outside of London.

The benefits of this system would be two-fold. First, support for the poorest students would be increased to better meet the actual cost of living, preventing issues seen with the current level of support, with many students from lower income families skipping meals to make ends meet. Second, it would also be a much fairer system in the longer term, as students from lower income families would no longer come out of university with the highest levels of debt. Indeed, under this system, debt on graduation for all students, regardless of their socio-economic background, would stand at £43,300.

To introduce this system without any changes to the wider repayment system would cost the Exchequer an additional £2.93 billion per cohort (compared to the current baseline cost of £2.006 billion per cohort), with the average cost per full time English domiciled student increasing from £1,600 to £4,200.

Average debt on graduation would fall from £50,500 to £43,300. Lifetime repayments would decline by £7,100 for male graduates (from £53,800 to £46,700), and £4,800 for female graduates (from £42,100 to £37,300).

Looking at the same scenario alongside an increase to parental income thresholds, to reflect inflation, the full maintenance grant would instead be provided up to a household income of £32,535 rather than the existing cut off of £25,000, with maintenance grants tapering down to £0 at £80,921, rather than £62,343. In this scenario, in which 1A is modelled together with an increase in parental threshold levels, there would be an additional cost to the Exchequer of £3.7 billion per cohort.

Scenario 2 – Increasing overall maintenance levels, with variable loans and with maintenance grants focused on the poorest students.

Scenario 2 (shown on Figure 5) would see an increase in overall maintenance levels to the same amount as that seen for Scenario 1. However, this scenario sees maintenance grants re-introduced at a lower level, focused on lower income students, with the remainder of the increase made up in larger available loans for lower and middle income students. This would effectively be a re-introduction of the previous maintenance grant system, with grant levels based on previous levels uprated by inflation, which would amount to £4,121 per year for students from the lowest income families.[52] The grant would then reduce for those with incomes above £25,000, with loans increasing as a proportion as the overall amount of maintenance available reduces. Maintenance levels would taper down up to a household income of £62,343, the point at which students would only receive the minimum loan.

With lower overall grants available, this system would be considerably lower cost than Scenario 1, while still re-introducing maintenance grants to the poorest students, and providing more money for students to live on day to day. Under this scenario, the poorest students' debt on graduation would fall from £60,100 to £51,700. Students taking out the maximum loan would owe £57,900. For students from the richest families, debt on graduation would be the same as under the current system (£43,600).

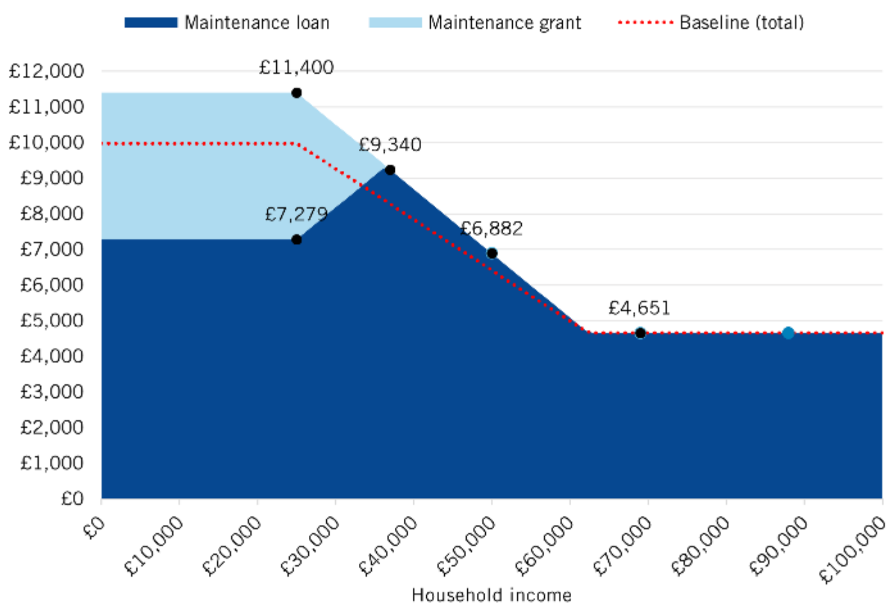
This model would cost the Treasury an additional £1.37 billion per cohort. The average cost per student would be £2,800.

