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Higher Education Policy Institute

Examination of higher education fees and funding in Northern Ireland

Policy note, February 2024



Introduction and overview



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Introduction and context

- As part of a research project funded by the Nuffield Foundation, London Economics are undertaking a range of in-depth analyses in relation to higher education fees and funding arrangements across the four Home Nations of the UK, ahead of the next General Election.
- The analysis presented here provides an overview of the costs associated with the current undergraduate higher education fees and funding arrangements in **Northern Ireland** facing the cohort of students commencing their studies in 2023-24. In parallel analyses, we are also undertaking an assessment of the current fees and funding arrangements in **England, Scotland, and Wales**.
- In addition to the current (2023-24) Northern Irish funding system, we have also modelled three alternative scenarios (**higher tuition fees (backed by higher loans) and a reduction in Teaching Grants in Northern Ireland; higher levels of maintenance support; and the introduction of real interest rates on student loans**). These alternative scenarios have been selected to **illustrate the impact of different aspects of the fees and funding arrangements on students/graduates, the Exchequer, and higher education institutions (HEIs)**. These are for illustrative purposes only, and should *not* be taken as recommendations for potential changes to the funding system.

Overview of the analysis

- We focus on the **2023-24 cohort¹** of first-year undergraduate students from **Northern Ireland (NI) studying anywhere in the UK and from the Republic of Ireland (ROI) studying in Northern Ireland²**. The analysis includes both full-time and part-time students, and all types of undergraduate qualifications (i.e. first degrees and other undergraduate qualifications³). We exclude students studying nursing or midwifery in Northern Ireland, as these are subject to different funding arrangements with the Department of Health NI.
- The analysis incorporates the **fees and funding arrangements facing the cohort of starters in 2023-24**, as well as the estimated costs if **different alternative systems had been implemented for this cohort**.
- The modelling assesses a range of **key metrics**, including:
 - Core student loan outcomes, such as the **Resource Accounting and Budgeting (RAB) charge** (i.e. the proportion of the total loan balance written off⁴), **student loan debt on graduation**, and expected **lifetime loan repayments** (by gender, lifetime income decile, mode, and level of study);
 - The **total Exchequer cost** of the system associated with the cohort, including the cost of SLC student support for NI domiciled students (anywhere in the UK) and ROI domiciled students studying in NI, and the associated Teaching Grant funding paid to higher education institutions across the UK (where applicable); and
 - **HEI funding**, in terms of tuition fee income and Teaching Grant funding received by institutions (minus the costs of access bursaries provided to students).

¹ The underlying student numbers are based on data published by the Higher Education Statistics Agency (HESA) for the 2021-22 academic year; i.e. in the absence of more recent data, we assume the same size and characteristics for the 2023-24 cohort as for the 2021-22 cohort. Based on the coverage of this data, the analysis includes students enrolled at publicly funded higher education institutions as well as alternative providers located anywhere in the UK, but excludes further education (FE) colleges. Please see the [Annex](#) for more information on our methodological approach.

² ROI domiciled students studying in Northern Ireland are included here since these students are eligible for fee loans from the Student Loans Company (SLC; i.e. they are eligible for the same fees and associated fee loans as Northern Irish domiciled students studying in Northern Ireland). The same holds for ROI domiciled students studying throughout other parts of the UK; however, our parallel analyses for England, Scotland, and Wales *exclude* any ROI students studying in these Home Nations, as these students only account for very small proportions (less than 1%) of students studying in England, Scotland, or Wales (while ROI domiciled students account for approximately 3% of all undergraduate students studying in Northern Ireland; for more information, see HESA student data for 2021-22 ([here](#))).

³ We exclude students studying for institutional credits only (i.e. no formal qualifications), as these students are typically not eligible for public funding. We also exclude (the very small number of) NI domiciled undergraduate students studying in the Republic of Ireland (who are eligible for maintenance funding and student contribution loans from the SLC).

⁴ As outlined in the Annex ([here](#) and [here](#)), to ensure that our methodology reflects the official DfE approach for estimating the cost of student loans in England, our analysis of the RAB charge relies on official discount rates promulgated by HM Treasury. As discussed in a recent report by the Institute for Fiscal Studies ([here](#)), these official HMT discount rates are much lower than the current Government cost of borrowing. As a result, the official DfE statistics - as well as our results here - likely understate the true cost of student loans to the Exchequer.

Funding scenarios

In addition to the **Baseline** (current funding system), we model **three alternative scenarios** to illustrate the impact of different changes to the system:

BASELINE: CURRENT SYSTEM

Current fees and funding arrangements for NI domiciled students (and ROI students in NI) who start undergraduate qualifications in 2023-24:

- **Tuition fees of £4,710 per full-time student in NI** (increasing over time) and **£9,250 for full-time students in RUK** (frozen over time)¹. **Fee loans for full-time students, and (means-tested) fee grants and fee loans for part-time students.**
- **Combination of means-tested maintenance loans and grants for full-time students of up to a total of £8,136 for students living away from home outside of London ('LAFHOL'). Means-tested maintenance grants for part-time students of up to £265.**
- **Repayment threshold of £22,015** in 2023-24, uprated with Retail Price Index (RPI) inflation every year. Repayment rate of **9%** of earnings above this threshold. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **25 years**.

SCENARIO 1: HIGHER FEES AND LOWER TEACHING GRANTS IN NI

Higher fees and lower Teaching Grants for students studying in NI, by effectively applying the *English* fees system to students studying in NI:

- **Increase in tuition fees to £9,250 per full-time student studying in NI** (and pro-rata for part-time students) - i.e. to same fees as in RUK. All fees are constant over time (i.e. fees in NI no longer grow with RPI).
- Fee increase in NI is backed by **increase in fee loans for both full-time students and part-time students** (and the part-time fee grant is unchanged).
- **Reduction in Teaching Grants paid to Northern Irish HEIs** (to same amount per student as Teaching Grants paid to English HEIs by the Office for Students).

