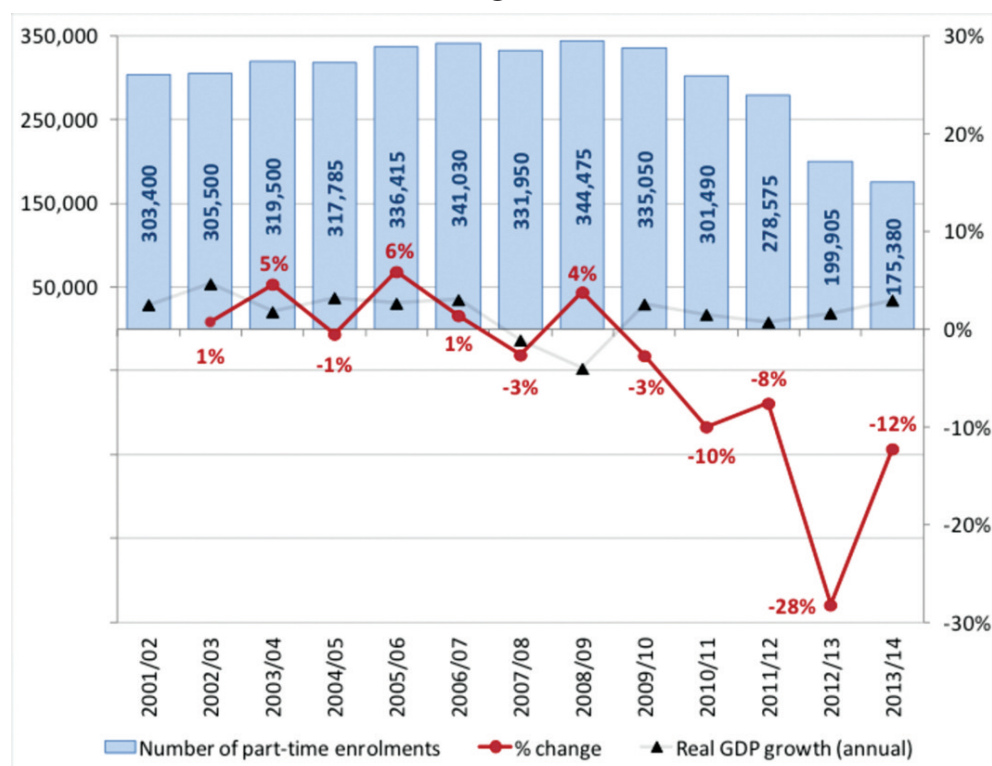


3. Understanding the part-time RAB charge

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Since 2001/02, there has been a marked decline in part-time domestic student enrolments. Compared to a 23 per cent increase in the number of full-time undergraduates over the period, the number of part-time undergraduates has declined by 42 per cent. Information from HESA indicates that 303,400 learners commenced part-time courses in 2001/02 across the entire United Kingdom (including Open University learners), but fewer than 176,000 did so in 2013/14.

Part-time enrolments and GDP growth, 2001/02 to 2013/14



London Economics' analysis of information published by the Higher Education Statistics Agency (HESA)

The decline in part-time enrolments clearly cannot be attributed solely to the 2012 changes to student finance for part-time students. The different personal characteristics of part-time learners, alongside greater price sensitivity, compared to full-time students compound the relative importance of the wider macroeconomy on enrolment decisions. Specifically, there is a lower propensity amongst part-time students to take out student loans and, faced with the many other competing demands on their earnings, their behaviour may be less influenced by changes to student finance arrangements when set aside the wholesale retrenchment occurring in the UK economy since 2008.

The Resource Accounting and Budgeting Charge (the RAB charge) is the proportion of the nominal face value of the loans that are issued to students that are not expected to be repaid. Using the example of full-time students, if the RAB charge stands at 45 per cent, then this implies that for every £100 in student loans issued, approximately £45 in today's money terms will be written off by the Exchequer. In economic terms, the RAB charge represents the long-term cost to the Exchequer of the student loan system.

In a broader sense, for full-time students, the RAB charge underpinned the decision by the Coalition Government to replace the HEFCE Teaching Grant for most disciplines with bigger tuition fee loans. Given the 45 per cent RAB charge, the shift from Teaching Grant to loans resulted in a 55 per cent reduction in the long-term gross cost incurred by the Exchequer.