Average debt on graduation would decline as in Scenario 1, but to a lower level, reducing to £48,300. Average repayments would also fall, although again less than in Scenario 1, falling by £2,200 for male graduates (from £53,800 to £51,600) and £1,500 for female graduates (from £42,100 to £40,600).

This scenario substantially cuts borrowing for students from the poorest families, with the gap between lower and higher income households cut by a half, however, they would still have higher levels of debt than students from richer families, with the highest debt burden falling on students from middle income families.

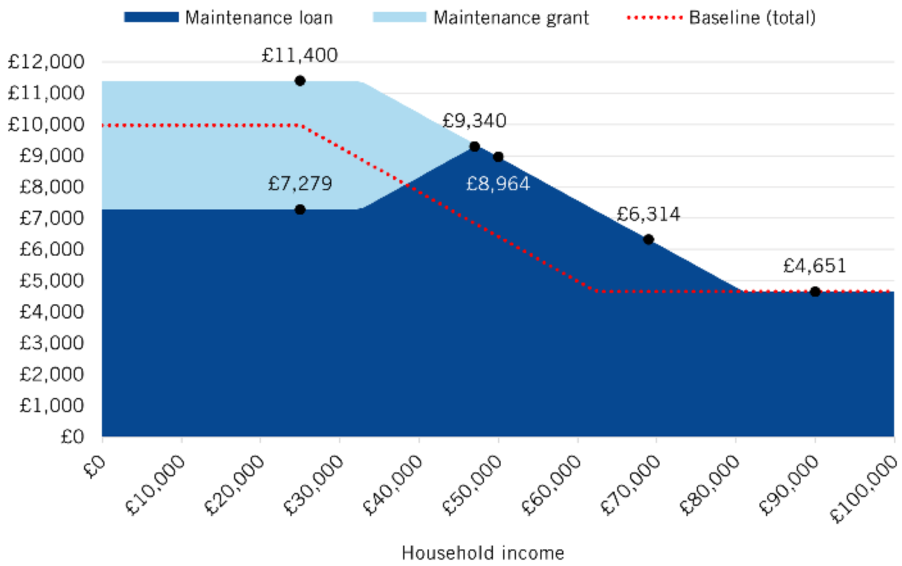
Extending eligibility thresholds cuts debt for a broader range of lower and middle income students. Providing a full maintenance grant up to a parental household income level of £32,535, with maintenance support tapering down to £4,651 at £80,921, would cost an additional £1.78 billion (Figure 6, see overleaf).

Figure 5: Scenario 2 – Higher means-tested loans and 'old' grants



Source: London Economics

Figure 6: Scenario 2 + parental thresholds increased by inflation



Source: London Economics

A variation to the above, in which the same system of maintenance grants was is re-introduced, but without an overall increase in maintenance levels, would cost the Exchequer an additional £1.31 billion.

Scenario 3 – Increasing overall maintenance levels by means-tested loans only.

The final scenario modelled here is an increase in maintenance support, provided solely as an increase in means-tested maintenance loans. Here, a maximum loan of £11,400 would be available to a parental income of £25,000, before tapering down to the minimum loan at incomes of more than £61,343 (Figure 7).

This scenario would increase the amount of money available to students day to day at relatively low cost, but would see even larger differences in debt for students from richer and poorer families than in the current system. It would cost an additional £113 million per cohort, with average Exchequer costs per student only increasing by £100, to £1,700. Average debt on graduation would stand at £52,500. For students from the poorest homes, debt levels would increase from £60,100 to £64,600. Average lifetime repayments would increase by £2,000 for male graduates (from £53,800 to £55,800), and £1,300 for female graduates (from £42,100 to £43,400).

Extending the thresholds for parental household incomes to £32,535 for maximum support, and the taper to £80,921, would cost the Treasury an additional £223 million per cohort, with average debt on graduation increasing to £54,500.