SCENARIO 2: HIGHER MAINTENANCE SUPPORT

Increase in maximum maintenance loan levels and eligibility for maintenance loans and grants:

- **Increase in total maximum full-time maintenance support (through higher loans) to £11,723 for LAFHOL full-time students to bring support in line with the National Living Wage** (£11,723 = National Living Wage per hour (£10.42) x 37.5 hours per week x 30 weeks per academic year)².
- **Increase in maintenance loan and grant eligibility thresholds**, based on what the original 2010-11 household income thresholds would be in 2023-24 if they had been uprated with **average earnings growth** over time (rather than remaining unchanged³).
- No change in maintenance support for part-time students.

SCENARIO 3: INTRODUCING REAL LOAN INTEREST RATES

Introduction of real student loan interest rates:

- **1% real interest rates during study and 0%-1% post-graduation** for graduates earning **between £22,015 and £42,015** (and **1%** for graduates earning **more than £42,015**). Both thresholds are uprated with RPI every year (as under the current system).

¹ Fees for part-time students are set on a pro-rata basis (i.e. based on study intensity multiplied by the full-time rate; we assume an average 50% study intensity for part-time students throughout the analysis).

² In addition to aligning funding with the National Living Wage, maintenance support under Scenario 2 would therefore also be closer to (though still below) the median total expenditure (excluding fees) per full-time student reported in the recently released 2021-22 Student Income and Expenditure Survey results for England ([here](#)). This stood at £11,509 in April 2022 prices, which is equivalent to £12,823 in April 2023 prices (using RPI data published by the Office for National Statistics ([here](#))).

³ The household income thresholds for maintenance loans have remained unchanged since the current maintenance system was introduced in 2010-11 (e.g. see the overview of student finance arrangements in 2010-11 provided as part of the Report on the 2010 Independent Review of Variable Fees and Student Finance Arrangements in Northern Ireland (the 'Stuart Review', [here](#))).

Current funding system (Baseline)



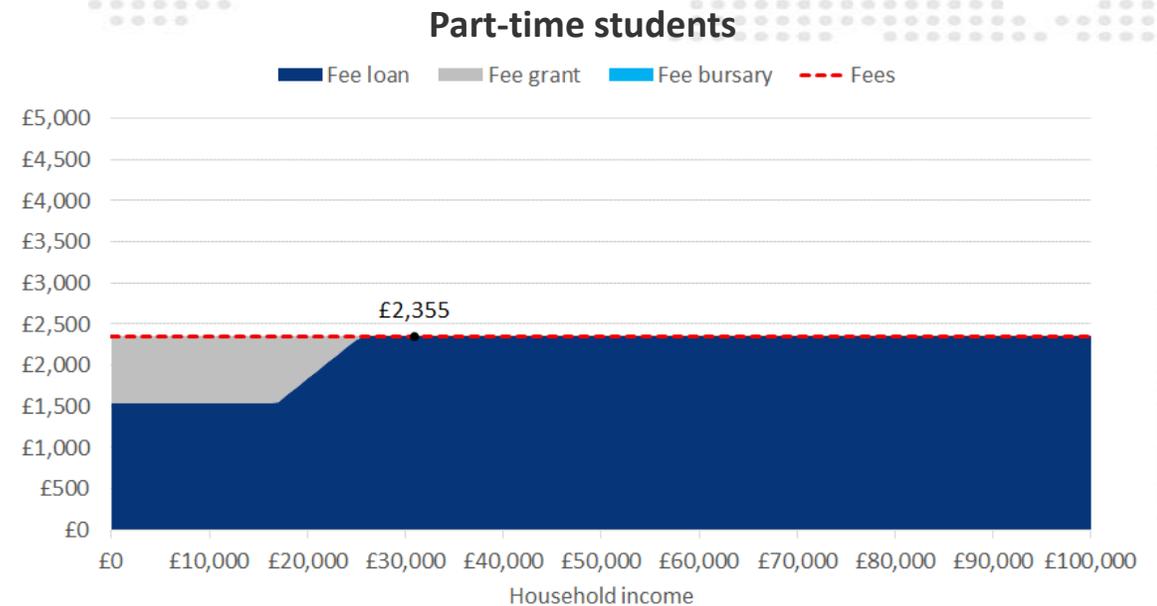
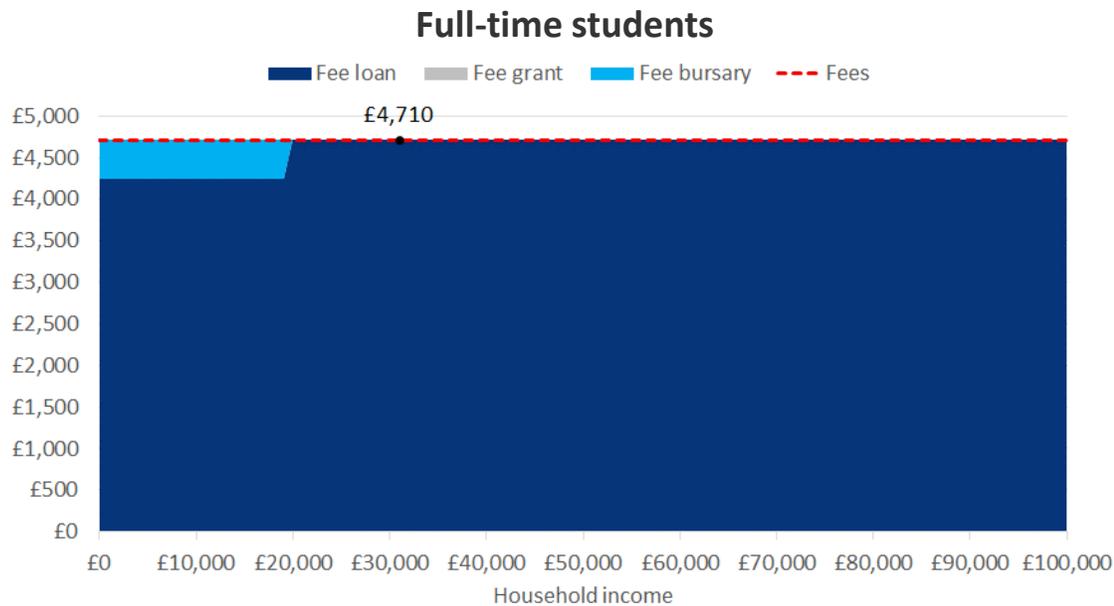
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Baseline (current system): Fees and fee support

- Under the **current system**, the fees for **full-time** ‘home’ students studying in Northern Ireland stand at **£4,710**, supported by **(non-means-tested) fee loans** as well as access bursaries provided by HEIs themselves¹.
- Part-time** fees are the same as full-time fees, calculated on a pro-rata basis. We assume a study intensity of 50% for part-time students, resulting in fees of **£2,355**. These fees are supported through **means-tested fee grants**² and **fee loans**³.

