Localisation and the means test: A case study of support for English students from Autumn 2012

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Abstract

The combination of spending cuts, efforts to protect the poorest from some of their effects, and 'localised' decision-making are leading to an increase in the numbers of means tests designed by lower level institutions. This paper examines a case study of the effects of this, looking at the means-tested support which has been offered to English students applying to go to 52 universities from Autumn 2012, designed partly to offset the rise in general fees to or towards £9,000. 27 of these universities are offering significant levels of means-tested support through bursaries or fee reductions depending on parental income. Although using a common income definition, each university has designed its own system with widely varying criteria. Taken with the national maintenance grant system, these imply substantially different levels of support for students from lower and higher-income families. Nearly all of them involve significant downward steps or 'cliff edges' in support at particular income levels, often involving a drop of several thousand pounds. Just looking at student support by itself, this implies typical marginal withdrawal rates exceeding 40 per cent and even 100 per cent over particular income ranges. Taken together with the effects of other parts of the tax and benefit system that would have affected family income, the effect is marginal effective tax rates on family resources that exceed 50 per cent for the entire income range up to £43,000. They typically reach 180 per cent for £1,000 income variations around income of £25,000. For the most generous case, Oxford University, the £13,050 reduction in subsequent means-tested student support is equivalent to nearly the whole of the £13,250 net income difference between two-child families that earned £17,000 and £44,000 in 2010-11. As well as introducing extra complexity and questions of equity in treatment within student finance, this kind of development runs counter to other parts of government policy, such as Universal Credit, intended to smooth out and simplify means-tests. As localisation is pushed further, and more agencies become responsible for designing their own mean tests, the lack of a system to take an overview of their overlapping effects, and to avoid undesirable design features will become an increasing problem across social policy, not just in this particular area.

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1. Introduction

In 1972, reforms to what were then rent rebates and allowances (now Housing Benefit) swept away structures with rules that varied between local authorities to establish uniform national rules for the ways in which benefits would relate to people's incomes. The previous local variations and overlaps had been criticised as leading to deep but widely varying poverty traps – Mike Reddin (1968) had identified 3,000 local authority-run means tests applying in the mid-1960s, of which some 1,500 were unique in their rules. The overlaps between such schemes led Tony Lynes (1971) to point to the possibility of 'paying surtax while living on the breadline'. In the forty years since then, systems for giving means-tested support, even if administered locally and relating to local charges such as rents, have generally had national rules.

This is now set to change as three aspects of government policy collide: general cuts in public spending as the main route to rebalancing the public finances; attempts to protect some of those on low incomes from the effects of cuts; and a move towards 'localisation', with more discretion for – and in some cases competition between – lower level parts of government or other institutions.

One example of this is the reform currently being introduced for Council Tax Benefit, where the responsibility to achieve a 10 per cent cut in its costs has been passed down to local government (Communities and Local Government, 2011). The potential result is a wide variety of different rules between local authorities, including in the rates at which benefit is withdrawn as income rises (the 'taper' used in calculating benefit). What the end result of this will be on the ground, and its interaction with other major reforms is as yet unclear. However as Brewer, Browne and Jin have argued, "a Council Tax Benefit that operates separately from Universal Credit and has rules that vary across English local authorities has the potential to undermine many of the supposed advantages of Universal Credit" (2012, p.46).

However, the results of the 'localisation' of another aspect of means-testing are now becoming clear, and may offer a case study of the potential results of other reforms that move in this direction. This is a so far little remarked-on aspect of the reforms to university and student finance that take effect for students entering higher education in Autumn 2012. Most of the discussion of these reforms has been around the effects of English university tuition fees that will rise – in most cases – to £9,000 per year, but paid through a levy of 9 per cent of each graduate's later annual earnings to the extent that they exceed a threshold set initially at £21,000 (until the fees and other loans for living costs while a student are paid off). Proponents of this kind of 'income contingent loan' system argue that it is fair in that those who have benefited from higher education are the ones who pay for it, and is more progressive than alternatives (Glennerster, 2009; Browne, 2010; Barr, 2007, 2012). In theory a system of this kind should avoid the risk of an unpayable mortgage-type loan acting as a deterrent to going to university, as people only pay back as they are able to do so. Indeed, those with low life-time earnings never repay the costs in full, as loan repayments come to an end after 30 years, regardless of whether anything is outstanding.

As witnessed by widespread protests by current and potential future students and others since the reforms were proposed, many people remain unconvinced of these arguments, however. Concern has centred in particular on the way in which the prospect of up to £27,000 in 'debt' for fees – and more for living costs while a student – may deter students from low-income backgrounds in particular from going to university, reversing progress in slowly narrowing the wide social class gap in participation. In response the government and universities have boosted the systems of support based on *current* (or at least, recent) family income that supplement the relationship of the underlying repayment system to future *lifetime* graduate incomes:

- First, the system of nationally means-tested maintenance grants to contribute to living costs while a student is being made somewhat more generous than for students facing lower fees who started up to 2011 (see Figure 1 below).
- Second, central government will put resources into a 'National Scholarship Programme' (NSP) for universities to allocate to students from lower-income families.
- Third, individual universities and other higher education institutions, if they charge fees above a floor level of £6,000 (which it appears they nearly all will, for at least some of their courses) will have to add their own resources to those available from the NSP, and take other measures to improve participation from students from disadvantaged backgrounds.[1] These form a central part of the 'access agreements' which English universities have to make with the Office for Fair Access (OFFA) as a condition of charging higher fees to English undergraduates.

It is the third of these – and the structures of the dramatically varying means tests based on parental income which have emerged as actual fee levels have been set at or near £9,000 per year – which is the main focus of this paper.[2] The next section gives more of the background to the new system. Section 3 sets out the ways in which the rules can vary between universities, presenting the results of a survey of 52 universities, accounting for 60 per cent of UK students, of the offers they were making to 2012 applicants in terms of means-tested bursaries and fee reductions. For (comparative) simplicity, the paper focuses on English full-time undergraduates. Section 4 discusses the overall picture this presents for different kinds of university, and Section 5 discusses the interaction of these means tests with the rest of the tax and benefit system. Section 6 concludes, drawing together some of the issues the emerging pattern raises, and its potential implications for further reforms of this kind.

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1 See the last part of Section 3 for more discussion. See Callender (2010) for discussion of what universities were already offering as bursaries and other support before the current reforms.

2 The focus is on the structures of the means tests involved, rather than on their potential effects on participation and student choice. For the impacts of earlier – less extensive – systems of this kind, see Callender (2009, 2010), Pennell and West (2005), and West *et al.* (2009).

2. Background

Higher education funding has long presented a policy conundrum as a result of competing aims and constraints:

- Higher education generates a mixture of social and private returns, with OECD research suggesting that internationally the latter are greater than the former, with private returns accounting for more than 60 per cent of the benefits of higher education (Browne, 2010, p.21).
- On a lifetime basis, subsidising the private returns of those who become graduates from general taxation is clearly regressive, as they go on – on average – to have higher earnings than others (Falkingham, Glennerster and Barr,1995).
- However, there is a series of barriers to efficient outcomes if funding were simply left to individual students borrowing from the market, including credit market failures (borrowing may not be possible or may be high cost), levels of risk and uncertainty (the value of a degree will vary in unpredictable ways between students), and information problems (prospective students do not know how much they will earn in future or how it will be affected by having a degree) (Wyness, 2010).
- These barriers are likely to be greater for students from lower-income backgrounds, exacerbating equity problems and reducing social mobility still further.[3]

Historically, higher education in the UK – for the relatively small group who entered it – was funded from general taxation, with no tuition fees, and with means-tested grants to cover at least part of living costs while a student (although these were gradually replaced by mortgage-type loans through the early 1990s). But following the Dearing Report of 1997, tuition fees have become increasingly important, particularly in England (on which this paper concentrates). Initially these were set at £1,000 for each year of study (although only for students from higher-income families), paid up-front, alongside loans for living costs that were repaid on an income contingent basis from future earnings. But after 2006, higher ‘top up’ fees were brought in, to be repaid – along with maintenance loans – through future earnings, with no up-front charges. The fees were initially capped at £3,000 per year. Students from lower-income families were entitled to a more generous mix of grants and loans for living costs, and a minimum bursary of £300 from the university (if charging fees towards the higher end).[4]

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3 See, for instance, Naylor, Smith and McKnight (2002), for evidence of the greater riskiness of returns to a degree for students from lower social class backgrounds.

4 There was also a system of ‘opportunity bursaries’ worth a total of £2,000 over three years for students starting in 2001 and 2002. See West, *et al.* (2009) for an analysis of their (positive) impacts on retention, debt levels, and financial worries.