Ahead of the substantial savings to be made by unprotected central government departments as part of the 2015 Spending Review, the same rationale has been adopted by the new Conservative Government in relation to the replacement of maintenance grants with larger maintenance loans.

Having a higher RAB charge is not necessarily a negative outcome, as it reflects the level of overall public investment in the student body, and is targeted at individuals that are most likely to struggle to repay. It is a progressive system of student support, free at the point of access.

The RAB charge is important because it is one of the key pieces of information that is used by policymakers to assess the affordability of potential changes to higher education fees and funding. The higher the expected RAB charge, the more costly a policy, while the lower the expected RAB charge, the more affordable a particular policy. In a period of widespread fiscal constraint, the RAB charge is crucial.

The most recent published estimates of the RAB charge produced by the Department for Business, Innovation and Skills suggest that the part-time RAB charge is 65 per cent, compared to the 45 per cent estimate for full-time students. However, this compares to London Economics' estimates of a full-time RAB charge of 40 per cent and a part-time RAB charge of zero, which have been in the public domain since 2010 and 2011.

There are several factors affecting the RAB charge – for both part-time and full-time students. These include: the rate of

repayment; the threshold for repayment; the number of years before which the loan is written off; the interest rate charged; and the size of the loan amount initially drawn upon. Other factors being equal, based on these loan characteristics, the smaller loans taken up by part-time students would suggest that the associated RAB charge for part-time students should be less than for full-time students.

The discrepancy between the estimates is driven by graduate earnings assumptions. Given the income-contingent nature of student loans, the higher the level of a graduate's earnings, as well as the higher the growth rate of graduate earnings, the higher the level of repayment and the lower the RAB charge.

It might be expected that individuals undertaking a full-time undergraduate degree between the ages of 18 and 21 would experience relatively high earnings growth early in their careers. Although this is typically the case, the fact that graduate earnings are on average below the threshold for a number of years immediately after graduation means that for many graduates, no repayments are made to their outstanding loan balance during their early working lives. In contrast, many part-time students combine work with study, and are already earning in excess of the repayment threshold. As such, when the Statutory Repayment Due Date arrives, part-time students will start making repayments. The higher earnings levels achieved by part-time students and the earlier repayments (which are more valuable to the Exchequer than repayments later in the 30-year repayment period due to

discounting), combined with the lower initial balance, suggest that the part-time RAB charge should be lower than the full-time equivalent.

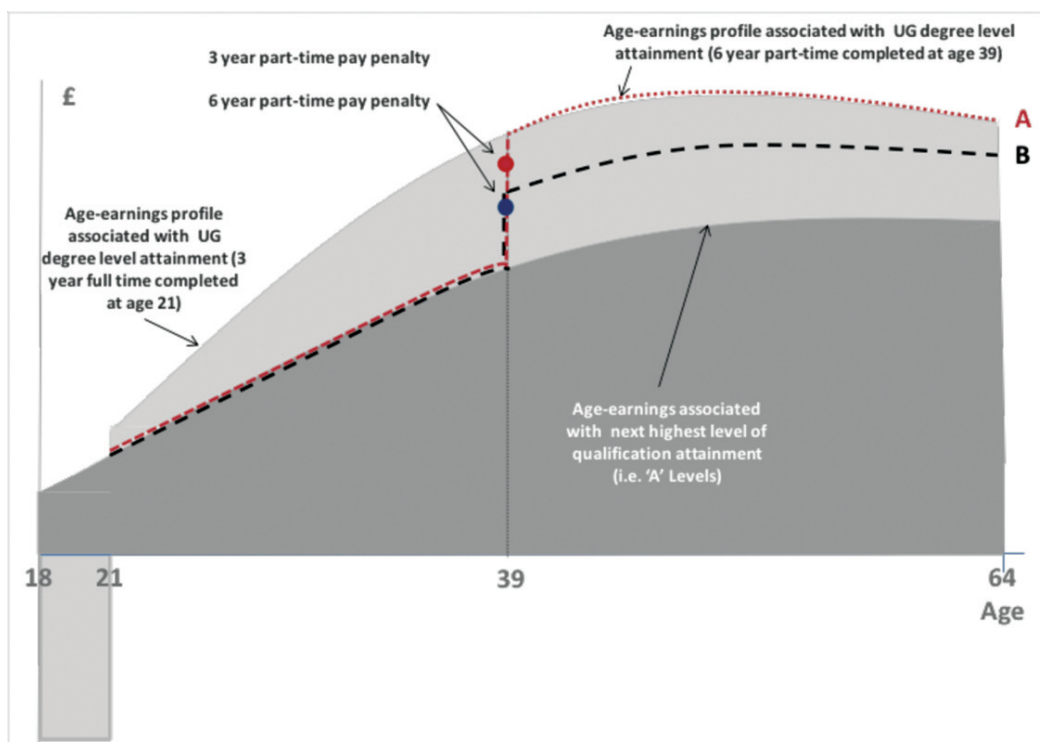
If this is true, then why is there such a discrepancy between the official estimates of the RAB charge and ours? The main issue is that, unlike estimates of the RAB charge for full-time students, there is no actual information from the Student Loans Company on part-time loan repayments yet, given the relatively recent extension of loans for part-time students. So it is necessary to estimate a future earnings path for part-time students using alternative secondary datasets. This is further complicated by the fact that none of the standard secondary datasets available contain reliable information on graduate earnings by mode of study. Therefore, further assumptions need to be made and we will not know the accuracy of the alternative assumptions for a number of years.

