Is your child going to University in a couple of years? It may be advantageous to take a few months off

Blog Admin

Spending cuts combined with a move to more 'localised' decision-making has seen a move back to towards lower-level institutions designing their own means-tests. With regards to student fees, **John Hills** *shows that the end result can be overlapping systems that are complex, very hard to compare, and that have undesirable side-effects.*

In all the controversy about student fees rising to £9,000 next academic year – only £8,500 here at LSE, by the way – one feature of the student finance reforms has escaped comment. This is the way that universities are putting in place elaborate systems of fee reductions and bursaries to try to soften the blow for students from lower income families – but have been left to their own devices to design the means tests that these involve.

In a new paper which Ben Richards and I publish today, we analyse the means-tested bursaries and fee reductions that 50 of the largest 52 UK universities (plus LSE and UCL to complete the Russell Group) have offered to English students applying to start in the Autumn. What we found was a confusingly complex system, involving dramatic "cliff-edges" where help for the marginally better-off suddenly disappears.

Half of the universities we looked at – mainly from the elite Russell Group – are offering means-tested bursaries and fee reductions to students from lower-income families worth several thousand pounds, on top of the government grant of £3,250 for those with incomes below £25,000 (falling on a sliding scale up to incomes of £43,000). The others generally offer a fixed number of students help under the new National Scholarship Programme, often worth £3,000 per year for those with family incomes up to £25,000, but none above it. One result is that students from lower income families may be much better off if they get into the more prestigious universities – indeed some will end up with only the standard grant at the other universities.

Each university has its own system of means tests, and apply a wide range of other varying conditions for eligibility. This makes it very hard for those applying to make the "informed choice" they are meant to make between universities. Cliff edges in support mean that a small difference in parental income can mean several thousand pounds' less support – much greater than the falls that caused such controversy around the coalition government's original proposals for sharply withdrawing child benefit from higher-rate taxpayers last year. But the fall in value of awards with greater parental income comes on top of income tax and national insurance, and overlaps with tax credit withdrawal. Together this can mean that families face what amount to retrospective tax rates of well over 100 per cent if their income had changed by £1,000 around particular thresholds.

In the most extreme case, Oxford University offers first-year students fee reductions and bursaries worth £13,050 (with government grants) if their parents earned up to £17,000 in 2010-11, but nothing if they had earned £44,000. But after taxes and other means-tests, the higher earning family would originally only have been £13,250 better off. Taken as a whole, in retrospect the family would have gained only £200 – an effective tax rate of 99 per cent over the whole of the £27,000 earnings range.

If you are in a family with earnings around £44,000 and in the – maybe over-optimistic – position of thinking that your sixth-form daughter or son will go to Oxford in a couple of years' time, maybe (if you could afford it) you could cut your hours or take a few months off? In the long run, as a family, you might be no worse off. And if you are close to the steepest cliff edges – such as income (after a £1,000 deduction for younger children) just above £16,000, you could be a lot better off. Of course, in reality people are unlikely to understand the rules of the system or know what will happen well enough to change their behaviour like that in advance. But after the event they may well be aggrieved if they discover that their family is no better off – or even worse off – as a result of having taken that overtime.

This is an illustration of a more general problem. As cuts have collided with attempts to protect the poorest, combined with a move to more 'localised' decision-making, we are seeing a move back towards lower-level institutions designing their own means-tests. But this case study suggests that the end result can be overlapping systems that are complex, very hard to compare, and have undesirable side-effects.

A main aim of coalition social security policy has been to try to unify means tests through the new Universal Credit, designed to simplify the system and avoid the worst aspects of the poverty trap. But other parts of government seem to be developing systems which run in precisely the opposite direction. The problems of effective tax rates at – or even far above – 100 per cent show how hard it can be to protect the poorest when substantial universal benefits or services are withdrawn and the limits to what can be done through means-testing without painful side-effects.

Please read our comments policy before posting.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

About the author

John Hills is Director of the Centre for Analysis of Social Exclusion at LSE.

You may also be interested in the following posts (automatically generated):

1. Child protection must focus on the child, not on rules and targets (23.9)
2. The cost of a child is not just about the size of a parent's wallet (17.8)
3. Every great university needs a legal studies programme (17)
4. Book Review: A Manifesto for the Public University by John Holmwood (16.8)