By 2010-11 fees had reached £3,470 per year, with students receiving maintenance grants of £2,990 per year if parental income[5] was less than a threshold of £25,000 per year, tapered off gradually to zero if income was over £50,000. For those receiving the full grant, universities also gave a bursary of at least £350. For those with parental income below the threshold, a maintenance loan of up to £3,590 was available, with the amount increasing to £5,060 as maintenance grants were withdrawn up to parental income of £50,000, but falling again to £3,750 for those with parental income over £60,000.[6] Both fees and maintenance loans are repayable on the basis of 9 per cent of graduates' incomes in excess of £15,000 per year for up to 25 years or until the loan (with a zero real interest rate) is paid off.

On top of the £300 mandatory grant for low-income students, many universities developed their own discretionary bursary and other support systems, the fore-runners of those examined below. Callender reports from a survey of 117 higher education institutions in England that they offered 303 separate bursary and scholarship schemes in 2006-07, of which about 60 per cent were needs-based using some form of means-testing. For lower-income students, receiving a full government grant, the average additional bursary was £1,051 per year. It averaged nearly £1,800 in 'Russell Group' universities (including £4,000 for first year students at Oxford), but was under £700 in less prestigious institutions (Callender, 2010, pp. 51-53).

The Browne Report of October 2010 recommended radical developments to this system, moving towards a greater contribution from fees paid after graduation, allowing expansion of university places without further demands on public spending. It recommended that there should be a means-tested grant of £3,250 for students from lower-income families (but the mandatory award from universities, by then £350, be abolished), that available loans for living costs should be flat rate, rather than means-tested, that the income threshold for loan repayment should be increased to £21,000 (and its value linked to average earnings), but with the repayment period extended to 30 years and with a real interest rate charged on outstanding loans. It envisaged universities charging fees of at least £6,000, with no cap, but with a progressively greater levy on universities charging fees above that level. The idea of this levy was to offset the long-run cost to government of having to meet loans that remained unpaid at the end of the 30 years. The report illustrated the long-run costs to graduates on the basis of average fees of £6,250, but examined aggregate financial flows using a range of average fees from £6,000 to £8,000 (Browne, 2010, pp.42-44).

The report argued that its proposals, "put students at the heart of the system" and criticised the then current position as "...complex and confusing" with "means-testing perceived as burdensome ... there is a range of institutional bursaries that students often do not know about when making applications decisions" (p.36). It appeared to

5 See below for the definition of 'residual income' used in this calculation.

6 The amount of loan available depends on whether the student is living away from home or not, and whether studying in London.

envisage a relatively modest role for university bursaries in the system, rising from a total value of £200 million to £300 million per year under its proposals (p.44).

Publication of the Browne Report coincided with the 2010 Spending Review, in which the government announced that it would be dramatically cutting public spending on university tuition costs, withdrawing teaching grants altogether for humanities and social sciences, with universities expected to raise fees to between £6,000 and a cap of £9,000 (but without the levy on fees above £6,000 that Browne had envisaged). The June 2011 White Paper, *Higher Education: Students at the Heart of the System*, laid out that there would be a national maintenance grant system much as envisaged by Browne (but withdrawn by parental income of £42,600), but access to maintenance loans would remain means-tested. The threshold for repayment would rise to £21,000, earnings-linked, as proposed by Browne, and over 30 years, but with differential interest rates for those whose incomes were below and above the repayment threshold each year.

Any university charging more than £6,000 would have to make an 'access agreement' with the Office for Fair Access (OFFA). This would include putting extra funding into bursaries, fee reductions or subsidised accommodation, for less well-off students (essentially those with parental income below £25,000) on top of government funding (building up to £150 million per year) of a National Scholarship Programme (NSP). The shape of this would be up to each university, subject to approval by OFFA.

Table 1 summarises the resultant structure of student support of different kinds for English students entering universities in the Autumn of 2012.

Table 1: Summary of student financial support from Autumn 2012 (English students)

Main types of student financial support - 2012-13	Yearly amount	How is it paid?	Pay back?	Provided by
Tuition fee loan	Up to £9,000	To university	Yes	Government
Maintenance loan	Up to £7,675	Cash	Yes	Government
National maintenance grant	Up to £3,250	Cash	No	Government
National Scholarship Programme	At least £3,000 (1st year)	Up to £1,000 cash, the rest fee waivers or discounts	No	Government and university
University bursary	Depends on university	Cash / accommodation discount	No	University
University tuition fee waiver	Depends on university	Tuition fee waiver	No	University

In setting up the new system, the Coalition government clearly expected that universities would charge a range of fees between £6,000 and £9,000, with students making their choice between institutions partly on the grounds of differential prices. In the event nearly all have gone for the top end of this range. Of the 52 institutions we examine below, for instance, the average fee set by the more research-intensive and prestigious 'Russell Group' universities is £8,860, and for the other large universities is around £8,500 (see Table 3).[7] One consequence of this is that the Russell Group and a few other universities – doubtless mindful of the need for OFFA to approve their access agreements in the face of already low participation rates from students from lower-income backgrounds even before the fee increases, and guidance from OFFA on the amounts high-fee universities would be expected to spend on bursaries and outreach activities – have set up much more extensive means-tested bursary and fee reduction systems than apparently envisaged by the Browne Report. It is to these that we turn in the next section.

3. Means-tested assistance offered by individual universities

This section examines the means-tested bursaries and other assistance available to English undergraduate students commencing studies at UK universities in September 2012. We focus on means-tested assistance, rather than purely merit- or academic achievement-based scholarships.[8] For space reasons the analysis is restricted to full-time students who have been resident in England because both the government and university funding rules are frequently different for students that have been resident in other parts of the UK or EU.

Because of the complexities involved in comparing universities with what turn out to be elaborately different bursary systems, we also exclude several groups of students due to the presence of widely differing rules, and their smaller numbers, including mature students, those leaving public care, those with partners, and those not going to university for the first time. We focus on those living away from home, as although the rules are often the same for students living with their parents, they do occasionally vary. We also exclude foundation courses, foundation years, non-honours degrees, years abroad, and years in industry.

We gathered information from the websites of universities as it was available in January 2012, the time when prospective students – intended to be 'at the heart' of the new system – would be finalising their application choices for the main UCAS deadline on 15 January.[9] We looked at the 52 universities with the greatest number of

7 The precise figure would be affected by the balance between courses with different fees, which we have not allowed for.

8 These kinds of award may also be becoming more common, particularly as limits on recruiting students with the highest grades have been relaxed.

9 The deadline for applications to Oxford and Cambridge, and for medicine and dentistry courses, was 15 October 2011. For some courses, such as art and design, there was a later

full-time undergraduates (based on Higher Education Statistics Agency data for the academic year 2009-10), and the two Russell-Group universities that do not fit into this category: Imperial College London and the London School of Economics.[10] Two of the 54 (Central Lancashire and Huddersfield), however, have not yet announced their system of bursaries (although they say that there will be bursaries of some kind). We therefore analyse 52 institutions (out of the UK total of 165), representing 782,000 students, or 59 per cent of the total number of full-time undergraduates studying at UK universities.

The universities can be split into two main groups: those focusing their means-tested support mainly or exclusively based on the conditions of the government-required National Scholarship Programme (NSP); and those with more generous or extensive systems. Table 2 shows that all twenty Russell Group universities have more generous bursaries, apart from Queen's University Belfast, which has no means-tested support for English students.[11] There are also eight non-Russell Group universities with more generous or extensive means-tested bursaries or fee reductions that are offered to those with parental income of over £25,000, giving a total of 27 institutions in the more generous group. There are 22 non-Russell Group universities focusing their bursaries mainly based on the conditions of the NSP, which means that no student from a family with a residual income of over £25,000 will be entitled to means-tested support.[12] As well as Queen's University Belfast, two of the universities we examined, Glamorgan and Ulster, did not advertise any means-tested bursaries for English students.

One element of uniformity is that the incomes used for the means-tests are all based on Student Finance England's measure of 'residual household income' which, for undergraduates starting in September 2012, will mainly consist of their parents' earnings in the financial year *2010-11*, in addition to the student's projected unearned income for the *2012-13* academic year.[13] Student Finance England will assess incomes

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deadline of 24 March. The information for the universities we examine below had not changed when checked again in April 2012.

10 We take the Russell Group as it was in January 2012. Four more universities will join the Group in future: Exeter (one of the other larger universities we examine), as well as the three smaller universities not covered in our survey (Queen Mary University of London, York and Durham).

11 Queen's University Belfast does offer merit-based bursaries for English students, with up to £2,500 available depending on the student's A level results.

12 Apart from more limited contributions to specific costs: for instance, Coventry University offers assistance with items such as field trips for those with national maintenance awards, and so residual incomes up to £42,600.

