



# Estimating the costs associated with the student support offer

Possibilities outlined in the Telegraph  
10-12-2018



**LE**  
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## Our model of the Higher Education funding system estimates:

- The impact of the system on the **Exchequer, institutions and graduates**, for:
  - the **2017/18 cohort of first-year English-domiciled students (studying anywhere in the UK), and EU-domiciled students studying in England;**
  - **full-time and part-time students, and**
  - **all undergraduate qualifications (including first degrees and other undergraduate qualifications below first degree level).**
- A range of **metrics** (in NPV in constant 2017/18 prices), including:
  - **The RAB charge, student loan debt on graduation, and expected lifetime loan repayments;**
  - **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;**
  - **The level of public deficit associated with the system (not presented here).**
- What are the resource flows under current arrangements between the **Exchequer, higher education institutions, and students/graduates?**
- What are the resource flows if tuition fees are reduced to **£6,500 per annum (with no corresponding increase in Teaching grant funding); the repayment threshold is reduced to £21,000; and the real interest rate is reduced to zero (i.e. the proposals mentioned in The Telegraph on 10-12-2018)?**

# Impact of current HE fee and student system on the Exchequer, HEIs and students/graduates

## Resource flows

Exchequer		Baseline
Cost of maintenance loan write-off		(£2,838m)
Cost of tuition fee loan write-off		(£4,588m)
Cost of teaching grants		(£1,312m)
<b>Total</b>		<b>(£8,738m)</b>

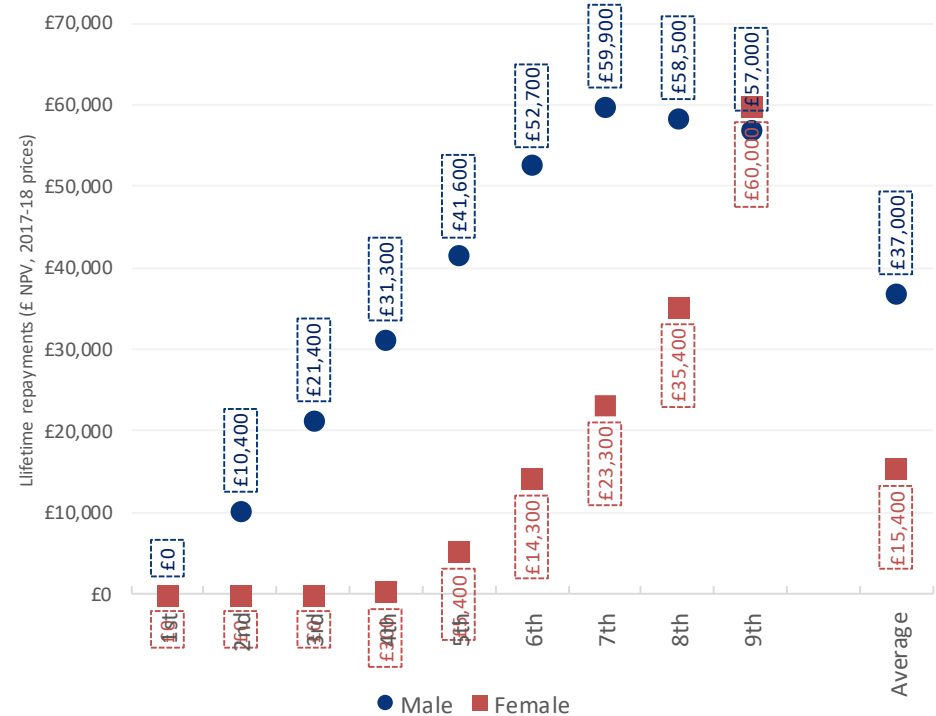
<b>RAB Charge</b>		<b>45.9%</b>
<b>% of graduates who never:</b>	repay full loan	<b>80.7%</b>
	repay anything	<b>26.9%</b>

Students		
<b>Total</b>		<b>(£8,597m)*</b>
Av. debt on graduation (FTUG)		£46,000

HEI income		
Gross fee income		£10,019m
Teaching grant income		£1,312m
Cost of bursary provision		(£191m)
<b>Total</b>		<b>£11,140m</b>

<b>Net HEI resource per student p.a.</b>	<b>£9,000</b>
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## Graduate lifetime loan repayments – full-time undergraduate degrees (by decile and gender)



Under this current system, **HEIs receive £11.140bn**, predominantly through fee income. **The Exchequer contributes £8.378bn** (£4.588bn in fees, £2.838bn in maintenance, and £1.312 in T Grant). **Students/graduates contribute £5.421bn** in fees and £3.357 in maintenance (and receive £191m in bursaries from HEIs).

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. \* This includes both the proportion of tuition fee (around £5.4 billion) as well as maintenance loans (around £3.4 billion) repaid by graduates.

# Impact of system on the Exchequer, HEIs and students – suggested proposals

## Resource flows

Resource flows	Baseline	Proposals	Difference
<b>Exchequer</b>			
Cost of maintenance loan write-off	(£2,838m)	(£2,652m)	£187m
Cost of tuition fee loan write-off	(£4,588m)	(£2,992m)	£1,596m
Cost of teaching grants	(£1,312m)	(£1,312m)	£0m
<b>Total</b>	<b>(£8,738m)</b>	<b>(£6,955m)</b>	<b>£1,783m</b>

