

Degree of difficulty

No easy answers to UK university funding problems

The first shots in a long-awaited battle have rung out. David Willetts yesterday gave his debut speech as the UK's new universities and science minister on student fees. Skirmishing around this issue will dominate Westminster in the autumn with the publication of a report into the financing of English universities, written by Lord Browne, the former chief executive of BP.

Mr Willetts focused on the student loan system. At the moment, full-time undergraduates' tuition fees are paid by the state. Then, when students earn more than £15,000 a year, the state takes a slice of their income until the fee has been entirely repaid. So the taxpayer now bears the up-front costs of students' learning.

The system has merits: it allows universities to offer needs-blind admission while charging students for their education. But, as Mr Willetts said, the loan system is expensive. If Lord Browne recommends that universities should be allowed to charge students higher fees (as seems likely and would be desirable), Mr Willetts has warned that it will not only be students who will complain: "The Treasury can't afford them."

There is one obvious saving for Mr Willetts to pursue: at the moment, outstanding balances on

student loans are charged a rate of interest below the cost of government borrowing. That £1.2bn subsidy should be abandoned. The average beneficiary of the interest rate subsidy is a long-qualified 30-something who, because of it, finishes repaying tuition costs a year earlier. It helps neither current students nor universities.

The wasteful interest rate subsidy seems particularly unfair when the government gives only meagre support to part-time learners. This is indefensible given that these students tend to be from poorer backgrounds than full-time undergraduates. Mr Willetts has not yet grasped this nettle.

He did, however, have one idea that could improve access: allowing community colleges and new universities to enter their students for exams set by more prestigious bodies. This supply-side reform would recognise the good tuition available at less-renowned institutions by allowing their students to compete for better-known qualifications. It might also encourage distance learning and part-time courses. Such a change would benefit poorer students the most.

Mr Willetts has recognised his task: to reconcile the needs of poor students and cash-strapped universities at little cost to the taxpayer. Easier said than done.