13 One curiosity of the system as it is laid out is that the definition of a student's current unearned income does not only include items such as bank interest, but also includes, "all income from scholarships, exhibitions, bursaries, awards, grants, allowances; and all other payments for attending your course during the academic year". On the face of it, this opens up a bizarre circularity. Without a bursary the residual income could put a student below one of the thresholds that many universities use as a criterion of eligibility for a significant award,

based on the information provided in the student's application, and then provide the relevant universities with the information so they can use it for their own means-tests. For later years, parental income for subsequent years is used.

Table 2: Universities surveyed

Russell group universities (20)	**Primarily using only National Scholarship Programme (22)**
Birmingham	Birmingham City
Bristol	Bournemouth
Cambridge	Coventry
Cardiff	De Montfort
Edinburgh	Kingston
Glasgow	Leeds Metropolitan
Imperial College London	Liverpool John Moores
King's College London	London Metropolitan
Leeds	Manchester Metropolitan
Liverpool	Middlesex
London School of Economics	Plymouth
Manchester	Salford
Newcastle	Sheffield Hallam
Nottingham	Brighton
Oxford	East London
Queen's University Belfast(*)	Greenwich
Sheffield	Hertfordshire
Southampton	Hull
University College London	University of the Arts, London
Warwick	West of England
	Westminster
Non-Russell group but with more generous bursaries (8)	Wolverhampton
Anglia Ruskin	
Exeter	**No means-tested bursaries (2)**
Kent	Glamorgan
Northumbria	Ulster
Nottingham Trent	
Oxford Brookes	**No information yet (2)**
Portsmouth	Central Lancashire
Strathclyde	Huddersfield

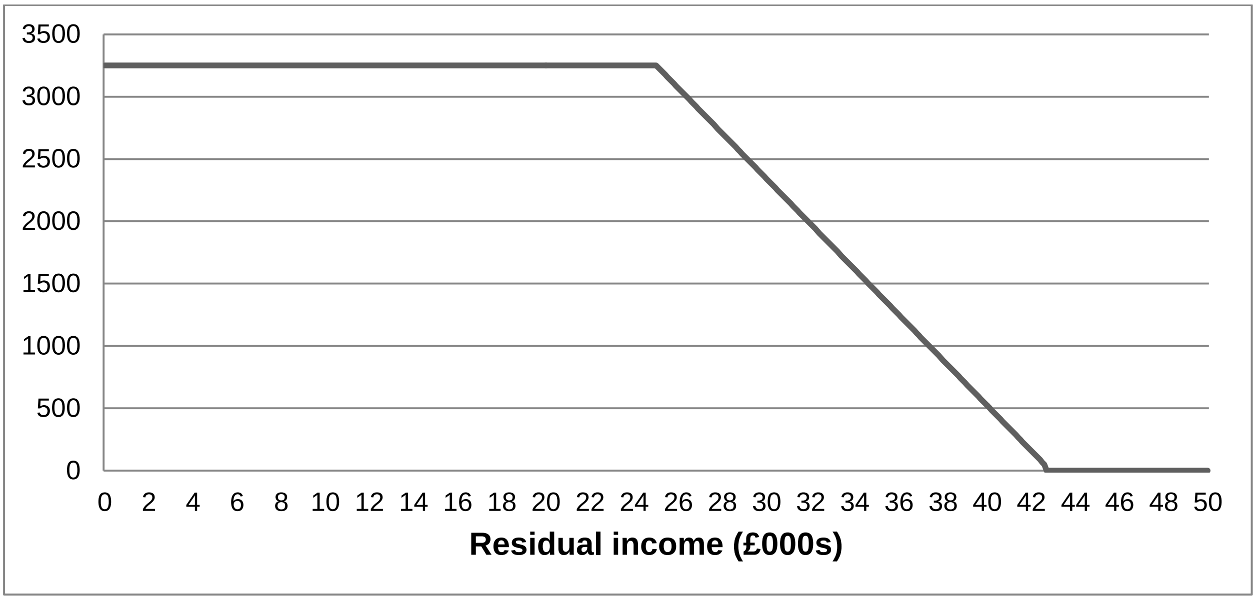
(*) No means-tested support for English students.

such as £25,000. The student would therefore be entitled to a bursary, but including the bursary could put her above the threshold, and so no longer entitled to it, putting her back below the threshold, and so on. We discussed this with Student Finance England who said that this was not the intention, but who could only refer to the rules shown on its website quoted above as guidance (http://www.studentfinance.direct.gov.uk/portal/page?_pageid=153,4680136&_dad=portal&_schema=PORTAL). Doubtless the guidance will be clarified before this situation arises in practice in the Autumn.

The parental income used is before deduction of tax or national insurance, but does not include items such as tax credits or other benefits. It excludes pension contributions eligible for tax relief and an allowance for each other financially dependent child apart from the student (which was £1,130 in 2010-11). There is no other adjustment for family size. There is a similar allowance if either parent is a student as well. In thinking about the interaction between this system and other parts of the tax and benefit system, as we do in Section 5 below, in terms of a family means-test, this means that the effective marginal tax rates implicit in the systems apply to *gross* parental earnings in the period two years earlier.

The national maintenance grant
Underlying the individual university bursaries and fee reductions is the national system of means-tested maintenance grants. The rules of this are relatively straightforward and the same for every English student whether or not they live at home or away, or study inside or outside London. For 2012-13 it will be £3,250 per year for those with a residual income of £25,000 or less. For those with higher incomes the amount is reduced smoothly at marginal rate of around 18.2 per cent until £42,600, at which point the grant is £50. For those with higher residual incomes, there is no government grant. As can be seen in Figure 1 below, apart from the small dip at £42,600, the system avoids undesirable sharp 'cliff edges' for entitlement of the kind that were highlighted by criticism of the Coalition government's original proposals in 2011 for withdrawing Child Benefit from higher rate taxpayers. Around 40 per cent of students receive full grants, 20 per cent partial grants and 40 per cent none (SLC, 2011, table 3A).

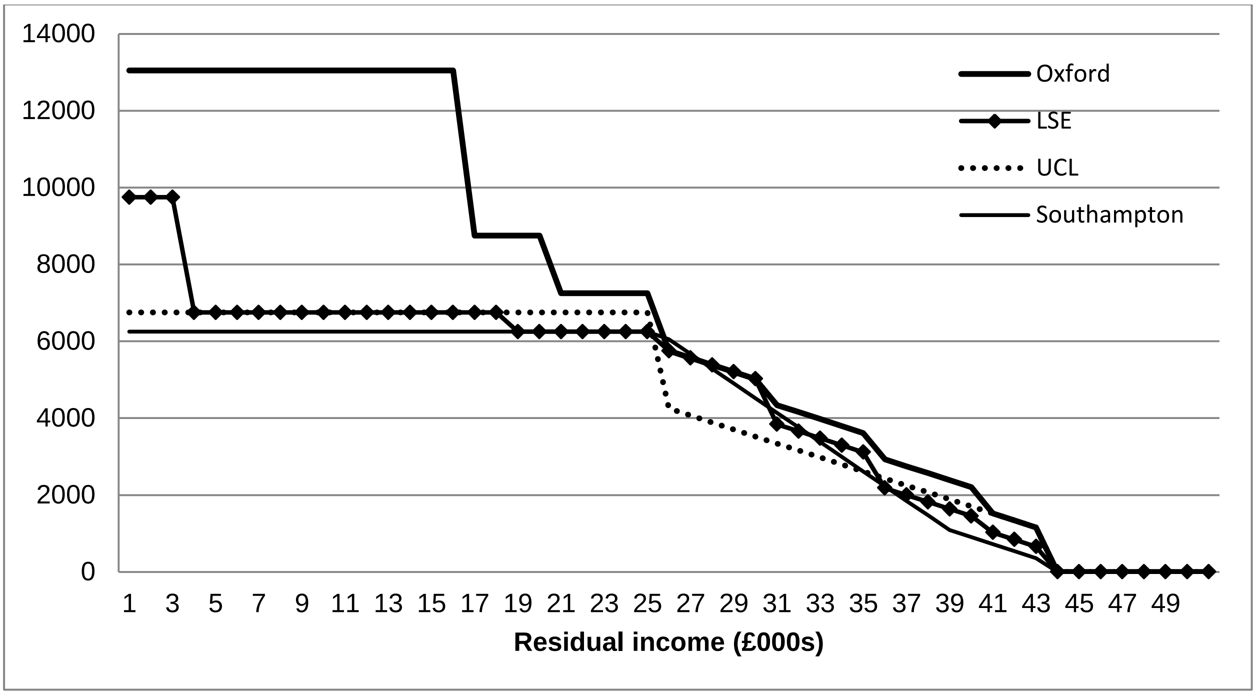
Figure 1: Means-tested national maintenance grant (£/year)



Individual university systems
As an introduction to the range of systems on offer, Figure 2 illustrates the total values of means-tested support from government and university for first-year students advertised by four universities:

- Southampton University, whose rules mimic the smooth pattern of the national system.
- University College London, with a sharp cliff-edge in entitlement at residual income of £25,000.
- The London School of Economics, whose stepped system is fairly typical of the more generous systems.
- Oxford University, whose system is generally the most generous on offer to students from lower-income families.