Fees and fee support per year for NI or ROI domiciled students studying in NI, by household income



Note: The figures relate to fees and fee support in 2023-24, and we assume that these fees will increase with RPI inflation in subsequent academic years (i.e. 2024-25 onwards). Also see the [Annex](#) for more information on our methodology.

¹ We assume that Northern Irish HEIs offer a bursary of 10% of the tuition fee to students who are eligible for the full maintenance grant (i.e. students with a household income of £19,203 or less); see [here](#). We treat this bursary as a fee bursary/waiver, and therefore deduct it from the maximum tuition fee loan available to these students.

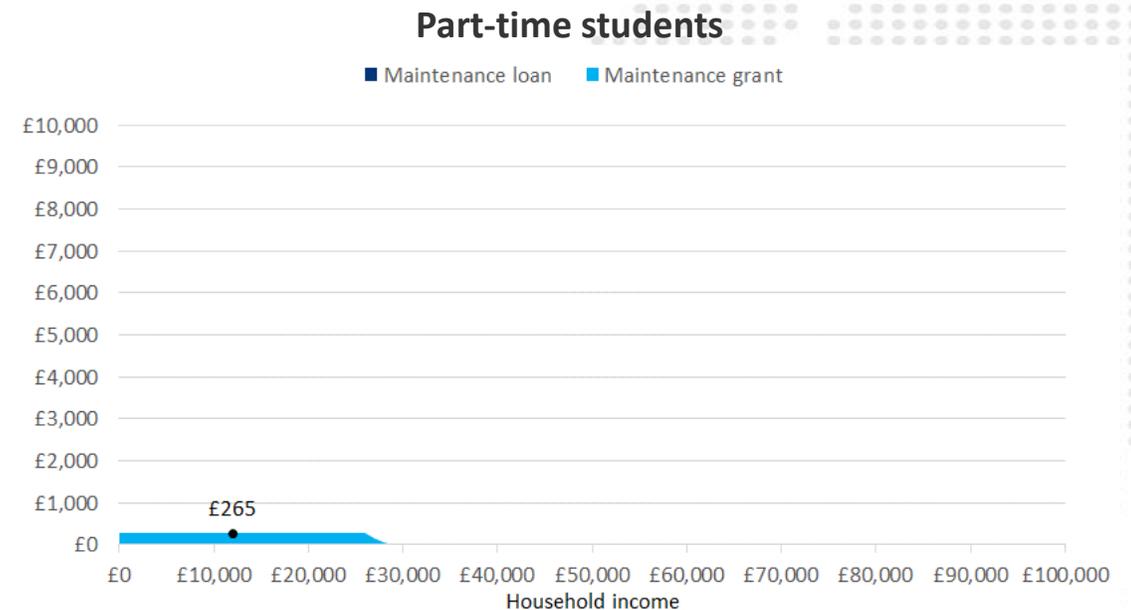
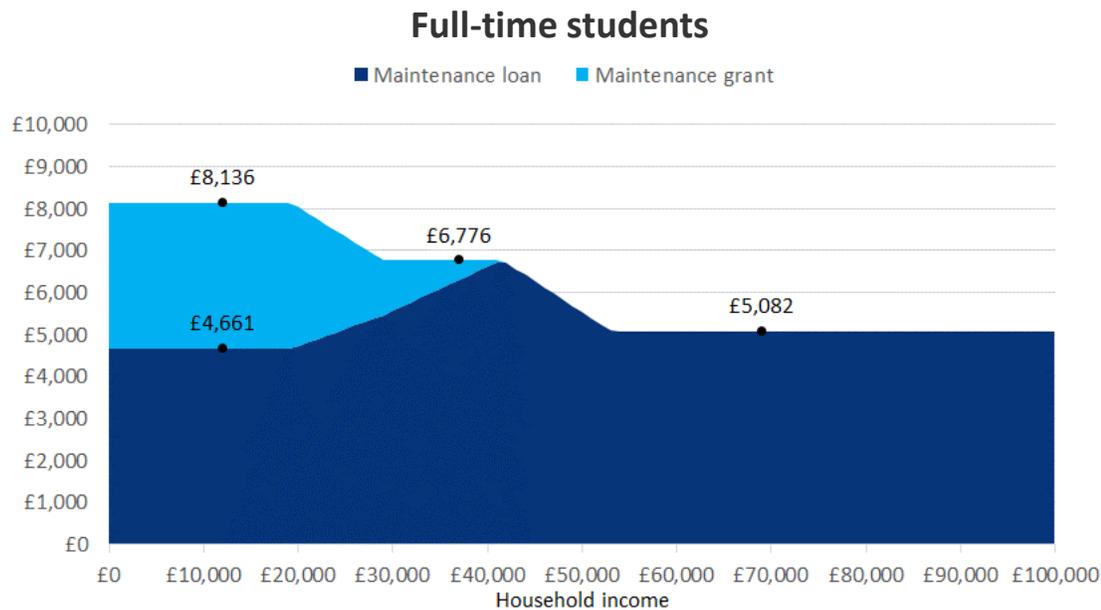
² Of up to £820, for students with household income of £25,420 or less.

³ We assume that part-time students are not eligible for bursaries offered by Northern Irish HEIs (as these students are *not* eligible for any maintenance grant funding beyond the small separate Course Grant (see [next slide](#))).

