Estimating the costs associated with the student support offer

London Economics

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8 Overview and scope of model



- London Economics have developed a model of the English HE funding system, with the capability and flexibility to introduce a range of changes to the student support model, for example:
 - Changes in the repayment threshold and interest rate thresholds;
 - The re-introduction of maintenance grants (previously available to first-year students starting their qualifications in 2015/16);
 - Changes in the **interest rate** associated with student loans; and
 - Changes to tuition fees (and associated tuition fee loans provided).
- In terms of scope, this model estimates the impact on the Exchequer, institutions and students/graduates for:
 - the 2017/18 cohort of first-year undergraduate English-domiciled students (studying anywhere in the UK), and EU-domiciled students studying in England;
 - Higher Education Institutions only; and
 - <u>both</u> full-time and part-time students, as well as 'other' undergraduate qualifications below first degree level.
- The model estimates a range of measures associated with the HE funding system, including:
 - The RAB charge (by income decile), student loan debt on graduation, and expected lifetime loan repayments (by income decile);
 - Total Exchequer costs including the cost of student support and Teaching Grant funding to institutions across the UK;
 - HEI funding in terms of tuition fee income (net of bursaries) and Teaching Grant funding from the Exchequer.

All of these measures have been discounted to reflect **net present values**, and are presented in **constant 2017-18 prices**.



Repayment threshold = £21,000 Interest rate threshold = £41,000 (both frozen for 4 years)



Resource flows	Amount (£)
Exchequer	
Cost of maintenance grant	£0m
Cost of maintenance loan	(£1,638m)
Cost of tuition fee loan	(£2,706m)
Cost of teaching grants	(£1,294m)
Total	(£5,637m)
RAB Charge	27.6%
HEI income	
Gross fee income	£9,985m
Teaching grant income	£1,294m
Cost of bursary provision	(£191m)
Total	£11,087m
Net HEI resource per student p.a.	£8,800
Students	
Ave debt on graduation (FTUG)	£46.000

- Graduate lifetime loan repayments full-time undergraduate degrees (by decile and gender) £62,300 £58,800 £70,000 £61,300 E60,000 £58,700 £60,000 repayments (£ NPV, 2017-18priœs) £47,600 £50,000 £57,100 E53,000 £45,600 E40,000 £40,000 £36,500 E30,200 £30,000 E24,300 £23,900 £20,300 Llifetime £20,000 E6,200 £10,700 £10,000 E1.700 £0 9 3rd 1st 2nd 4th 5th 9th Average 6th Zth 8th Male Female
- The total Exchequer cost of the 'old' system stands at £5.64bn per cohort, consisting of £1.64bn in maintenance and £2.71bn in tuition fee loans that are never repaid, and £1.29bn in teaching grants paid to HEIs.
- The RAB charge was estimated to be 27.6%.

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Note: All monetary values have been discounted to net present values (using standard HMT Green Book discount rates), and are presented in constant 2017/18 prices. All monetary values per student have been rounded to the nearest £100. Debt on graduation and expected lifetime repayments per student are presented for full-time undergraduate degree students only. Gross fee income refers to fee income before the deduction of fee bursaries provided to students.



Repayment threshold = £25,000 Interest rate threshold = £45,000 (both frozen for 0 years)



Resource flows	Baseline	Scenario 1	Diff.				
Exchequer							
Cost of maintenance grant	£0m	£0m	£0m				
Cost of maintenance loan	(£1,638m)	(£2,728m)	(£1,090m)				
Cost of tuition fee loan	(£2,706m)	(£4,469m)	(£1,763m)				
Cost of teaching grants	(£1,294m)	(£1,294m)	£0m				
Total	(£5,637m)	(£8,491m)	(£2,853m)				
RAB Charge	27.6%	45.1%	17.5 pp				
HEI income							
Gross fee income	£9,985m	£9,985m	£0m				
Teaching grant income	£1,294m	£1,294m	£0m				
Cost of bursary provision	(£191m)	(£191m)	£0m				
Total	£11,087m	£11,087m	£0m				
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Net HEI resource per student p.a.	£8,800	£8,800	£0				
Students							
Ave. debt on graduation (FTUG)	£46,000	£46,000	£0				



- Compared to the baseline, the increase (and un-freezing) of the loan repayment and interest thresholds results in lower graduate loan repayments, and an associated increase in the RAB charge (from 27.6% to 45.1%).
- The Exchequer cost of the student loan system increases by £2.85bn, consisting of £1.09bn in additional outstanding maintenance loans and £1.76bn in additional outstanding tuition fee loans that are never repaid.