Figure 2: First year means-tested support from government and four selected universities (£/year)



Source: Individual university websites, January 2012.

Note that for comparative purposes and simplicity we show here as ‘means-tested support’ the *total* value of bursaries and of fee reductions, although the mix of these varies between universities. It should also be noted that in the long run, fee reductions may not have the full value to the student shown here. This is because a substantial proportion of students may not pay off the full amount of the fees and maintenance loans by the end of the 30 year period. In fact, Chowdry, Dearden and Wyness (2010, table 4) suggest that at fee levels of £9,000 more than half of all graduates will have some debt written off. For someone who believed they would be in that position, at the margin a fee reduction would be immaterial – it would simply reduce the amount of debt that would eventually be written off and covered by government. The analysis does not take account of the value of maintenance loans, although for some with low life-time earnings the low interest rates applied mean that they would have a positive value to the recipients.

The Southampton system – uniquely – basically follows the logic of the national maintenance grant. Students with residual income of £25,000 or less are entitled to support (a fee reduction) of £3,000 on top of the national grant of £3,250. This steps down by £200 if income is £25,001 and by a further £200 for each £1,000 of income, until it reaches £200 for residual incomes from £38,001 to £42,600, above which it is withdrawn altogether. In total, then, a student with residual income of £25,000 would receive support of £6,250, reducing gradually to about £1,080 at a residual income of £38,001, giving a combined effective marginal withdrawal rate of just under 40 per cent.

By contrast, University College London offers a much simpler ‘slab’ system. Students with residual income of up to £25,000 receive support (a cash bursary)[14] of £3,500 on top of the national system. Between £25,001 and £42,600 support is £1,000, above which it is withdrawn. Looking over the *whole* range from £25,000 to £42,600 the withdrawal rate is much the same as for a student going to Southampton – a difference in total support of £6,750 over the range, or a combined withdrawal rate of 38 per cent. But most of the withdrawal of the UCL support is concentrated in a single cliff edge at £25,000. At the limit, a difference of just £1 in reported income between £25,000 and £25,001 leads to a reduction in support of £2,500. The advantage of simplicity comes at a cost in terms of potential perverse behavioural incentives, or at least in inequity of treatment between those just below and just above the cliff.

UCL’s neighbour, the London School of Economics, has set fees at £8,500 (rather than the £9,000 set by the others) and also offers £3,500 in additional support (mainly a cash bursary) for those with incomes up to £18,000, but then withdraws it in a more gradual series of steps by £42,600. This means it is more generous than UCL to most of those with residual incomes between £25,000 and £35,000. It also offers a further £3,000 to first year students in the relatively unusual position for younger students of having an income of £3,000 or less.[15] Apart from the sharp cliff edge at £3,000, the steps down are less dramatic than those for UCL students, but with the same overall difference in treatment over the range from £18,000 to £42,600.

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14 For first year students in UCL halls of residence this is split between a £2,000 accommodation bursary and a £1,500 cash bursary.

15 This could include students who are estranged from their parents or have been in care. The additional ‘LSE NSP award’ of £3,000 for students with very low incomes in their first year follows the standard rules of the National Scholarship Programme, in that £2,000 of it is a fee reduction or accommodation discount and only £1,000 is a cash bursary. For these students in their second and third years, the addition is a £1,500 fee reduction. The LSE’s website warns that NSP allocations will change in later years, so the rules may change for later entrants.

Oxford University is more generous than any of these, particularly for first year students, offering both fee reductions and bursaries for those with lower incomes. Those with residual income of up to £16,000 would pay first year fees of only £3,500, a reduction of £5,500 from its standard fee, and would receive a £4,300 bursary on top of the government grant. The fee reduction steps down for incomes above £16,000 and again at £20,000, and those with incomes above £25,000 pay the full fee. The bursary is reduced in a series of (mainly £500) steps to £1,000 between £40,001 and £42,600, above which it is withdrawn. This means that first year students with family income up to £16,000 are offered total support of £13,050; those with incomes of £25,001 support of £5,750, reducing to zero at incomes of £42,601 or above. This is clearly very generous to low-income students, but implies some very high effective marginal tax rates. Someone with income of £9,001 more than the first threshold of £16,000 would receive £7,300 less support in total – an effective withdrawal rate of 81 per cent. Looking over the whole range from £16,000 to £42,601, the difference in total support is just over 50 per cent of the income difference. As we explore in Section 5, this has some startling consequences when considered alongside the rest of the tax and benefit system.

The more general pattern: More generous systems for first year students

Twenty-seven of the 52 universities we surveyed have means-tested support systems of this kind. In comparing them, several differentiating factors are highlighted in Table 3:

- Several have higher levels of support for students in their first year as compared to later years of their course,[16] while others keep the level of funding the same.
- Second, several have significant amounts of funding available, particularly for the poorest students, subject to a further assessment of financial need (with the university using its own discretion or criteria, such as living in a deprived neighbourhood) or with a defined number of additional bursaries and fee reductions, given out based on a competitive application process.[17] This means one cannot determine from the published means-test alone which students will be given this support, although frequently it is a condition for such bursaries that the student has a residual income of, for instance, below £25,000. In the comparisons below we show the effects of assuming whether or not students get this extra funding.
- Thirdly, some universities use other criteria to decide upon the students to whom they will allocate support. For instance, Warwick University allocates all of its means-tested support to students from state schools, with no means-tested funding available for those that attended private schools (unless on a scholarship because of low income).

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16 Presumably on the argument that after the first year, some students will be more aware of the benefits of a degree, and have a better understanding of the income-contingent nature of the loan repayments, rather than just as a recruitment hook.

17 This generally refers to funding from the National Scholarship Programme, which is available for some students with incomes of £25,000 or less.

In addition, some universities only offer awards to those who put them as their first UCAS choice, such as Anglia Ruskin.

Table 3: 27 universities with more generous means-tested support

University	Fee	Russell Group?	1st year bursary different?	Extra funding with conditions of financial need (apart from low income)	Overall criteria?
Birmingham	£9,000	Yes	No	Yes	No
Bristol	£9,000	Yes	No	Yes	No
Cambridge	£9,000	Yes	Yes	Yes	No
Cardiff	£9,000	Yes	Not specified	No	Only to students living away from home
Edinburgh	£9,000	Yes	No	Yes	No
Glasgow	£6,750	Yes	Yes	No	No
Imperial	£9,000	Yes	No	No	No
King's	£9,000	Yes	Yes	Yes	No
Leeds	£9,000	Yes	Yes	Yes	No
Liverpool	£9,000	Yes	Yes	No	No
LSE	£8,500	Yes	Yes (*)	No	No
Manchester	£9,000	Yes	Yes	Yes	No
Newcastle	£9,000	Yes	Yes	Yes	Only for those from low participation area, or participating in one of the access schemes
Nottingham	£9,000	Yes	Yes	Yes	No
Oxford	£9,000	Yes	Yes	No	No
Sheffield	£9,000	Yes	Yes	Yes	No
Southampton	£9,000	Yes	No	No	No
UCL	£9,000	Yes	No	No	No
Warwick	£9,000	Yes	No	No	State school only
Anglia Ruskin	£8,300	No	Yes	Yes	No
Exeter	£9,000	No	No	No	No
Kent	£9,000	No	Yes	Yes	From low participation area
Northumbria	£8,500	No	No	No	No
Nottingham Trent	£8,500	No	No	Yes	No
Oxford Brookes	£9,000	No	No	No	No
Portsmouth	£8,500	No	Yes	No	No
Strathclyde	£9,000	No	No	No	No

Source: Individual university websites, January 2012, as applying to English students (rules for Welsh and Scottish students will differ).
(*) LSE's potential additional award for those with incomes below £3,000 is halved in the second and third years; other awards the same in all three years.

