

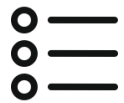
Estimating the costs associated with the student support offer

Analysing the impact of a proposed £6,000 fee and the re-introduction of maintenance grants



LE
London
Economics

13th February 2018



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
 - **both 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**.



Baseline

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



Resource flows	Amount (£)
----------------	------------

Exchequer

Cost of maintenance grant	£0m
Cost of maintenance loan	(£2,728m)
Cost of tuition fee loan	(£4,469m)
Cost of teaching grants	(£1,294m)
Total	(£8,491m)

RAB Charge	45.1%
-------------------	--------------

HEI income

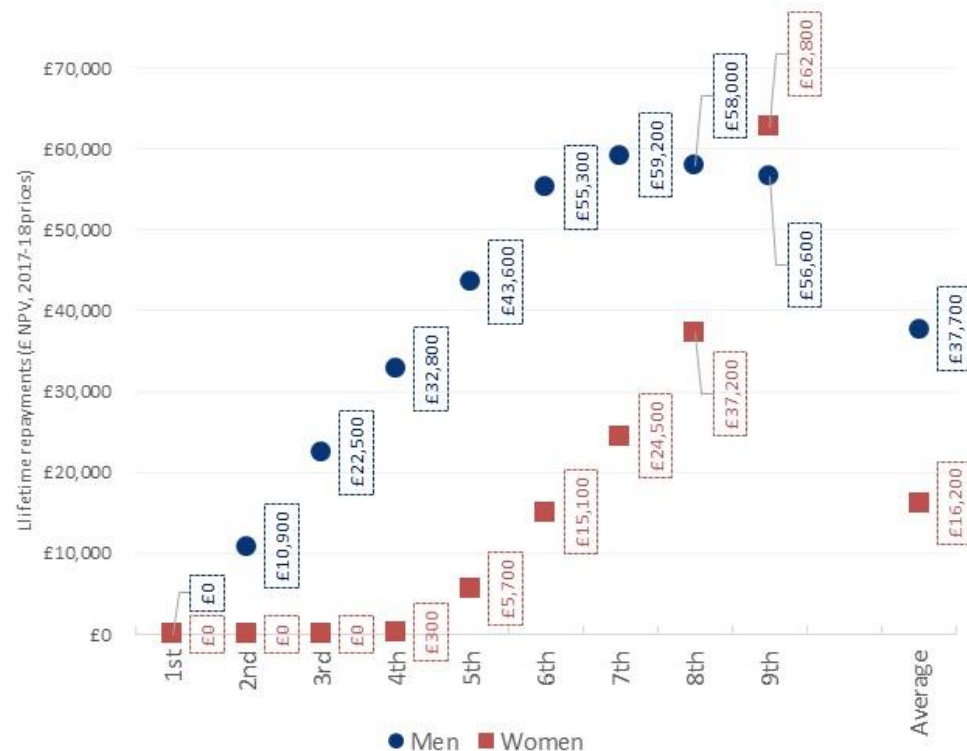
Gross fee income	£9,985m
Teaching grant income	£1,294m
Cost of bursary provision	(£191m)
Total	£11,087m

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)



- The total Exchequer cost of the HE system stands at **£8.491 billion** per cohort, consisting of **£2.728 billion** in maintenance support and **£4.469 billion** in tuition fee loans that are never repaid, and **£1.294 billion** in teaching grants paid to HEIs.
- HEIs receive **£9.985 billion** in fee income and **£1.294 billion** in teaching grants – offset by **£191 million** paid in bursaries.
- The RAB charge is estimated to be **45.1%**. Average lifetime loan repayments are estimated at **£37,700 for men** and **£16,200 for women** (for full-time undergraduate degrees).

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.



Scenario 1: £6,000 Fee

Resource flows	Baseline	Scenario 1	Diff.
----------------	----------	------------	-------

Exchequer

Cost of maintenance grant	£0m	£0	
Cost of maintenance loan	(£2,728m)	(£2,440m)	£289m
Cost of tuition fee loan	(£4,469m)	(£2,609m)	£1,694m
Cost of teaching grants	(£1,294m)	(£1,294m)	-
Total	(£8,491m)	(£6,343m)	£2,148m

RAB Charge	45.1%	40.8%	-4.3pp
-------------------	--------------	--------------	---------------