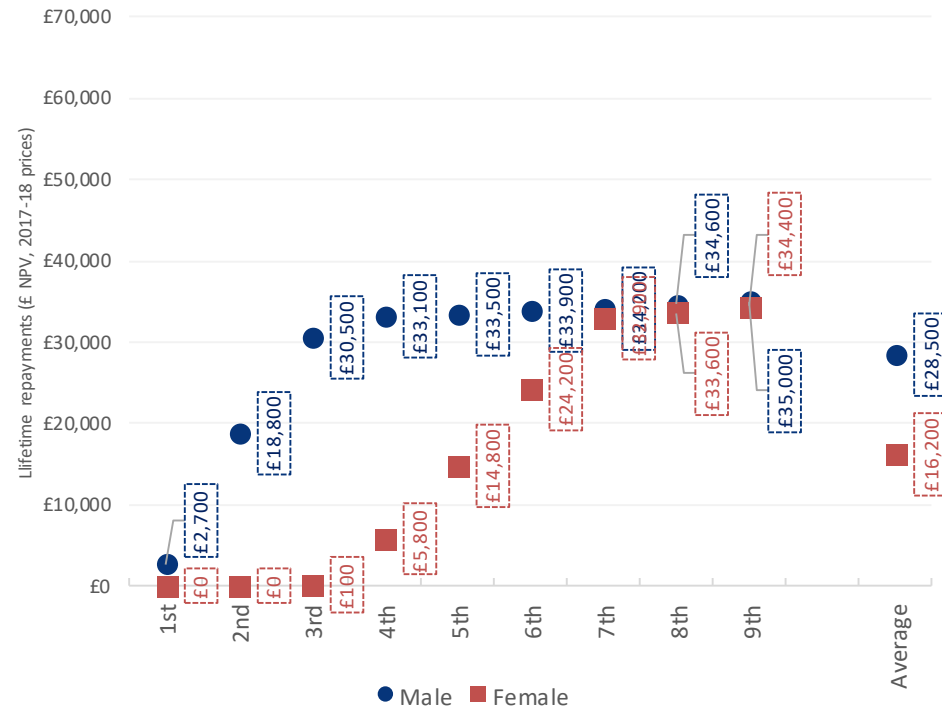
RAB Charge		45.9%	42.1%	-3.7 pp
% of graduates who never:	repay full loan	80.7%	55.6%	-25.1 pp
	repay anything	26.9%	15.8%	-11.1 pp

<b>Students</b>			
<b>Total</b>	<b>(£8,597m)</b>	<b>(£7,576m)</b>	<b>£1,020m</b>
<b>Av. debt on graduation (FTUG)</b>	<b>£46,000</b>	<b>£36,300</b>	<b>(£9,700)</b>

<b>HEI income</b>			
Gross fee income	£10,019m	£7,041m	(£2,979m)
Teaching grant income	£1,312m	£1,312m	£0m
Cost of bursary provision	(£191m)	(£15m)	£176m
<b>Total</b>	<b>£11,140m</b>	<b>£8,337m</b>	<b>(£2,803m)</b>

<b>Net HEI resource per student p.a.</b>	<b>£9,000</b>	<b>£6,700</b>	<b>(£2,300)</b>
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## Graduate lifetime loan repayments – FTUG degrees (by decile and gender)



Under this proposals, HEIs are **£2.8bn worse off**, with HMT and students/ graduates **£1.8bn** and **£1.0bn** better off respectively. However, female graduates pay **£800 more** over the repayment period, while men pay **£8,500 less**. In general, higher earning graduates are the main beneficiaries.

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.



# Assumptions and methodology

## 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 **485,545** students (**458,815** English and **26,730** EU domiciled students; **397,265** full-time and **88,280** part-time).
- Amongst full-time students, **94%** are undertaking first degrees (**33%** part-time), with **3%** engaged in other undergraduate studies (**60%**), **1%** HNCs/HNDs (**3%**), and **2%** Foundation degrees (**4%**).
- Part-time students are estimated to study at **40%** FTE
- The annual continuation rate was estimated to be **92.5%** for full-time students and **83.3%** for part-time students.
- Based on HESA data, to determine the size of **maintenance loans** received, first year students are categorised by location of study 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 (to determine the distribution of students by household income band). Based on this, the average maintenance loan received by a full-time first degree undergraduate student stands at **£6,538** per student per annum overall.
- 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 income thresholds provided by Student Finance England.
- All analyses are undertaken by gender. For those individuals undertaking sub-degree qualifications a full-time basis, the gender split is **46/54**, with the corresponding estimates for undergraduate degrees standing at **43/57**.
- 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



## Fiscal assumptions

- We assume that all income **thresholds** (for loan interest and loan repayment) increase in line with average nominal earnings growth (with forecasts taken from medium term and long term forecasts by the Office for Budget Responsibility (OBR), published in October and July 2018, respectively).
- In relation to the estimation of the RAB charge, we assume a real **discount rate of 0.7%** as per standard HMT practice with respect to student loans accounting. In relation to all other financial flows (including Exchequer costs and benefits), we assume the standard HMT real discount rate of **3.5%**.
- All nominal price levels were adjusted to (real) constant 2017/18 prices using OBR medium term and long term forecasts of the Retail Price Index.

The Public Sector (Net) Borrowing Requirement (PNSB, the 'deficit') represents **expenditure minus income**. Based on the *current* treatment of student loans in the UK National Accounts:

- **Income** represents the accrued interest receivable on loans each year, and
- **Expenditure includes:**
  - **Loan write offs (interest + principal)** occurring intermittently over the 30 year repayment period (because of death and disability), as well as at the end of the repayment period
  - **Teaching grants** paid during study
  - **Tuition fee and maintenance grants** paid during study (if any).

In line with the current HMT deficit accounting methodology, any annual deficit estimates (under either the current approach or the proposed alternative options) are presented in current prices (rather than constant 2017/18 prices), and are *not* discounted to net present values.

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