Baseline (current system): Maintenance support

- The current Northern Irish system provides **relatively limited maintenance support to students** compared to other parts of the UK (despite a recent **40%** increase in maintenance loans in Northern Ireland in 2023-24¹).
- **Full-time students** living away from home outside of London (LAFHOL) are currently eligible for maximum support of **£8,136** (for household income up to **£19,203**; through a combination of loans and grants), with a minimum of **£5,082** (for household income of **more than £53,035** , in the form of a loan only).
- **Part-time students** are eligible for a small maintenance grant of **£265** (for household income up to **£26,029**; irrespective of living circumstances)².

Maintenance support per year for NI domiciled LAFHOL students (studying anywhere in the UK), by household income



Note: The figures relate to maintenance support in 2023-24, and we assume that both maintenance loans and will remain constant in subsequent academic years (i.e. in each subsequent year of study for the cohort of interest). This reflects that, prior to the recent increase in maintenance loans in 2023-24, maintenance funding rates under the Northern Irish system had remained constant since 2010-11.

¹ See [here](#) for more information.

² Note that the maintenance funding (for both full-time and part-time students) applies to Northern Irish domiciled students only, but is *not* available to students from the Republic of Ireland who are studying in Northern Ireland. Instead, students from the Republic of Ireland studying in Northern Ireland can only receive tuition fee support from the Student Loans Company.

Baseline (current system): Total costs for cohort

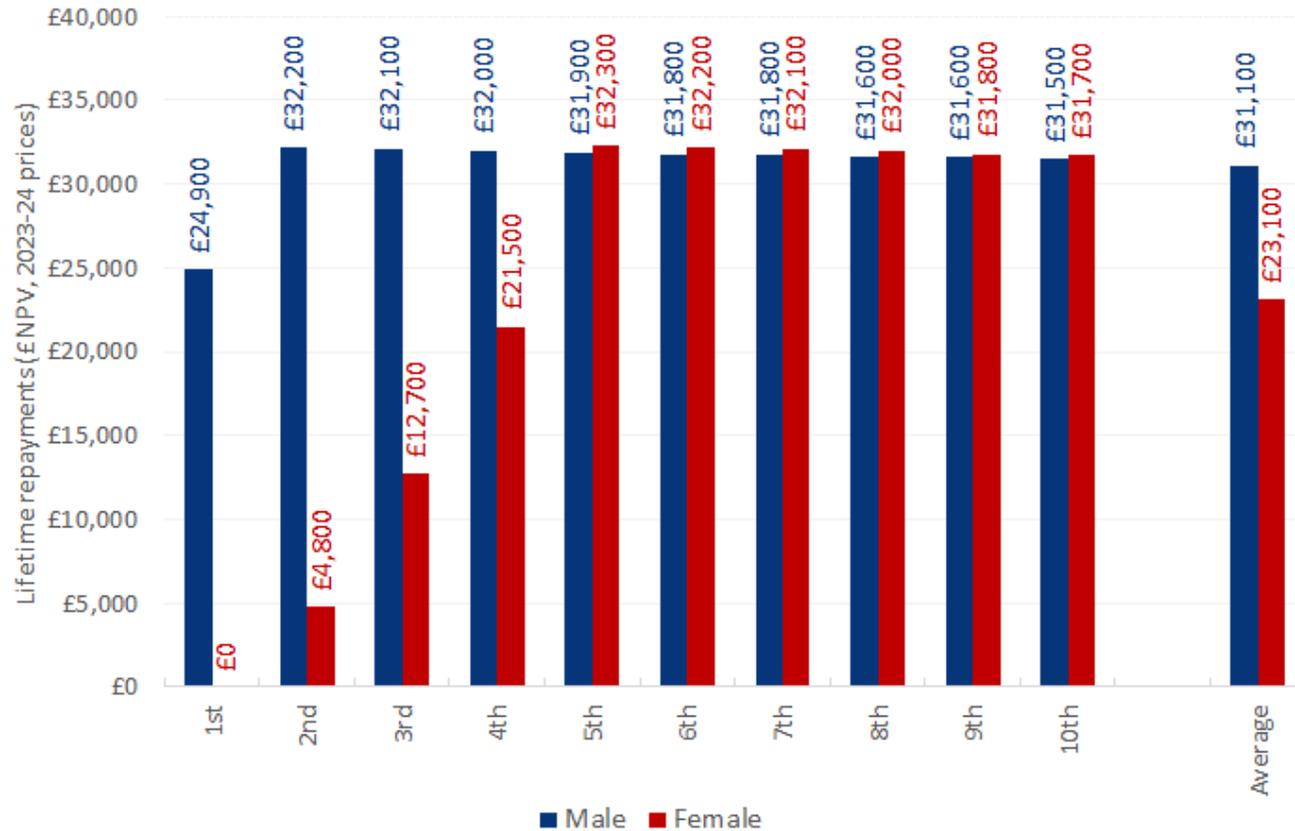
Resource flows (£/£m/%)	Baseline
Net Exchequer cost (adjusted for RAB)	
Cost of maintenance grants	(£40m)
Cost of maintenance loans	(£15m)
Cost of tuition fee grants	(£3m)
Cost of tuition fee loans	(£22m)
Cost of Teaching Grants	(£93m)
Total	(£172m)
RAB charge (%)	10.0%
Net HEI income	
Gross fee income	£247m
Teaching Grant income	£93m
Cost of bursary provision	(£4m)
Total	£335m
Students/Graduates (FT first degree students from NI studying in NI)	
Average debt on graduation	£29,500
Average lifetime repayments (M/F)	£31,100/£23,100

- Under the current Baseline funding system in 2023-24, the **public purse** contributes approximately **£172m** per cohort (of NI domiciled students studying anywhere in the UK, and ROI domiciled student studying in NI), including **£165m** from the NI Government and **£7m** from HE funding bodies in the rest of the UK¹).
- The average Exchequer cost per full-time Northern Irish domiciled student studying in Northern Ireland per year (in 2023-24, across all qualification levels²) was estimated at approximately **£4,800**.
- Reflecting an average RAB charge of **10.0%** (across all study levels and modes), **maintenance loan write-offs** cost the public purse approximately **£15m** per cohort, while **fee loan write-offs** cost **£22m**. Maintenance grants and (part-time) fee grants cost **£40m** and **£3m**, respectively. The cost associated with the provision of **Teaching Grants** to HEIs stands at **£93m** per cohort, including **£86m** for NI HEIs (allocated by the Department for the Economy) and **£7m** for English and Welsh HEIs (allocated by the Office for Students and the Higher Education Funding Council for Wales, respectively).
- HEIs receive £335m** in net income per cohort, including **£247m** in fees, and **£93m** in **Teaching Grants**. Against this income, HEIs contribute **£4 million** per cohort in **bursaries**. The average HEI income per full-time NI domiciled student studying in NI per year (in 2023-24, across all qualification levels) was estimated at **£7,600**.
- The average debt on graduation per student in the cohort (for full-time first degree students from NI in NI) was estimated at **£29,500**, with average lifetime repayments of **£31,100** and **£23,100** for male and female graduates, respectively.