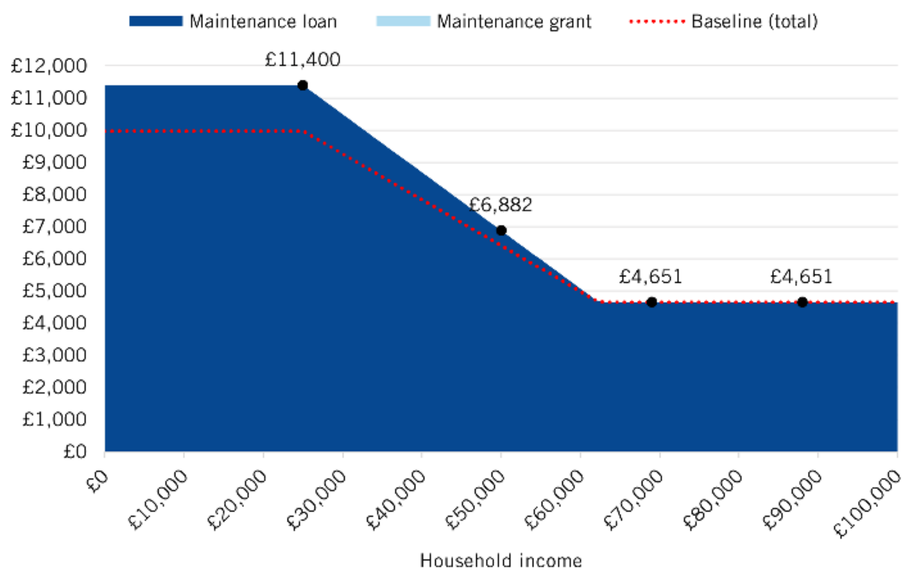
Funding an increase in maintenance support

Given the current pressures on public finances, the next section looks at how to improve the maintenance system, as well as improving the level of progressiveness in repayments, in order to allow implementation at no or very low cost to the Treasury.

Here, only one of the above scenarios is modelled in this way. However, a similar approach could also be taken to reduce the cost of the other scenarios outlined.

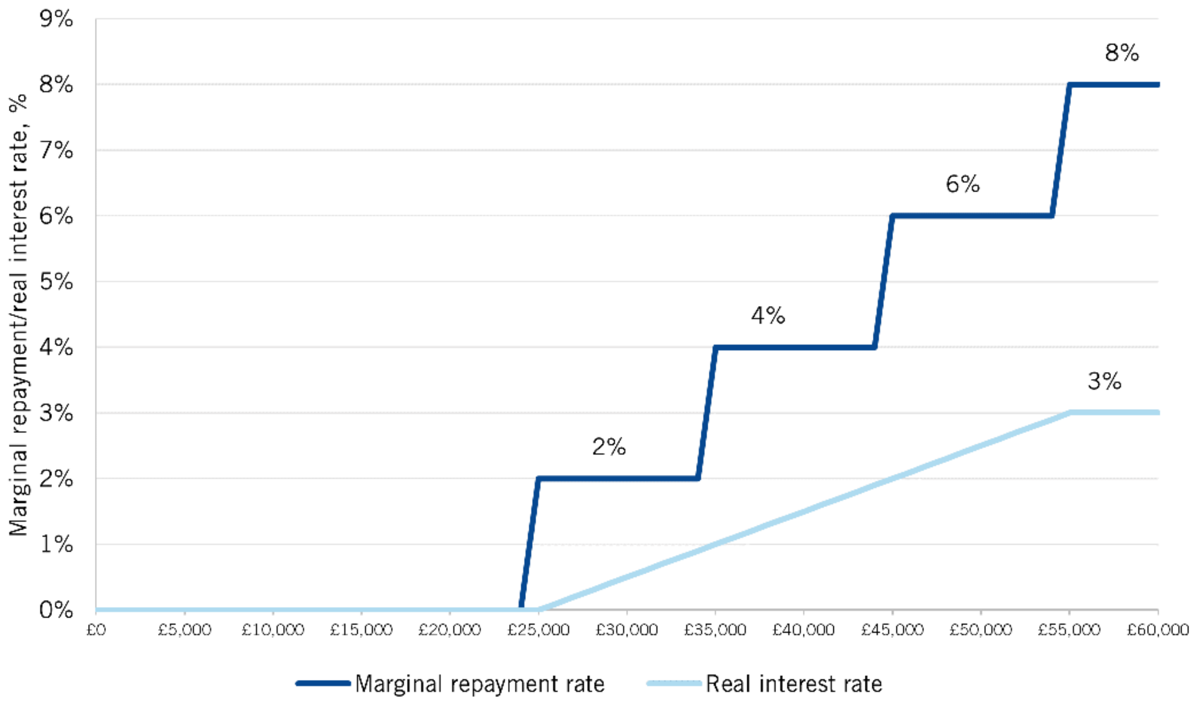
Scenario 2B has been used here to illustrate potential changes to repayment terms. We selected this scenario as it fulfils many of the changes needed to the existing system; reducing the debt burden of students from poorer families (by re-introducing maintenance grants) while also increasing the amount of maintenance available to students day to day. Importantly, we selected a scenario where the parental income bands are shifted upwards, to reflect inflation and the level of support that parents are likely to be able to provide, which we feel is vital for any change to the student maintenance system.

