Tuition fees: former Tory adviser says government got its maths wrong

Nick Hillman, who worked for David Willetts on student loans regime, calls for action over looming university funding gap

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The rate of default on student loans is now so high that the £9,000-a-year tuition fees system could end up producing zero financial reward for the government, it has emerged. Photograph: Chris Ison/PA

A former political adviser to the Tory universities minister, David Willetts, has called for a rethink of the tuition fees system and admitted the government "got its maths wrong" by overestimating the amount of student debt that will be repaid.

Nick Hillman, who worked for Willetts during the introduction of the policy, made the comments after it emerged that the rate of default on student loans is now so high that the £9,000-a-year tuition fees system could end up producing zero financial reward for the government.

Speaking to the Guardian, Hillman called for action to address the "big funding gap" looming in the universities sector caused by mistakes in the government's modelling and the fact that graduates are earning less than expected.

Last night, the Universities UK alliance of higher education institutions urged the coalition to open talks with Labour on the issue, saying it was vital to think more carefully about how universities can be paid for.

Under the current fees regime students start paying their loans back once they are earning over £21,000 at a rate of 9% of their salary above £15,000. Ministers originally thought in 2010 that 28% of student loans would never be repaid and have revised this upwards several times. The Guardian revealed Willetts' admission that the true figure is now more like 45% – fast approaching the 48% threshold at which experts say the benefits of raising fees to £9,000 are cancelled out.

Willetts has previously denied that the changing estimates are any kind of "deep defect in the system", saying changes to the numbers are purely a result of people temporarily earning less than expected. The Department for Business, Innovation and Skills said that the universities sector was well funded and the "estimates can and will continue to change".

But Hillman said there was no denying that "the government has got it wrong and therefore there is a big funding gap and something has to be done about it".

He said: "The thing that hasn't really entered the debate yet ... is now we know how big the shortfall is, what do you do about it? How much would you need to change the loan system to actually solve the problem? I'm not defending the government. The government has got the maths wrong, plus the economy has changed. The £21,000 repayment threshold is in real terms much higher than the government expected."

Hillman, now director of the Higher Education Policy Institute, the thinktank that first shone a spotlight on the problem, said it was an issue that all the major parties needed to get to grips with.

"Some of the critics of the government are not right either because their alternatives [such as a return to grants] would cost even more," he said. "Labour don't really have an answer either because their model of £6,000 fees uses the same modelling as the government. Labour are relishing in this story today but it gives them a headache just as much as it gives the government a headache."

He suggested possible solutions included limits on the level of loan given to each student or freezing the repayment threshold so that graduates started repaying their loans more quickly.

Any political prominence for the issue of tuition fees is likely to reopen painful wounds for the Lib Dems, who were forced to abandon their flagship anti-fee position when they went into coalition, causing a large loss of support which they have not regained. The policy is ultimately the responsibility of Vince Cable, the Lib Dem business secretary, who oversaw the introduction of the higher tuition fee system from 2012.

Social Liberal Forum, the grassroots Lib Dem group, said the party leadership had been repeatedly warned in 2010 about the cost of the new student finance system "in financial as well as political terms" and suggested the party might pledge to freeze tuition fees in its 2015 manifesto.

"Whether the voters would believe us however is anothermatter," said SLF co-chairman Naomi Smith.

Others called for the entire system to be overhauled. Rachel Wenstone, vice-president of the National Union of Students, said the new figures showed tuition fees were "an experiment that has well and truly failed". She said: "These revelations blow apart ministers' claims that £9,000 fees would save public money. This confirms our long-held view that the changes were ideologically driven. The government's system costs more than what it replaced and represents a real turning point in the debate about the future of higher education funding."

Nicola Dandridge, chief executive of Universities UK, said it would start calling for cross-party consensus on how to create a long-term and sustainable funding system in the runup to the general election.

"It is vital that university funding is put on a sustainable footing for the long term," she said. "Our future success relies on maintaining and indeed increasing the numbers of graduates coming out of our universities.

"There needs to be careful consideration of how this can be paid for."

She added that this was especially critical given the government's new policy of lifting the cap on student numbers in England from 2015.

The implication of lower repayments is that the taxpayer will have to step in to make up the shortfall, potentially leading to a squeeze on university budgets. Figures from the Office for Budget Responsibility – buried in documents published alongside the budget this week – revised down the estimates for student loan repayments by around £2.5bn over the next six years, attributing this to lower earnings forecasts.

"As a consequence, we now expect greater write-offs beyond our medium-term forecast horizon," the economic watchdog said.Adrian Bailey, chairman of the Commons business committee, said the Treasury faced a fiscal timebomb over student loans and he would consider recalling Willetts to an inquiry on higher education funding next month to explain the shortfall.

The shortfall in expected payments from the student loans system is caused by reforms made alongside the tripling of fees from £3,000 to £9,000. The threshold at which graduates had to start repaying their loans was increased from £15,000 to £21,000, while the interest rate charged also increased. Any debt still owing after 30 years is automatically annulled by the government.

This reduced the annual repayments of any graduate earning £21,000 or more by £540, and it is this foregone revenue which offsets newly pessimistic forecasts about the prospects of graduates.

Since the initial repayment estimates were generated, BIS forecasters predicted more graduates on low to modest salaries, while Student Loan Company data showed the organization was having difficulties in getting payments from those freelancing or in short-term jobs, as well as from EU students overseas.

As graduates on modest incomes will never repay their loans, which can easily total £42,800 on completion of a three-year degree, the proportion of loans expected to eventually expire after thirty years has increased – representing a significant loss of future income for universities.

At current interest rates, Guardian modeling shows a graduate earning the UK's median full-time salary of £26,000 over their career will repay £13,500 of her loan over the course of 30 years, eventually defaulting on over £100,000 of debt.

A graduate on £41,000 would make repayments totaling £54,000, but as higher earners pay a slightly higher rate of interest, would still default on more than £100,000.

Graduates earning a career average of £54,500 would repay their full loan over 30 years, making payments totaling over £90,000, while a graduate on £100,000 or more would pay off their loan in seven years or less, and repay just £51,400.