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m. 'Gross fee income' refers to fee income before the deduction of bursaries provided to students. ¹ This relates to Teaching Grants paid to English HEIs by the Office for Students, and to Welsh HEIs by the Higher Education Funding Council for Wales (to be replaced by the Commission for Tertiary Education and Research in August 2024). NI domiciled students studying in Scotland typically do not attract any Teaching Grant funding, since these students are charged much higher tuition fees as compared to 'home' students studying in Scotland (so that the Teaching Grants paid to Scottish HEIs generally apply to 'home' domiciled students only). ² Unless otherwise stated, all average values per student per year presented here relate to the first year of study for the relevant cohort (i.e. 2023-24), constitute averages across all qualification levels (i.e. first degrees and sub-degree qualifications), and are for NI domiciled students studying in NI only.

Baseline (current system): Graduate loan repayments

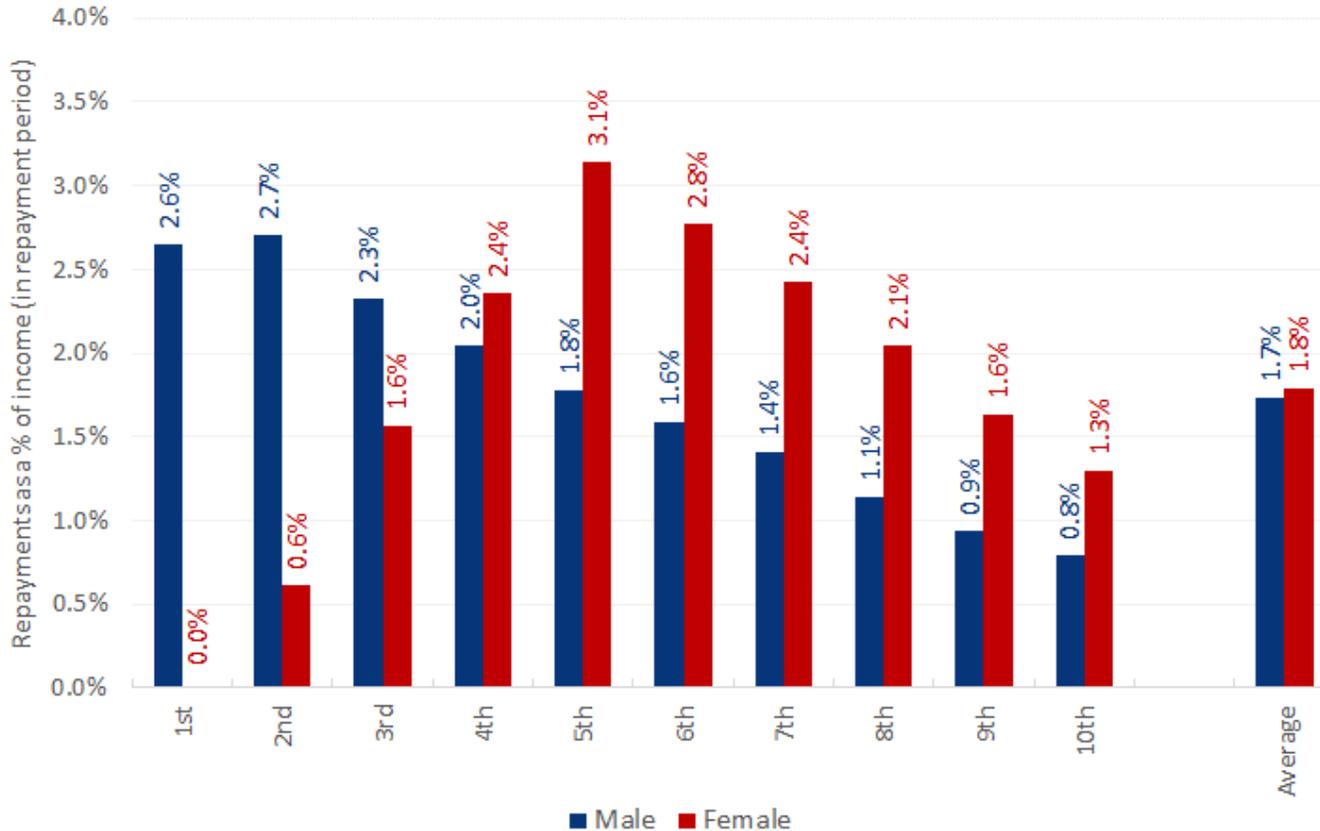
Total loan repayments by NI domiciled students who complete FT first degrees in NI (NPV in 2023-24 prices), by lifetime earnings decile and gender



- The average repayments made by **male graduates** stand at **£31,100** (for NI domiciled full-time first degree students studying in Northern Ireland). The highest lifetime repayments by men are made by male graduates on the 2nd lifetime earnings decile, with marginally *lower* repayments for graduates on higher deciles (and, overall, male graduates on the 2nd to 10th decile all make roughly the same total level of repayments of approximately **£31,500-£32,200** (in real NPV terms)).
- The average lifetime repayments made by **female graduates** stand at **£23,100**. Female graduates in the bottom decile are not expected to make any loan repayments over the 25-year repayment period. For graduates with higher earnings, female graduates on the 5th to 10th decile all expected to repay between **£31,700 and £32,300**.