Figure 7: Scenario 3 – Higher support through means-tested loans only



Source: London Economics

Figure 8: Scenario 5 – stepped repayment approach



Source: London Economics

Here, as shown in Figure 8, a few key changes are made to the system to bring in more funding, while also reducing the repayments of lower income graduates. This includes a stepped repayment model (similar to that previously modelled by London Economics),[53] whereby graduates would only pay 2% on their earnings from £25,000 to £35,000; 4% on earnings between £35,001 and £45,000; 6% on earnings of £45,001 to £55,000; and 8% on earnings above £55,000.

Another change is the re-introduction of real interest rates, increasing from 0% for those earning below £25,000, to gradually reach 3% for those earning over £55,000. However, rather than the previous 3% interest rate while students are studying, here that rate would only be 1.5%.

These changes to repayment terms would make scenario 2B (described above) cost neutral to the Exchequer, with the average cost per student staying approximately the same (£1,600). Average debt on graduation would decrease by £300, to £52,200 with lower loan outlay being offset by the partial reintroduction of interest rates. Debt for the poorest students stands at £52,400, compared to £44,200 for students from the richest homes.

This system would see average lifetime repayments increase by £14,400 (to £68,200) for male graduates, and decrease slightly (by £2,700 to £39,400) for female graduates. However monthly repayments would reduce for all groups, meaning an effective 'tax cut' for all graduates.

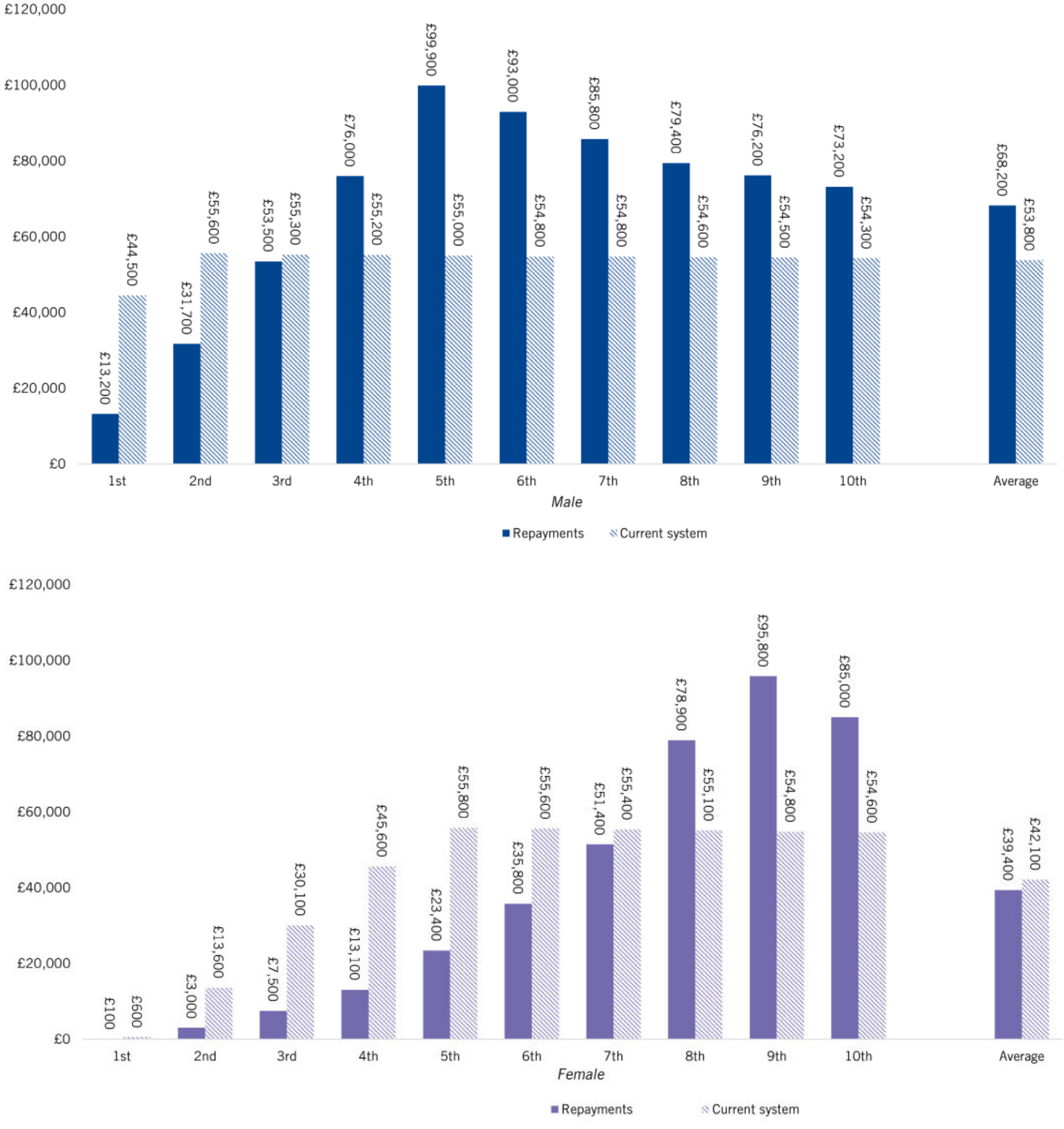
Looking at the impact on repayments by lifetime earnings, the current system is shown in Figure 9 (overleaf).