Figure 3 shows the total means-tested support for each of the 27 universities that would be automatically given to every first year student with a given income. It generally excludes bursaries given on the basis of additional criteria (such as successfully applying for the additional bursaries given as part of the National Scholarship Programme).[18] The intention of the figure is to show the general range, rather than the detail for each university, so most of the individual schemes are unlabelled. Several features are apparent:

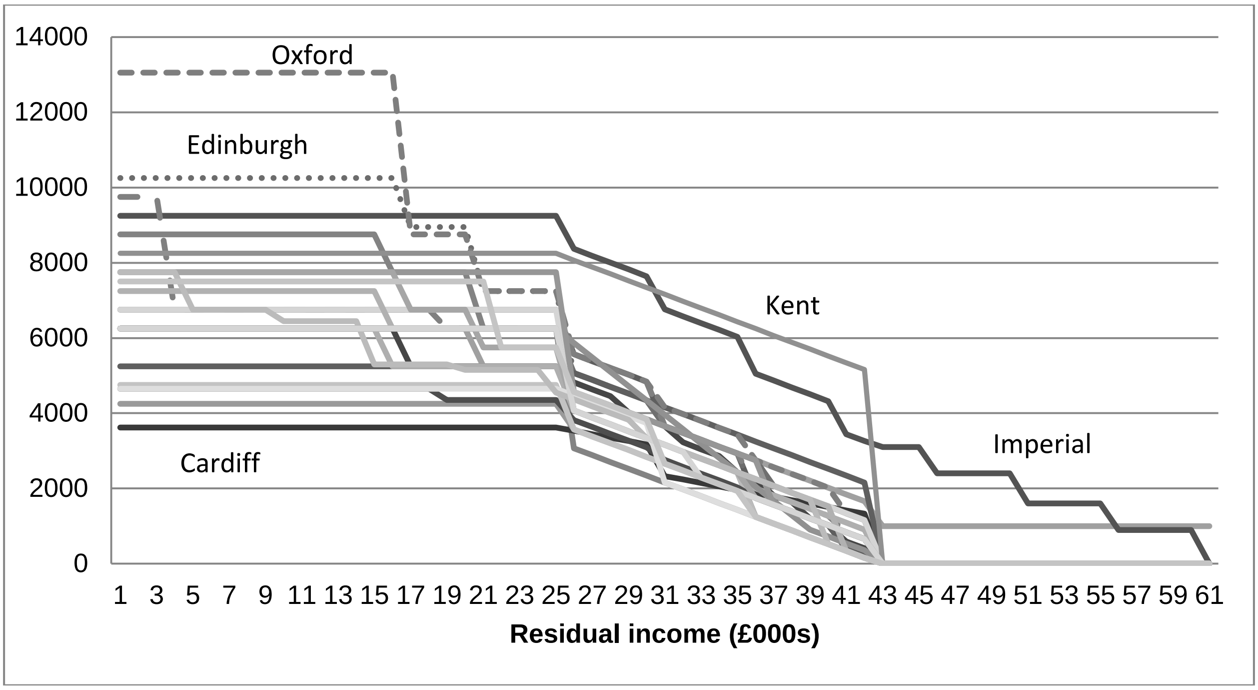
- There is a considerable range in generosity for the lowest-income students, from less than £4,000 (Cardiff)[19] to more than £13,000 (Oxford). Edinburgh also offers the lowest-income English students support of more than £10,000. The range is somewhat narrower for those with incomes between £25,001 and £42,600, apart from Imperial College London and Kent (assuming its additional criteria are met).
- Only Imperial College and Glasgow offer support for those above the government's £42,600 threshold.[20]
- Nearly all of the systems involve 'cliff edges', with sharp drops in entitlement at particular income thresholds, particularly but not only at £25,000.
- A typical system would offer total support of around £6,000 (including the government maintenance grant) for students with incomes below £25,000, falling to around £4,500 just above it and then tapering off to be withdrawn by £42,600.

18 However, it does show the position for three universities on the assumption that a further criterion is met: that the student went to a state school or to a private school on a means-tested scholarship (Warwick); that the student lives in a 'low participation neighbourhood' or meets other criteria to be specified later (Kent); or lives in a low participation neighbourhood or enters through a special entry programme (Newcastle). If these conditions are not met, there would be no award beyond the national maintenance grant.

19 Cardiff's system has the unusual feature that over some income ranges the amount of *grant* offered can rise as income rises, as it is based on topping up the total of government grants and loans to a certain figure.

20 Glasgow offers a £1,000 first year only fee waiver for English students, which could equivalently be thought of as a fee reduction for all English students in that year.

Figure 3: First year means-tested support automatically offered by government and university, 27 universities (£/year)



Source: Individual university websites, January 2012. For Kent, Newcastle and Warwick assumes that other conditions are met.

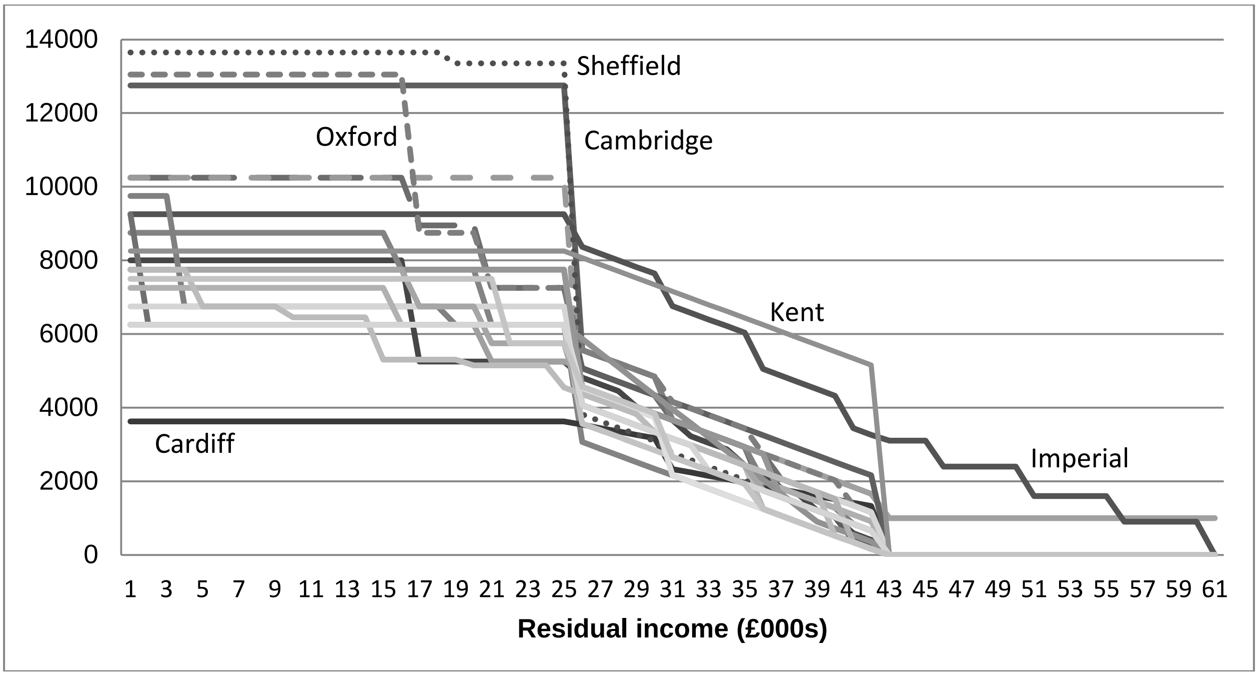
Allowing for further support from the National Scholarship Programme (NSP)

As noted above, some universities reserve significant portions of funding for specific bursaries targeted at low-income students (generally in line with the proposed criteria for the NSP), but only to certain students, not all within a particular income band. Nine universities within the group of 27 do this, with criteria including:

- Applicants who were entitled to free school meals (Birmingham)
- Those from particular areas (Anglia Ruskin, Sheffield, Nottingham)
- Those with low incomes and high A level grades (Newcastle)
- Having ‘no income’ (Leeds)
- Meeting more than one criterion for disadvantage (Cambridge)
- For certain low-income students (King’s College London, Nottingham Trent)

Figure 4 shows the difference that meeting these criteria could make. Sheffield becomes potentially the most generous for the lowest-income students, and Cambridge is almost as generous as Oxford for the lowest-income students (and more generous for those with incomes between £16,000 and £25,000).

Figure 4: First year means-tested support from government and university, assuming low-income students meet additional conditions, 27 universities (£/year)



Source: Individual university websites, January 2012.

Second and third year support

For many of the universities, the bursaries given in the second year onwards are different, and generally less than in the first year. Figure 5 shows the position for later years on the same basis as Figure 3. The range for the lowest income students is narrower than for first year students – from less than £4,000 (Cardiff)[21] up to just over £10,000 for English students at Edinburgh, and only Imperial College London offers total support of more than £6,000 for students with incomes above £25,000.

21 Cardiff has not yet confirmed their bursaries for the second year onwards – in Figure 4 it is assumed their bursaries will be the same as in the first year. Similarly, King's College London has not confirmed whether the 'King's Living Bursary' will be the same after 2012-13, but we assume here that it will be.

Figure 5: Second and third year means-tested support automatically offered from government and university, 27 universities (£/year)

Source: Individual university websites, January 2012. Assumptions as in Figure 3.