8 Assumptions and methodology – headline results



Student profile (using HESA data)

- The model considers the total number of full-time and part-time English domiciled first-year students undertaking undergraduate HE qualifications at any institution in the UK, as well as EU-domiciled first-year students undertaking undergraduate qualifications at English HEIs. The number of first-year students is based on HESA information for the 2015-16 academic year (i.e. the most recent year for which this information is currently available) – i.e. we assume the same cohort characteristics for the 2017-18 academic year as for 2015-16. The 2015-16 cohort comprises 491,075 students (466,265 English and 24,810 EU-domiciled students; 388,855 full-time and 102,220 part-time).
- Amongst full-time students, 95% are undertaking first degrees (33% part-time), with 1% undertaking HNCs/HNDs (3%), 2% undertaking Foundation Degrees (5%), and 2% engaged in other undergraduate qualifications (59%).
- Part-time students are estimated to study at **40%** full-time intensity.
- The analysis is undertaken separately by gender. For full-time students, the gender split is 48/52 for other undergraduate qualifications, with the corresponding estimates for HNCs/HNDs, Foundation Degrees and undergraduate degrees standing at 53/47, 40/60, and 42/58 respectively.
- The average age of enrolment for full-time students undertaking other UG qualifications, HNCs/HNDs, Foundation Degrees and undergraduate degrees was 28, 21, 25 and 20 respectively. The corresponding estimates for part-time students were 36, 27, 30 and 31 respectively.
- The continuation rate per year was estimated to be **92.6%** for fulltime students and **82.3%** for part-time students.

Student profile (continued)

 The average duration of qualification attainment for full-time students undertaking other UG qualifications, HNCs/HNDs, Foundation Degrees and undergraduate degrees was 1, 2, 2 and 3 years respectively. Based on their study intensity, the corresponding estimates for part-time students stood at 2, 5, 5 and 7 years respectively.

Student support funding

- Based on HESA data, to determine the size of maintenance loans received, first-year students are categorised by gender, location of study, study intensity and living arrangements whilst in study. We assume that all students take out the maximum available loan to which they are entitled, and we estimate eligibility for loans using information from SLC Statistical First Releases on the proportion of students in receipt of full, partial or nil (eligible but not entitled) maintenance grants (using information for the 2015-16 academic year). For example, the estimated average maintenance loan received by a full-time first degree undergraduate student stands at approximately £6,540 per student per annum.
- The average gross tuition fee in 2017-18 is £9,250, but, as a result of Access agreements and the provision of bursaries and fee waivers by HEIs, the net tuition fee (and associated loan taken out) is lower (£9,100). Based on average study intensity, the average part-time tuition net tuition fee was estimated to be £3,610 per annum. We have assumed that fees do not increase over the duration of students' courses.
- We have modelled loan eligibility by location of study (i.e. Living at Home (21%), living away from home outside of London (67%), and living away from home in London (12%)) - using historical information from HEFCE.

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Assumptions and methodology – headline results



Repayments

- Post graduation, loans accumulate interest depending on earnings, with individuals (in Baseline B) earning up to £25,000 incurring a 0% real rate of interest, increasing to 3% real rate of interest on earnings of £45,000 per annum or above. For part-time students, we apply current SLC rules in relation to the accumulation of interest during study where part-time students become liable for repayment upon graduation or 4 years after they started their course whichever comes first.
- In the Baseline scenario, for a full-time undergraduate student, the average fee and maintenance loan balance on graduation – including accumulated interest - was estimated to be approximately £51,700 in cash terms (including £4,800 in accumulated interest), which is equivalent to £46,000 in discounted real terms.
- In both the Baseline scenario and the scenario incorporating the threshold increase, there are no maintenance grants.
- We assume that all thresholds increase in line with average nominal earnings growth (with forecasts taken from medium-term and long-term OBR forecasts).
- We assume that loan repayment is 9% of earnings in excess of £25,000 per annum (frozen for 4 years in Baseline scenario, and increasing with average nominal earnings growth otherwise) and that all loans are written off 30 years from the statutory repayment due date.
- Loans accumulate interest at RPI +3% during the period of study.

Exchequer funding

- In relation to Funding Council teaching grants, the average grant per student is derived by dividing the total teaching grant funding in each Home Nation by the total number of students in the given academic year. The average Teaching grant per full-time equivalent student in England, Wales, Scotland, and Northern Ireland was estimated to be approximately £1,150, £450, £5,520, and £2,700 per student per annum, respectively.
- In relation to the estimation of the RAB charge and other financial flows, we assume a real discount rate of 0.7% as per the Government's official loan repayment model.
- We have adopted OBR forecasts in relation to expected Retail Price Index, which were as follows between Year 1 and Year 6: 3.7%, 3.6%, 3.1%, 3.1%, 3.2% and 3.0% (Year 6 onwards). We have also taken OBR forecasts in relation to expected nominal earnings growth between Year 1 and Year 6: 0.0%, 2.7%, 3.0%, 3.4%, 3.6% and 4.3% (Year 6 onwards).

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