In this proposed repayment system, high income graduates would make larger lifetime loan repayments, as the combined re-introduction of real interest rates and lower repayment rates would keep these graduates in repayment for much longer (whereas they pay off their loans relatively quickly under the current system).

Low and middle income graduates (1st to 3rd decile for men, and 1st to 7th decile for women) are not expected to clear their loans under either system, but their monthly repayments would be lower, meaning they would pay less than they currently do overall. Graduates earning £25,000 would pay nothing each month under both systems. Those earning £50,000 pay £188 per month under the current system, and would pay just £75 a month under this system.

Graduates earning £75,000 pay £375 per month in the current system, but would pay just £233 per month with these changes. And looking at someone earning £100,000, while they pay £563 per month in the current system, under this proposal their repayments would reduce to £400 per month.

Figure 9: Repayment amounts for male and female students for Scenario 2, with parental income thresholds increased, and a stepped repayment system introduced



Source: London Economics

CONCLUSION

Higher Education funding and student finance is a major problem facing the next government. Students are not receiving enough money to live, yet are burdened with huge debts and decades of repayments, and university finances themselves are stretched, with funding for domestic students not covering their costs. The current system is clearly broken, but clear solutions do not abound, particularly given fiscal restrictions. Solving all those problems is a gargantuan task, but it is clear that students themselves must be a key priority, and if we want to provide opportunity for all, we need to make sure students from all backgrounds have enough to get by, without sacrificing their education in the process.

That means urgent reform of student maintenance is needed. As maintenance levels in England have failed to rise with inflation during the cost of living crisis, in contrast with the rest of the UK, and they no longer cover the cost of essentials for the majority of students. For students from lower income families particularly, who are less able to rely on family members for support, this has left many struggling financially. Worrying numbers of students are skipping meals or working longer hours (with associated disruption to their studies and wider university experience) to make ends meet. On top of this, the abolition of maintenance grants puts the highest debt burden on students from the poorest families, and rather than a system which enables young people from all backgrounds to attend, impacts on the university choices of some, and whether others attend university altogether.

"The current student finance system does not work for students from the poorest families, and risks locking many out of higher education."