HEI income

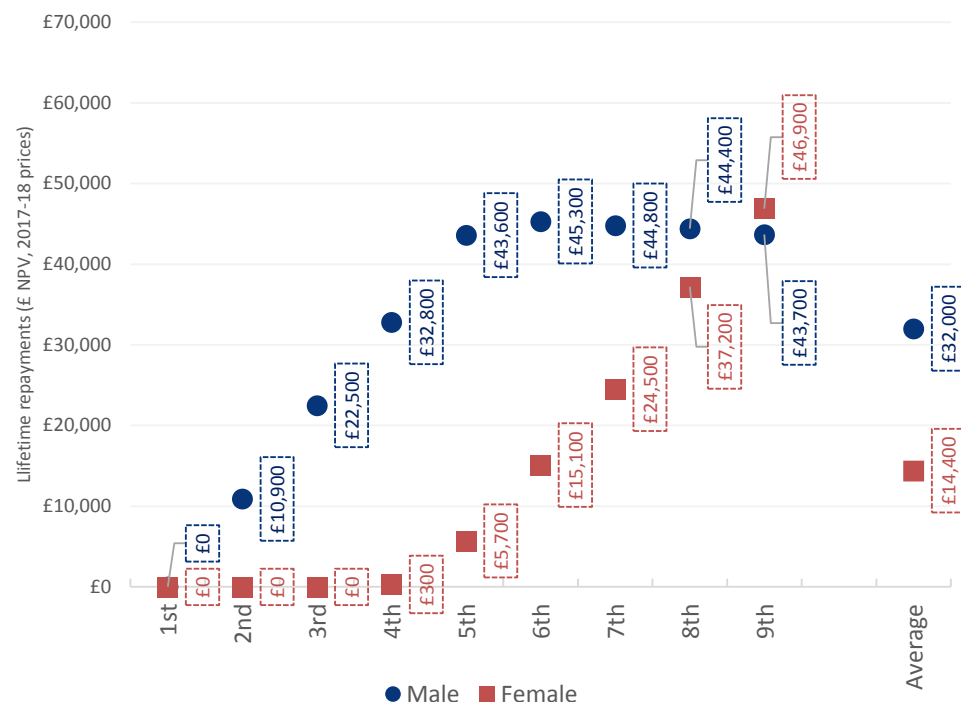
Gross fee income	£9,985m	£6,477m	(£3,508m)
Teaching grant income	£1,294m	£1,294m	-
Cost of bursary provision	(£191m)	-	£191m
Total	£11,087m	£7,770m	(£3,317m)

Net HEI resource per student p.a.	£8,800	£6,100	(£2,700)
--	---------------	---------------	-----------------

Students

Ave. debt on graduation (FTUG)	£46,000	£36,600	(£9,400)
---------------------------------------	----------------	----------------	-----------------

Graduate lifetime loan repayments – full-time undergraduate degrees (by decile and gender)



- Compared to the baseline, without compensation for lost fee income, HEIs would be **£3.317 billion per cohort** worse off.
- However, the Exchequer would recoup **£2.148 billion** in reduced maintenance and fee loan write-offs (with the RAB charge declining from **45.1%** to **40.8%**). If HEIs are compensated in full, the total cost to HMT stands at **£1.169 billion** per cohort.
- For students/graduates, although the debt on graduation would decline by **£9,400**, and the average total loan repayment declines, loan repayments by students in the bottom 5 deciles are **UNCHANGED**. The potential **£6,000** fee only benefits wealthier graduates.



Scenario 2: Maintenance Grants

Resource flows	Baseline	Scenario 2	Diff.
----------------	----------	------------	-------

Exchequer

Cost of maintenance grant	£0m	(£1,629m)	(£1,629m)
Cost of maintenance loan	(£2,728m)	(£1,730m)	£999m
Cost of tuition fee loan	(£4,469m)	(£4,199m)	£270m
Cost of teaching grants	(£1,294m)	(£1,294m)	-
Total	(£8,491m)	(£8,851m)	(£360m)

RAB Charge	45.1%	42.7%	(2.4pp)
-------------------	--------------	--------------	----------------

HEI income

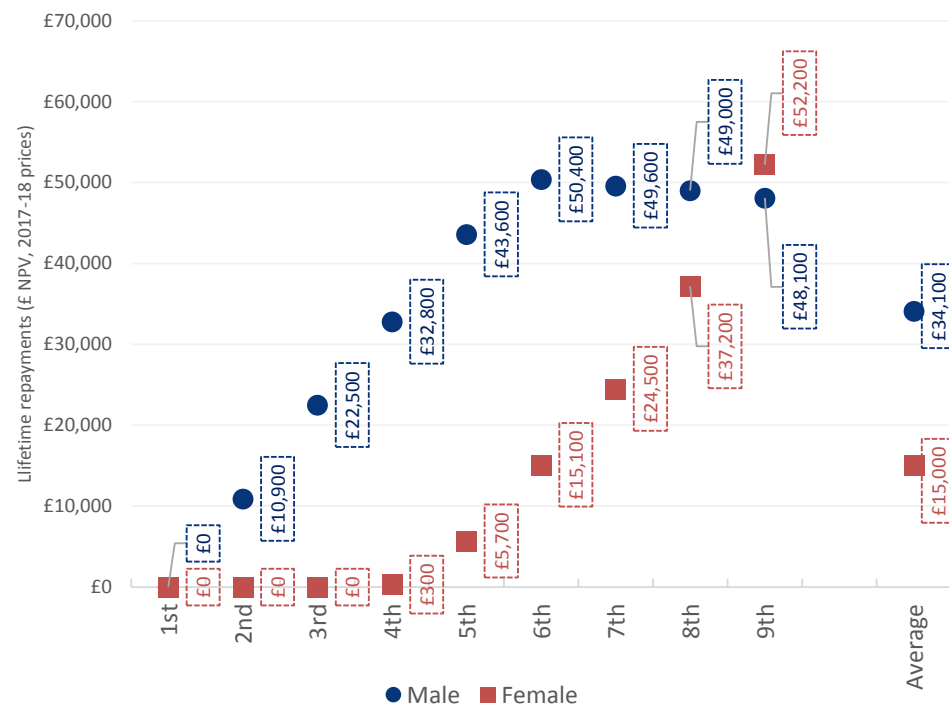
Gross fee income	£9,985m	£9,985m	-
Teaching grant income	£1,294m	£1,294m	-
Cost of bursary provision	(£191m)	(£191m)	-
Total	£11,087m	£11,087m	-