Universities using only the National Scholarship Programme

The other 22 universities for which we obtained information (listed in Table 2) base what they are offering around the government's National Scholarship Programme.[22] In summary they have the following characteristics:

- Most offer a fixed number of scholarships, so students applying are not guaranteed that they would receive them, even if meeting the main criteria. For instance, Sheffield Hallam has 560 awards available, and the University of Westminster 222 means-tested awards.
- All involve some income limit, most commonly £25,000, but a few use a lower threshold of £16,190 (based on eligibility for Free School Meals). De Montfort University implies that it will allocate 480 £3,000 awards to those with the lowest incomes first.
- Many involve additional criteria, such as A level scores (UCAS points), coming from an area of low participation, coming from particular 'partnership' schools, or having non-graduate parents. Some will use points systems weighting different characteristics, including low income.
- Most offer awards of £3,000 for the first year with either no awards in later years (or give no information on them) or lower awards in second and third years.

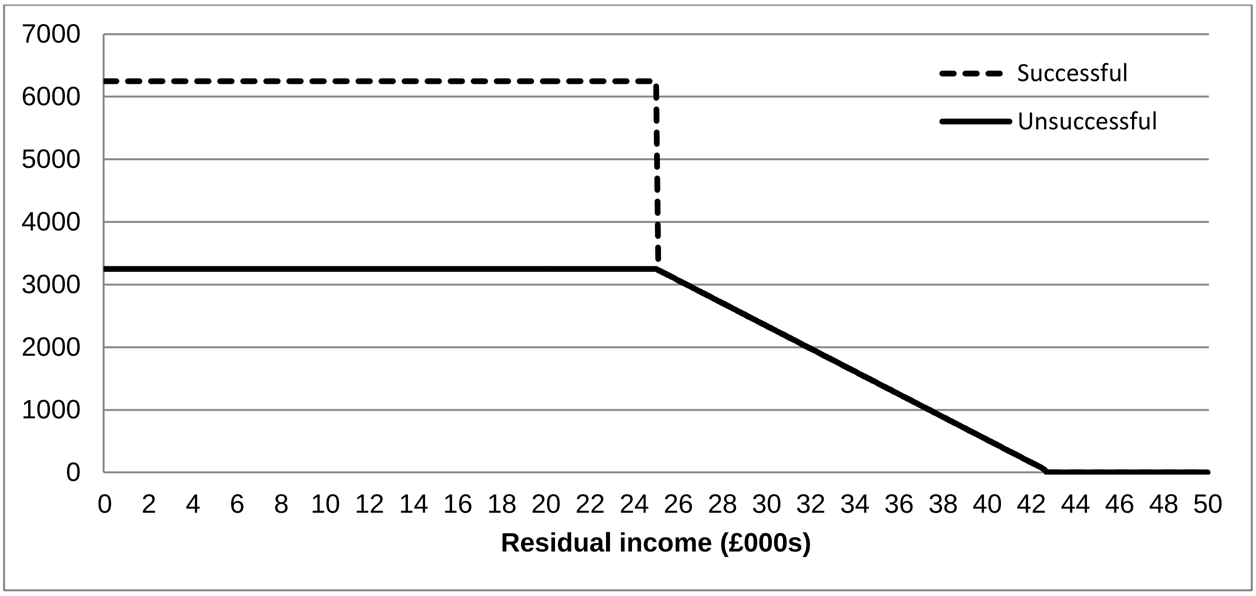
22 This sets out general requirements, including that income is not more than £25,000, and that awards total £3,000, with a maximum of £1,000 paid in cash. The number of awards available depends on the number of students at the institution, not on the composition of the student body.

Coventry University offers its 196 'Phoenix' awards for all three years, as does Hull University for those with A levels at AAB or above.

- Several have additional lower value awards for those who do not receive the £3,000 level. For instance, Middlesex University has 420 first year awards at £3,000 and 675 at £1,000.
- Awards are typically for fee reduction or a contribution towards specific costs, with a maximum of £1,000 paid in actual cash.

In terms of the relationship between family income and level of award this generally creates a situation where students either receive only the national maintenance grant (as illustrated in Figure 1) or *may* receive an additional amount – £3,000 under standard NSP conditions – provided that income is below a threshold, often £25,000. This creates the situation illustrated in Figure 6, where there is a potential cliff edge in entitlement at the income threshold – although a student applying will not know whether they will be one of the successful ones who will succeed in the competition for awards.

Figure 6: Means-tested support from government and university, where standard £3,000 support under National Scholarship Programme may be available but no other programme (£/year)



4. Implications of the means-tests

As implied in the previous section, all of these systems imply quite significant rates of withdrawal as family income rises, often with very high rates of withdrawal – cliff edges – at particular income levels. Very high marginal withdrawal rates – or effective marginal tax rates – are usually seen as undesirable for three reasons:

- They can act as a disincentive to additional earnings
- They can give an incentive to behaviour that reduces reported income (including mis-reporting of circumstances to slip below particular thresholds, or a strategic choice, such as which of two separated parents' income to report)
- They can lead to feelings of injustice, if those just below a threshold are treated much more favourably than those who are only slightly better off.[23]

They can also add to uncertainty within a system, as people may not know in advance which side of a threshold they will fall once all the calculations are done, and this will make a major difference to their treatment. In this case that could add to barriers to access.

The major plank of Coalition social security policy has been the introduction of Universal Credit, designed both to amalgamate several means-tested benefits and tax credits and to smooth out their combined means-tests precisely to avoid problems of this kind (Department for Work and Pensions, 2010; Brewer, Browne and Jin, 2012).

In this case, the immediate implications for work incentives may be limited. The main component of income used is gross parental earnings two years before a student enters university (and students' vacation earnings are excluded). It is possible but generally unlikely that parents might realise the impact of their earnings in one year on the potential position two years later of their children starting sixth form if they then go on to university – perhaps only the most assiduous readers of the financial supplements of weekend newspapers would be likely even to think about this, and then only when word gets around about the new system.

But the second and third problems are more likely to apply, and particularly where there are sharp cliff edges involved – as witnessed by the strong reactions to the 2011 proposal to withdraw Child Benefit if a parent tripped over the higher rate income tax threshold. That involved a potential sudden drop in annual income of £1,058 for a one child family or £2,415 for a three child family (at 2012-13 Child Benefit rates). Many of the systems we have examined involve a series of steps in entitlement for students that are as large as these – sometimes much larger.

Of course, some parents may not be particularly interested in the long-term liabilities of their children to repay fees and loans, and students themselves may see the precise

23 There may also be feelings of injustice where the number of awards is limited, and two students with otherwise identical circumstances find themselves differently treated.

working out of the system as a random windfall process.[24] But clearly many universities regard the attraction of their means-tested support as being important in terms of recruitment, and so have taken the judgement that applicants and those advising them *do* value this kind of support. For many therefore, the way the system works will be important.

Equally, when applying to university, applicants – apart from the most confident – will not know whether they will succeed, and if so, which of their choices they will go to. But some may well have a good idea that they have a good chance of going to, say, one of the 27 universities with more generous systems listed in Table 1. Figure 7 therefore shows the (unweighted) *average* effective marginal withdrawal rates for those 27 universities implied by the first year support regimes shown in Figure 3.[25] In such calculations, the marginal rate calculated will depend on the variation in income used. In this case we illustrate the position for £1,000 differences in residual income (eg. comparing someone with income of £25,001 with their treatment if income was £24,001), avoiding showing the more extreme marginal rates that would apply to very small variations around particular threshold.

Looking at this makes several things clear. First, over the whole range from £25,000 to £43,000, the *lowest* average withdrawal rate is around 20 per cent of a £1,000 income variation – effectively incomes where the main change is in the national maintenance grant. But superimposed on this are a series of spikes – the castellations in the diagram – where rates are much higher. These average more than 40 per cent around £30,000 and £35,000, more than 70 per cent at £43,000 and more than 100 per cent at £25,000. In other words, a typical student at one of these universities would receive more than £1,000 less if their family income had been £25,001 rather than £24,001. There are also spikes in marginal rates at around £16,000 and £20,000.

Other ranges of income variation may be relevant for some people, and the wider the range, the lower the importance of particular spikes. But over the main range – from £25,000 to £42,600 – the average reduction in support for these universities would be about £6,000, corresponding to a 34 per cent marginal withdrawal rate over this range.