Until recently, for full-time students, the Department for Business, Innovation and Skills used information on actual graduate repayments to determine graduates' position in the earnings distribution, which was then combined with the British Household Panel Survey to calibrate and forecast earnings over graduates' working lives (adjusting for employment shocks and time taken out of the labour market). From these forecasts, and the characteristics of the student loan system, an estimate of the level of loan repayment was generated. For part-time students, we understand that a comparable approach was adopted but also incorporated

information from the *Destination of Leavers from Higher Education (DLHE) Survey* on immediate post-graduation outcomes. However, documentation on the methodological approach taken for part-time students is more limited.

For the 2012/13 cohort of full-time entrants, we used the Quarterly Labour Force Survey between 1996 and 2012, which includes around 11 million observations, to generate an age-earnings profile achieved by undergraduate degree holders. This age-earnings profile is adjusted for the expected level of non-employment (unemployment and economic inactivity) by gender and age band.

Age-earnings profile for full-time and part-time undergraduates



Earnings are augmented by the long-term expected real earnings growth rate (because a 21-year old will earn more in nine years' time than a 30-year-old today).

In the base case, we assume that a part-time student who achieves their undergraduate degree by the age of 39 (and takes six years to do so) has similar earnings to a 39-year-old individual who achieved their degree on a full-time basis (profile A).

Under this set of assumptions, the estimate of the part-time RAB charge stands at -7 per cent, implying that part-time loans actually generate revenue for the Exchequer. However, it is more likely that an individual undertaking a degree achieves an earnings profile comparable to profile B, where, rather than achieving the full graduate earnings premium, only a proportion is captured. To mimic this, it is possible to penalise part-time graduates in the labour market by imposing a wage penalty – for example, by assuming that a 39-year old part-time student achieves comparable earnings to a 36 or 33-year old full-time graduate, as shown by the coloured dots in the chart. Under these assumptions, the part-time RAB charge estimate stands at 2.5 per cent and 13.5 per cent respectively – still a small fraction of the full-time estimate.

Clearly, the socioeconomic characteristics of part-time students are different from traditional full-time students. The higher incidence of employment during the period of learning, combined with the lower loan balance and early repayment, all suggest a lower part-time RAB charge. This implies that the funding of part-time students is approximately cost neutral to the Exchequer over the long run, as with the forthcoming postgraduate loans. Furthermore,

because of the smaller loan balances, there is significantly less exposure (and risk) to the Exchequer in relation to the part-time student loan book than for the full-time one.

Given the big decline in part-time participation over the last decade, and the negative economic and social impact of the decline, our economic analysis suggests that more could be done to assist and support part-time undergraduate provision. Part-time graduates make a key contribution to economic growth. Rather than waiting for an economic recovery to justify improvements to the financial support on offer for part-time students, investment in human capital now could help secure the recovery.

Learners who study at a lower intensity than full-time students, for whatever reason, are part of the solution not part of the problem.