Net HEI resource per student p.a.	£8,800	£8,800	-
--	---------------	---------------	---

Students

Ave. debt on graduation (FTUG)	£46,000	£39,800	(£6,200)
---------------------------------------	----------------	----------------	-----------------

Graduate lifetime loan repayments – full-time undergraduate degrees (by decile and gender)



- Compared to the baseline, the cost of re-introducing maintenance grants (at 2015-16 levels) was estimated to be **£1.629 billion per cohort**. However, the Exchequer would recoup **£1.269 billion** in reduced maintenance and fee loan write offs (with the RAB charge declining from **45.1%** to **42.7%**). The total cost to HMT stands at **£0.360 billion** per cohort. Maintenance grants are approximately **70%** cheaper than cutting fees!
- For students/graduates, as before, the average debt on graduation and total loan repayment would decline compared to the baseline scenario. However, again, for students in the bottom 5 deciles, their total loan repayments are **UNCHANGED**. Graduates in the upper deciles benefit from lower lifetime repayments, since we assume that their loan balances decline after the re-introduction of grants (but this is less than the reduction in loan balances after a reduction in fees to £6,000)).



Student profile

- The model considers the total number of full time and part time English domiciled first year students undertaking higher education qualifications at any institution in the UK. In addition, all EU students engaged in undergraduate education studying in English HEIs are also included. We have applied various changes to HE fees and funding arrangements based on the most recent HESA data relating to the 2016-17 cohort comprising **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 **2%** engaged in Other HE (**59%**), **1%** HNCs/HNDs (**3%**), and **2%** Foundation degrees (**5%**).
- Part-time students are estimated to study at **40%** FTE
- Estimated continuation rate was estimated to be **92.6%** for full-time students and **82.3%** for part-time students
- 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 base eligibility for loans using information from SLC Statistical First Releases on the proportion of students that were previously in receipt of full or partial maintenance grants. For example, the average maintenance loan received by a full-time first degree undergraduate student stands at **£6,538** p.s.p.a.
- 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 is lower (**£9,101**). Based on average study intensity, the average part-time tuition net tuition fee was estimated to be **£3,607** 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%** (full-time students)), Living away from home outside of London (**67%**), and Living away from home in London (**12%**)) - using the current thresholds provided by Student Finance England
- All analyses are undertaken by gender. For those individuals undertaking Other HE on a full-time basis, the gender split is **48/52**, 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 HE, 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 average duration of qualification attainment for full time students undertaking Other HE, HNCs/HNDs, Foundation Degrees and undergraduate degrees was **1**, **2**, **2** and **3** years respectively. Based on study intensity, the corresponding estimates for part-time students were **2**, **5**, **5** and **7** years respectively



Assumptions and methodology

Repayments

- Loans accumulate interest at RPI +3% during the period of study. Post graduation, loans accumulate interest depending on earnings, with individuals earning £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.
- In the Baseline scenario, there are no maintenance grants. We have assumed in those scenarios where they occur that the level of maintenance grant that would be received is equivalent to the level of maintenance grant that is received by 2015-16 cohort continuing students (**£1,740** per student per annum). In this scenario, there is a reduction in loan availability – declining from **£6,538** p.s.p.a to **£4,442** p.s.p.a.
- 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 and that all loans are written off 30 years from the date of SSRD.

Exchequer funding

- In relation to Teaching Grants, we assume that the average teaching grant per student – by Home Nation – is derived by dividing the total teaching grant funding in each Home Nation by the total number of students, which is the adjusted for the duration of study. The average Teaching grant per student in England, Wales, Scotland, and Northern Ireland is estimated to be **£1,146, £454, £5,521, and £2,698** per student per annum respectively. The corresponding estimates for part-time students stand at **£454, £180, £2,186, and £1,069** per student per annum
- In relation to the estimation of the RAB charge and other financial flows, we assume a real discount rate of **0.7%** as per standard practice.
- 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%**. 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%**.

Ms Maïke Halterbeck, Senior Economic Consultant, London Economics
020 3701 7724, mhalterbeck@londecon.co.uk

Dr Gavan Conlon, Partner, London Economics
020 3701 7703, gconlon@londecon.co.uk

 @LE_Education



LE
London
Economics

Cover picture:
[Peshkova/Shutterstock.com](https://www.shutterstock.com)