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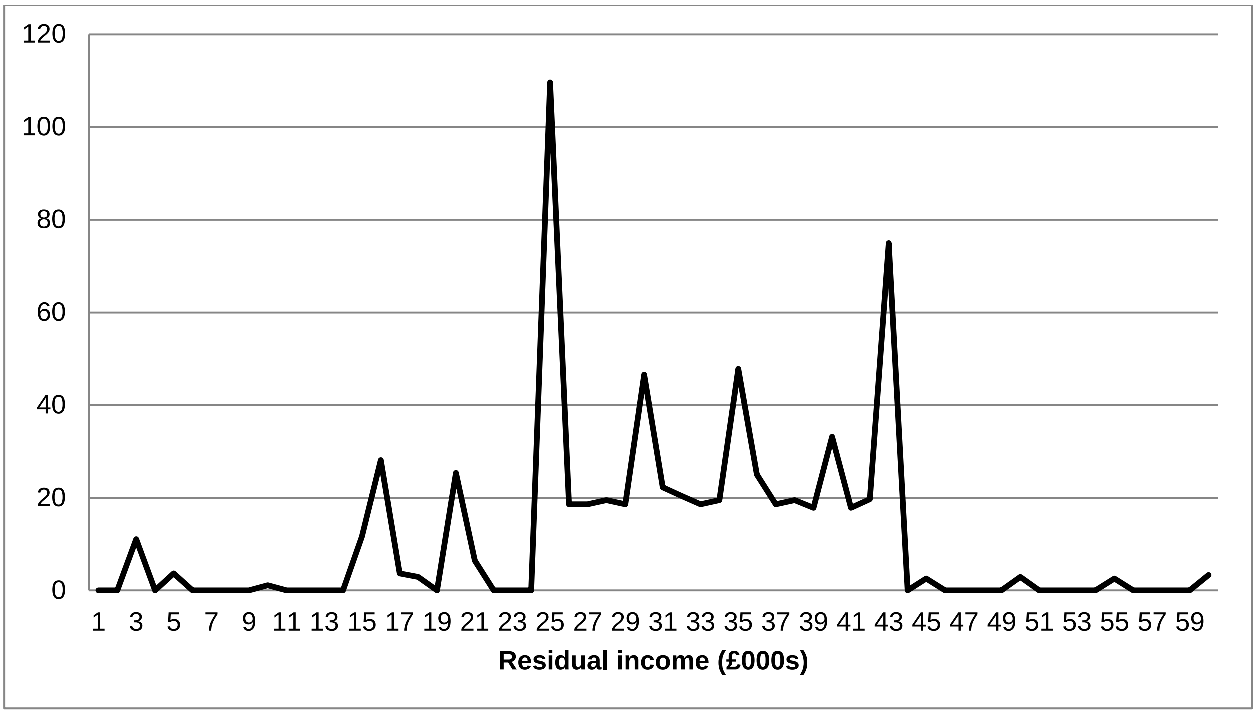
24 Looking at the predecessor discretionary bursary system, Callender (2009, p.15) found that 28 per cent of students thought that bursaries were important in deciding where to go to university, but 58 per cent of parents did so.

25 Remembering that the *net* benefit of support – and so the effective rate of withdrawal – may ultimately be lower where part of the loan would eventually have been written off in any case.

Figure 7: Mean marginal support withdrawal rate (%) on residual income per £1,000, 27 universities



Source: Own calculations based on assumptions used in Figure 3.

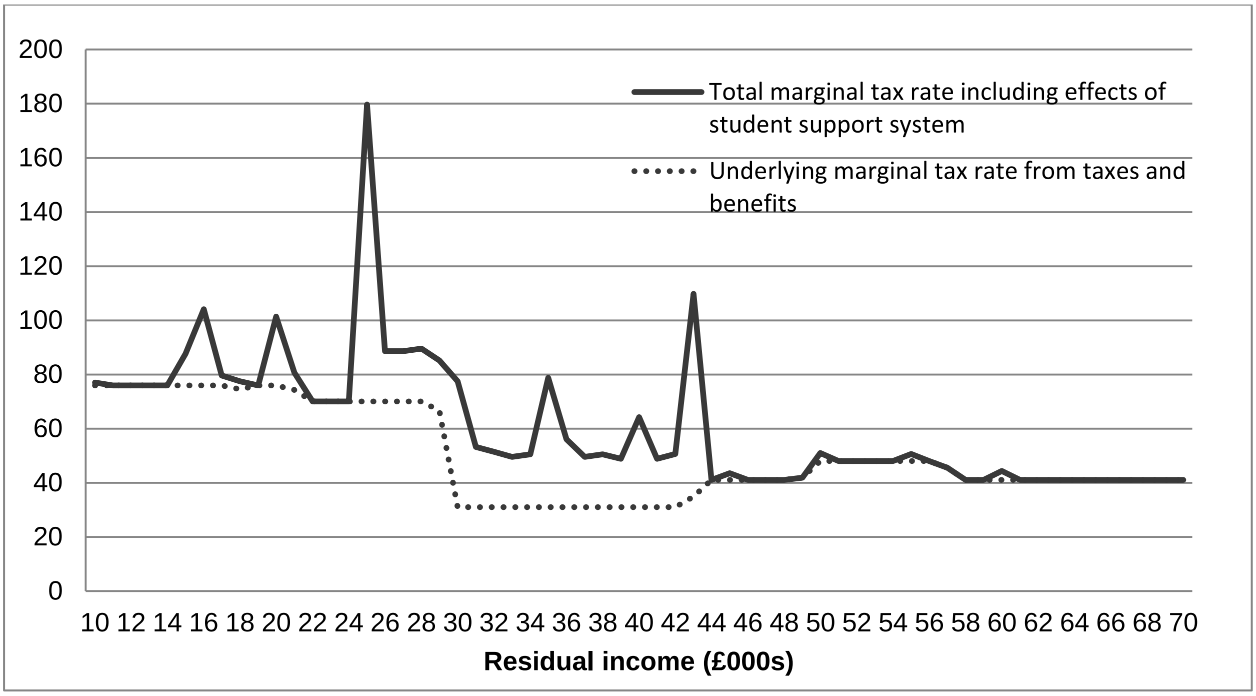
5. Interaction with other parts of the tax and benefit system

This part of means-testing does not exist in isolation, however. Variations in gross incomes, usually earnings, will also have affected families' tax and national insurance liabilities, and their entitlements to tax credits and other benefits. For instance, a family in the withdrawal range for tax credits in 2010-11 (the relevant year for parental incomes affecting residual income for students entering in Autumn 2012) would already have been affected by a 70 per cent effective marginal tax rate from income tax, National Insurance Contributions, and tax credit reduction. Those with lower incomes would have faced higher marginal rates as a result of Council Tax Benefit reductions (and for tenants from Housing Benefit withdrawal). The dotted lower line in Figure 8 shows the effective marginal tax rates in 2010-11 from these other parts of the tax and benefit system, drawn from the Department for Work and Pensions' tax-benefit tables for a two child single-earner family paying a typical Council Tax but no rent.[26] For much of the range up to just above median earnings the rates that year were 70 per cent or higher, dropping to 31 per cent where only basic rate income tax and NICs were involved, and eventually settling down at 41 per cent

[26] http://statistics.dwp.gov.uk/asd/index.php?page=tbmt. Note that the DWP results have been rescaled in terms of the 'residual income' that would be generated by income from earnings alone if one of the children remained at home and one went to university, that is, deducting an allowance for one other child still at home in calculating residual income.

for those with the highest incomes, affected only by higher rate income tax and 1 per cent NICs.

Figure 8: Total effective marginal tax and withdrawal rates (%) on £1,000 differences in parental income, single-earner families with one child going to university (first year) and one child still at home: Average for 27 universities



Source: Own calculations based on Figure 7 and DWP tax-benefit tables for 2010-11.

The solid line in the figure then combines the underlying marginal tax rates that had affected a family of this kind in 2010-11, with the effects of the student support system for first year students entering in Autumn 2012 from Figure 7. This is, of course, a retrospective calculation: back in 2010-11 parents would not have been able to foresee that their income variations would have this effect. It is also a family-based calculation, effectively adding together the impacts of gross income variations in 2010-11 on taxes and benefits for the parents at the time and on the support for the student in 2012 (the main effect of which will be on their outstanding student debt when they – hopefully – graduate in 2015). Some might argue that a family-based calculation is inappropriate, and children and parents should be treated as separate units. But parents will still be closely involved with their children’s welfare when they are students – and, appropriately or not, the whole logic of the ‘residual income’ means test is that parents and students *should* be considered together.