Baseline (current system): Loan repayment progressivity

Total loan repayments by NI domiciled students who complete FT first degrees in NI as a % of income (during repayment period), by lifetime earnings decile and gender

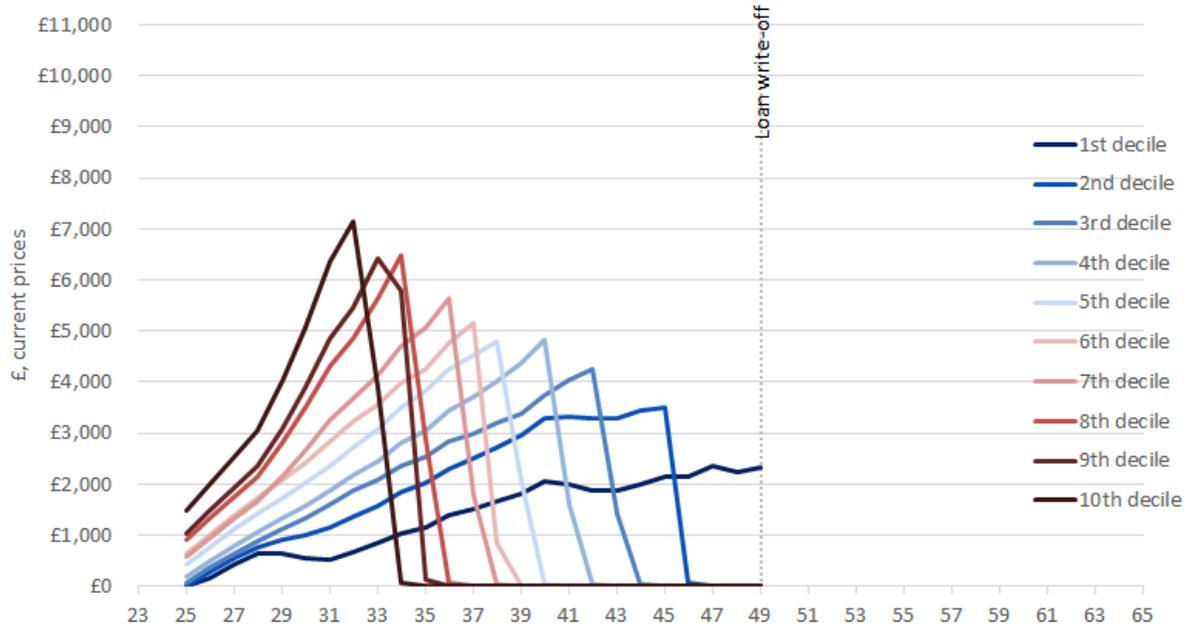


- The current loan repayment system is locally regressive towards the upper end of the earnings distribution.
- Reflecting lifetime loan repayments, male graduates on the **1st** and **2nd** earnings deciles contribute **2.6%** and **2.7%** of their income in loan repayments over the 25-year repayment period, respectively. Illustrating the regressivity of the system, this proportion declines when moving up the earnings distribution, to only **0.8%** for the highest earning male graduates (**10th** decile).
- Again, female graduates in the bottom decile make no repayments; in contrast, female graduates on the **5th** decile contribute **3.1%** of their post-graduation earnings in repayments. This again decreases for successive earnings deciles, declining to **1.3%** for female graduates on the **10th** decile.

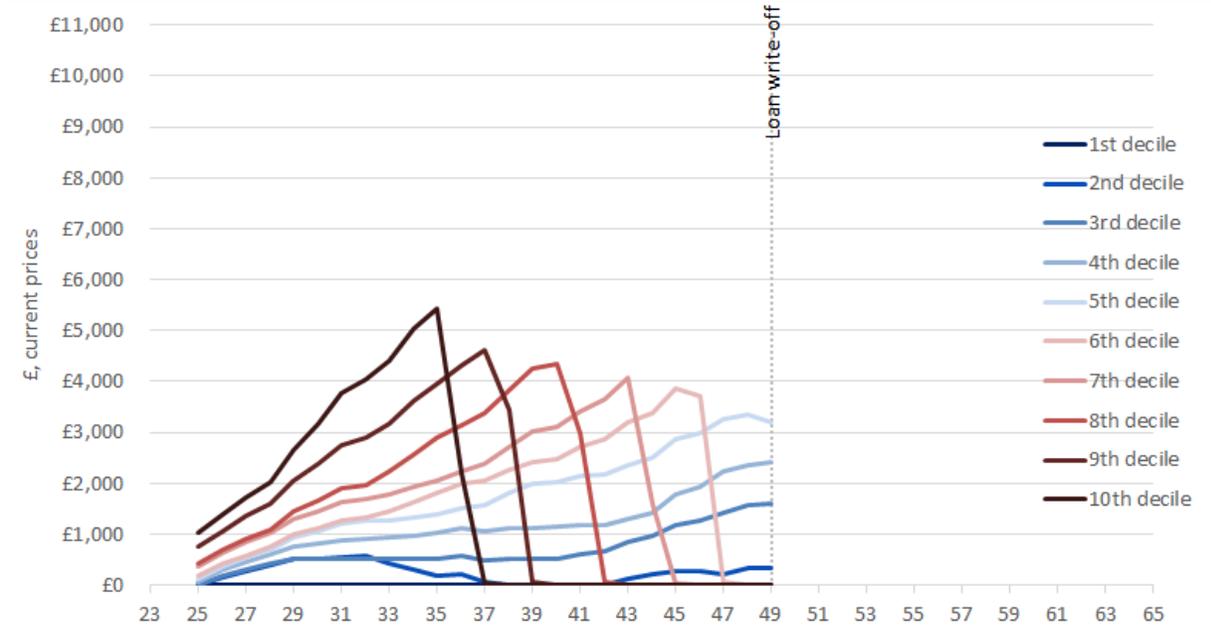
Baseline (current system): Loan repayment profiles

Lifetime loan repayment profiles (by age) for NI domiciled students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile

Baseline: Male graduates



Baseline: Female graduates



- Under the current system, **high-income graduates** make higher *annual* repayments while they repay, and therefore fully repay their loan well before the end of the 25-year repayment period. In contrast, **middle-income graduates** make lower *annual* repayments, and therefore repay their loans for longer – so that (in real NPV terms) they end up repaying approximately the same total amount as graduates at the top of the earnings distribution.
- Low-income graduates** (1st decile for men, and 1st to 4th decile for women) would typically also make repayments for most of the repayment period, but without ever repaying the full loan (as their expected annual repayments would be too low to allow them to fully repay by the end of the repayment period).