The current Conservative government has not announced any plans to reform student maintenance, with levels only due to rise by 2.5% in 2024/25, still far behind recent inflation. Government has pointed to the £286 million provided to universities via the Office for Students through the student premium fund, which it says can be used for hardship funds.[54] However, there are several competing uses for these funds, and this money and its allocation to universities is not explicitly tied to low income students.[55]

Looking to Labour, while the party has said it would reform the student finance system, stating that in government it would “ensure we support the aspiration to go to university”[56] it has largely focused on potential changes to the repayment system, and has not made any public commitments regarding the amount of maintenance support students receive, or on the re-introduction of maintenance grants.

The current student finance system does not work for students from the poorest families, and risks locking many out of higher education. It is vital the next government grapples with this challenge, and reforms the system to ensure everyone, regardless of their background, has a fair chance to access and succeed in higher education.

APPENDIX 1: MAINTENANCE LOAN AMOUNTS FOR 2023/24 ACADEMIC YEAR[57]

(Note: amounts in bold indicate the upper earnings thresholds and maximum support available)

	Maintenance loan		
Household income	**Living away from home, outside London**	**Living away from home, London**	**Living at home**
£25,000	£9,978	£13,022	£8,400
£30,000	£9,265	£12,297	£7,964
£35,000	£8,552	£11,571	£6,988
£40,000	£7,839	£10,845	£6,282
£45,000	£7,125	£10,120	£5,576
£50,000	£6,412	£9,394	£4,869
£55,000	£5,699	£8,668	£4,163
£58,291	£5,229	£8,191	**£3,968**
£60,000	£4,986	£7,943	£3,698
£62,343	**£4,651**	£7,603	£3,698
£65,000	£4,651	£7,217	£3,698
£70,000	£4,651	£6,491	£3,698
£70,040	£4,651	**£6,485**	£3,698

APPENDIX 2 - REFORMING STUDENT MAINTENANCE OPTIONS: SUMMARY TABLE

		Scenario 1		Scenario 2			Scenario 3		Scenario 4	
	Current system	**Current parental income thresholds**	**Parental income thresholds increased with inflation**	**Current parental income thresholds**	**Parental income thresholds increased with inflation**	**Changes to repayment terms + parental income thresholds increased with inflation**	**Current parental income thresholds**	**Parental income thresholds increased with inflation**	**Current parental income thresholds**	**Parental income thresholds increased with inflation**
Total cost to the Exchequer per cohort	£2.01bn	£4.94bn	£5.71bn	£3.38bn	3.79bn	£2.01bn	£2.12bn	£2.23bn	£3.31bn	£3.71bn
Average Exchequer cost per student	£1,600	£4,200	£4,800	£2,800	£3,200	£1,600	£1,700	£1,800	£2,800	£3,100
RAB charge	4.1%	2.0%	2.0%	3.5%	3.8%	6.1%	4.5%	5.0%	2.9%	3.1%
Average debt on graduation	£50,500	£43,300	£43,300	£48,300	£49,400	£50,200	£52,500	£54,500	£46,200	£46,900
Average debt on graduation: students poorest families	£60,100	£43,300	£43,300	£51,700	£51,700	£52,400	£64,600	£64,600	£47,100	£47,100
Average debt on graduation: students richest families	£43,600	£43,300	£43,300	£43,600	£43,600	£44,200	£43,700	£43,700	£43,500	£43,500
Debt gap (between students from the poorest and the richest families)	£16,500	£0	£0	£8,100	£8,100	£8,200	£20,900	£20,900	£3,600	£3,600
Average repayments: women (all)	£42,100	£37,300	£37,300	£40,600	£41,400	£39,400	£43,400	£44,800	£39,200	£39,700
Average repayments: men (all)	£53,800	£46,700	£46,700	£51,600	£52,800	£68,200	£55,800	£57,900	£49,500	£50,200

Cost neutral to the Exchequer

APPENDIX 2 - REFORMING STUDENT MAINTENANCE OPTIONS: SCENARIO DESCRIPTIONS

Increasing overall maintenance levels, with equal loans for all students and maintenance grants making up the difference	**Scenario 1**
Increasing overall maintenance levels, with variable loans and with maintenance grants focused on the poorest students	**Scenario 2**
Increasing overall maintenance levels by means-tested loan only	**Scenario 3**
Re-introducing maintenance grants without increasing overall maintenance levels	**Scenario 4**

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