Even allowing for these provisos, the results are striking. For the *entire* income range up to £43,000 the effective marginal tax and withdrawal rate exceeds 50 per cent (the level of top rate income tax which was abolished by the 2012 Budget). At £30,000 and £35,000 a £1,000 rise in income only leaves the family £200 better off in the long run. At £16,000, £20,000 and £43,000 the combined marginal rate is 100 per cent or more

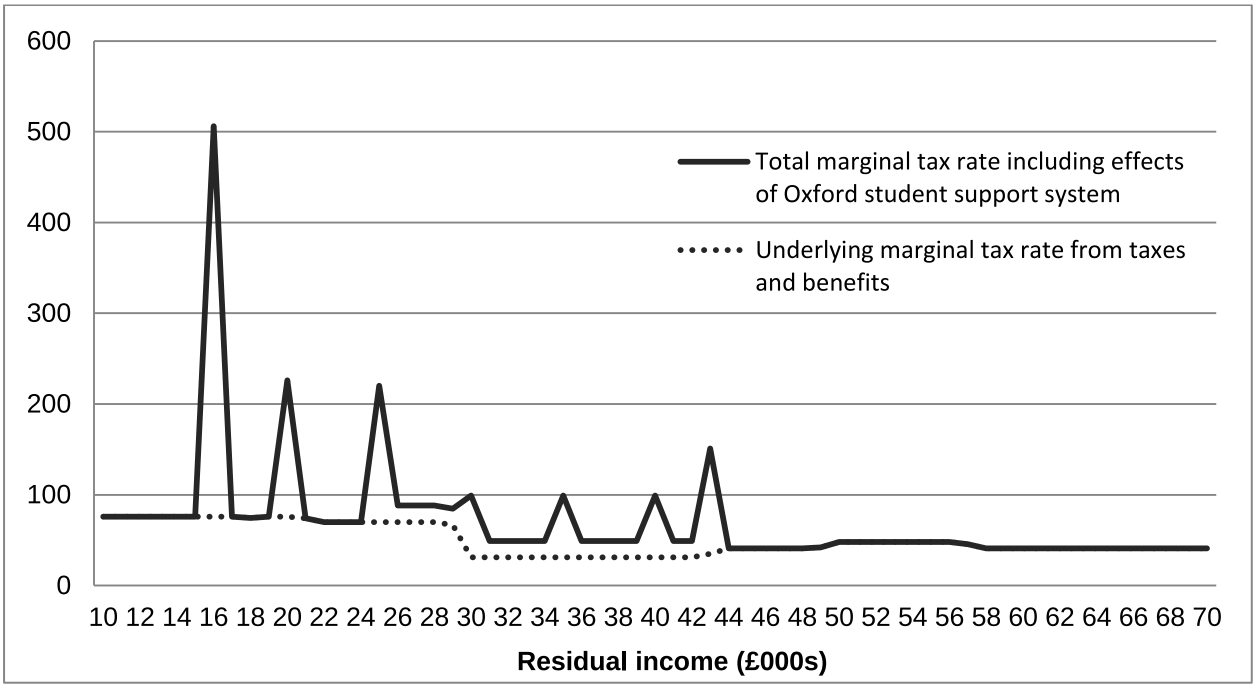
– a family could ruefully reflect that what they had thought of as the product of some overtime left them no better off in the long run. And at the key £25,000 threshold, a rise in income of £1,000 would on average leave them £800 *worse* off in the long run, as the rate spikes at 180 per cent.[27]

For particular families the results could be even more extreme. Figure 9 shows the most dramatic case, if the same family's child succeeded in getting a place at Oxford this Autumn. Doubtless the joy in this success and pleasure in the generosity of the Oxford bursary and fee reduction system would offset any feeling of chagrin as to the effects of means-testing. But a net eventual loss of £4,000 resulting from a £1,000 rise in income (the 500 per cent marginal tax rate shown) around the £16,000 threshold might give pause for thought if any parents – or their children – realised it had affected them. There are similar spikes of total marginal rates well above 100 per cent at £20,000, £25,000 and £43,000.

Even looking over the whole income range, rather than at the extreme rates around particular thresholds, a two child family whose earnings were £44,000 in 2010-11 would have had a net income £13,250 higher than one with earnings of £17,000 (using the calculations underlying Figure 8). But the result of this, as we have seen, would then be a reduction in means-tested support for the child going on to Oxford of £13,050 in her first year. Taking the system as a whole, a family whose earnings were two and a half times the national median rather than 70 per cent of it would be only £200 better off as a result in the long run. This 99 per cent tax rate is impressively egalitarian, but does conflict with what are often seen as constraints in other aspects of public policy.

27 For many of the universities with less generous systems, with a fixed number of £3,000 awards available for some those with incomes up to £25,000, but then a complete cliff edge, the combined marginal tax rate over a £1,000 income change crossing this threshold, the combined marginal rate would be even higher, around 370 per cent.

Figure 9: Effective marginal tax rates (%) on £1,000 differences in parental income, families with one child going to Oxford University (first year) and one child still at home



Source: Own calculations based on Figure 2 and DWP tax-benefit tables for 2010-11.

6. Conclusions

In a national review of means-testing, the National Audit Office (2011, figure 1) identified five dimensions in which the complexity of means-testing can vary, such as the individual or family unit used, or the way changes in circumstances are taken into account. This paper suggests that a sixth dimension of complexity is emerging (or re-emerging), that of the degree of localisation of the means test. For the last forty years, while means tests may have been locally administered, they have generally used national rules. This is now changing. In the case study here, each of the more generous 27 systems we have examined in detail for university bursaries or fee reductions from Autumn 2012 is different, and even the 25 universities relying mainly on the National Scholarship Programme vary significantly from one-another. In one sense this complexity is the aim of the current reforms – universities are intended to compete with one-another on the basis of price, and – especially given the uniformity of tuition fees – their support offers are now a central part of that competition.

But many of the aspects of the systems which we have described have what are surely unintended consequences:

- The systems on offer vary in many different ways, not just in their treatment of those with different levels of parental income, but also according to which year of study is involved, the mix of support between fee reductions and cash bursaries, what kind of school an applicant went to, the kind of neighbourhood they live in, whether they were entitled to free school meals, and whether they put a university as their first choice. This makes comparison more complex than just looking at single prices.

- Given the ‘cliff edges’ at particular income levels, precise levels of parental income – about which an applicant may only have very fuzzy knowledge – can make a difference worth thousands of pounds: Oxford may have a slightly better offer for some students with incomes up to £16,000 than Cambridge, but at £16,500, the Cambridge offer can be £4,000 more valuable, for instance.
- For applicants to most universities outside the ‘Russell Group’, it is not clear at the time of application whether they would be one of those who would be offered one of the limited number of bursaries available. It is not clear when they will find this out – possibly at the time of receiving their A level results and any offers from the institutions they chose, or even later. This – together with the lack of detail from some universities about the criteria they will eventually apply – adds a substantial degree of uncertainty when applying and undermines the idea of students making a fully informed choice.

Callender (2010, p.58) concluded from her survey of the system that emerged after 2006 that, “Contrary to the government’s aspirations, a highly complex and confusing system of bursaries and scholarships has emerged with very different levels of support”, and the 2010 Browne report criticised it on that basis. Yet the survey reported here implies not just further complexity, but also much higher stakes as both fees and means-tested support have increased.

At a deeper level, what we have ended up with is a combination of two different systems designed to get over the barriers to higher education entry and inequity in access that would exist in a pure market position: the general system of income-contingent loan repayments based on a *graduate’s* later earnings, and what has become, given the level fees are rising to, an extensive system of means-tested support based on students’ *parental* income. The logic of the former is that what matters is someone’s lifetime position, but of the latter that choices are made on the basis of much shorter-term impressions. The combination can have some strange results: from the survey presented here, given that there is little variation in the fees being set, the treatment of students from low-income families at less prestigious universities will generally be much less favourable than that of low-income students at more prestigious ones, with the differences even greater than they were after 2006.

All this suggests problems from the perspective of higher education finance. But it also suggests more general problems as means-tests are localised in other spheres. What may seem a reasonable response to fiscal constraints while trying to protect the poorest in one sphere may overlap chaotically with other attempts to do the same thing. Crucially, the problem is worse the greater the scale of the universal benefit that is being withdrawn. Means-tested support for students that tries to offset a large part of the cost of £9,000 fees for the lowest-income students, but is not given to higher income ones, inevitably involves much higher effective marginal tax rates than when people were being protected against fees of £3,500.

As we have seen, a typical scheme from one of the more prestigious universities involves total support of around £6,000 for students from families with incomes up to £25,000, withdrawn if family income is above £43,000. Just by itself this implies an average withdrawal rate of 33 per cent of additional income but, given the cliff edges involved in most of the schemes we have examined, there are income ranges where the marginal rates are far higher. This is compounded by the way in which it interacts with other parts of the tax and benefit system. The university system is mainly based on parental gross income from two years before, but income tax, national insurance contributions and tax credit withdrawal will also have affected the net income the family received at the time. In combination, looked at retrospectively, many families (taken as a unit) would find that they were little or no better-off – or even worse off – than they would have been if they had started with a lower income. As we have argued, it is not necessarily incentive problems that are the issue here, as few will have the information to calculate their position in advance. But if people above key income thresholds understand that they have effectively faced marginal tax rates of considerably more than 100 per cent, they may feel aggrieved.

When the Public Accounts Committee (2011) questioned officials from the Treasury and Department for Work and Pensions about the interactions between different kinds of means-testing, it became clear that there was no part of government actively taking an overview of them, and understanding what they add up to, or for promoting good design, such as the avoidance of cliff edges in tests for entitlement. As localisation is pushed further, and more and more agencies become responsible for designing their own systems, this gap will become more serious. What will also become clearer will be the limits to which previously universal services can be restricted to those with low incomes without extending and deepening overlapping ‘poverty traps’ well beyond the poor.

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