Scenario 1: Higher fees and lower Teaching Grants in Northern Ireland

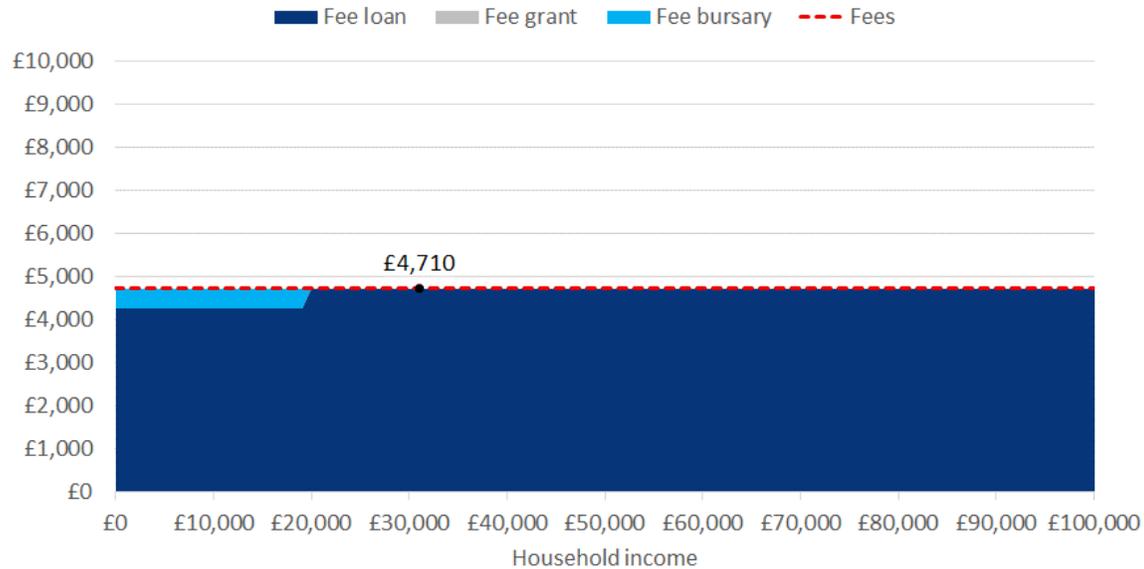


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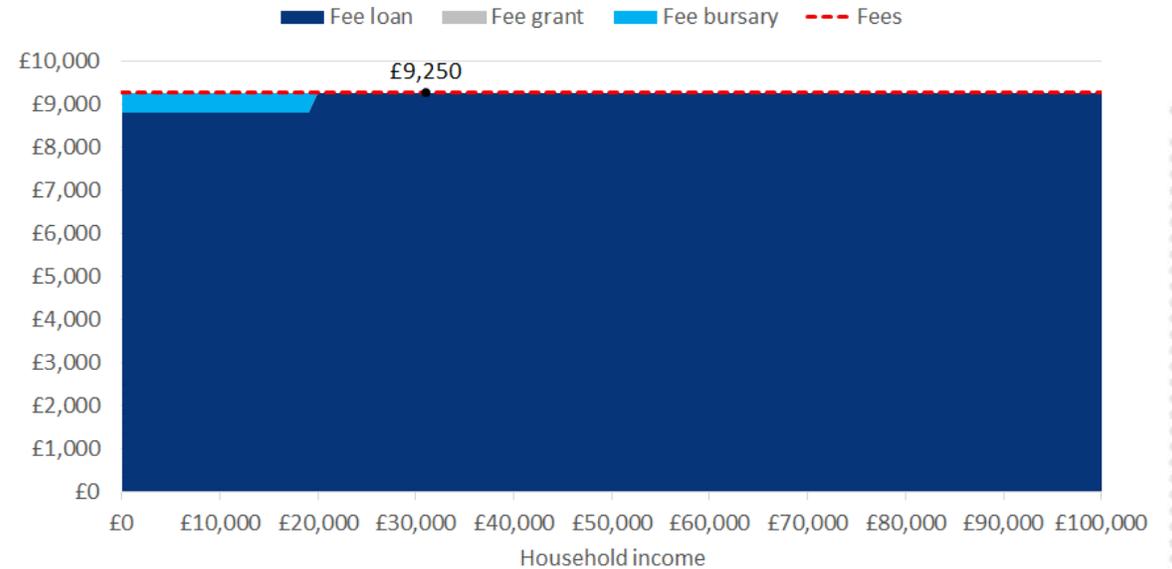
Scenario 1: Fees and fee support

Fees and fee support per year for NI or ROI domiciled full-time students studying in NI, by household income

Baseline



Scenario 1: Higher fees + lower TGs in Northern Ireland



- Scenario 1** illustrates the impact of applying the current *English* fee and funding system for NI domiciled students studying NI. Specifically, for **full-time students**, this would involve increasing the fees for ‘home’ students studying in Northern Ireland to **£9,250** (£4,540 higher than under the current system), supported by non-means-tested fee loans (and the same level of access bursaries provided by universities as under the current system)¹.
- In other words, Scenario 1 would thus result in NI (and ROI) domiciled students studying in NI facing the same tuition fee as NI domiciled students studying elsewhere in the UK.

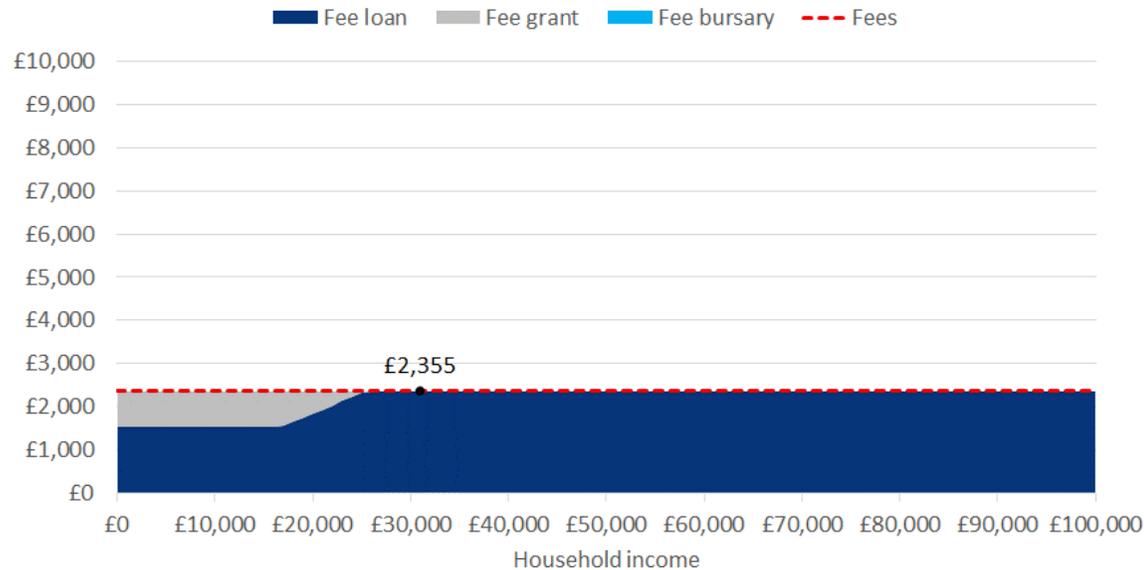
Note: While, under the current system, the fee (and associated fee loan) for ‘home’ students studying in Northern Ireland is expected to increase over time (with RPI), under Scenario 1, we assume that the fee and fee loan would remain ‘frozen’ over time (i.e. would remain the same over the cohort’s entire study duration, mirroring the fees currently charged to NI domiciled students studying in RUK).

¹ Under the current system, we assume that Northern Irish HEIs offer a bursary of 10% of the tuition fee to students who are eligible for the full maintenance grant (i.e. students with a household income of £19,203 or less). Under Scenario 1, we assume the same bursary level in *absolute* terms (so that the bursary amounts to roughly 5% of the fee of £9,250).

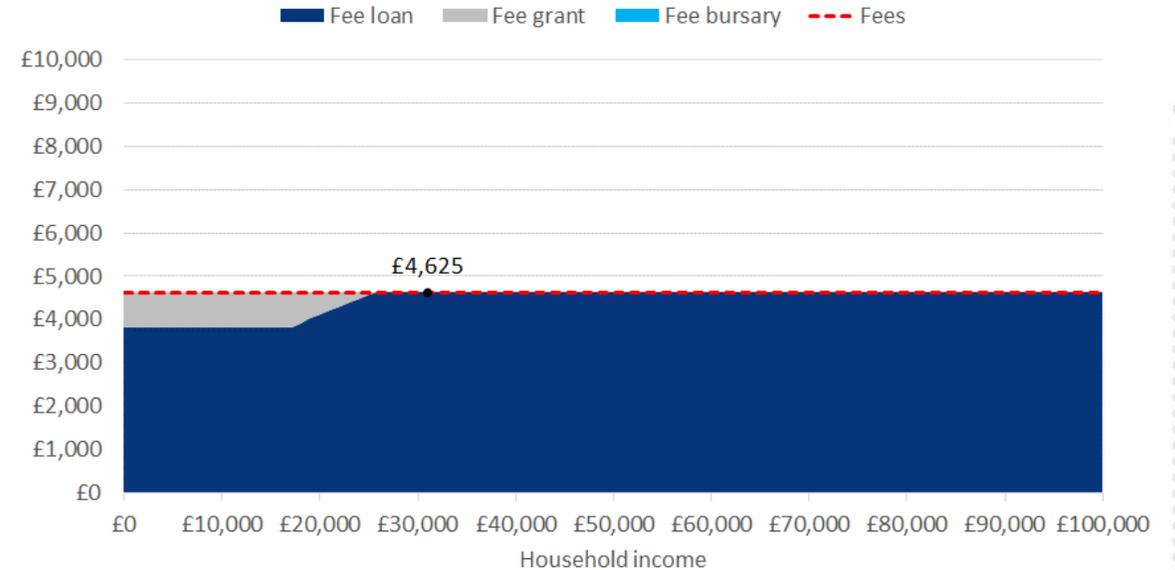
Scenario 1: Fees and fee support

Fees and fee support per year for NI or ROI domiciled part-time students studying in NI, by household income

Baseline



Scenario 1: Higher fees + lower TGs in Northern Ireland



- For **part-time students**, Scenario 1 would involve increasing the fees for part-time 'home' students studying in Northern Ireland to **£4,625** (again assuming a 50% study intensity; these fees are **£2,270** higher than under the current system).
- These higher fees would again be supported by (non-means-tested) fee loans as well as the current means-tested fee grant for part-time students (which we assume would remain unchanged compared to the current system).

Note: While, under the current system, the fee (and associated fee loan) for 'home' students studying in Northern Ireland is expected to increase over time (with RPI), under Scenario 1, we assume that the fee and fee loan would remain 'frozen' over time (i.e. would remain the same over the cohort's entire study duration, mirroring the fees currently charged to NI domiciled students studying in RUK).

Scenario 1: Teaching Grants

Average total Teaching Grant funding per student per year for NI students anywhere in the UK (and ROI students in NI)

Baseline

Location of study	Full-time	Part-time
Northern Ireland	£3,030	£1,510
England	£720	£360
Wales	£490	£240
Scotland ¹	-	-

Scenario 1: Higher fees + lower TGs in Northern Ireland

Location of study	Full-time	Part-time
Northern Ireland	£720	£360
England	£720	£360
Wales	£490	£240
Scotland ¹	-	-

- To compensate for the increase in tuition fees and the associated Exchequer cost of providing fee loans, under Scenario 1, we have modelled a significant reduction in Teaching Grant funding paid to HEIs in Northern Ireland.
- Specifically, since the fees in this scenario mirror the fees charged to NI domiciled students studying in England, we have lowered the assumed Teaching Grants to the same average level (per student per annum) as is currently paid to English HEIs for students studying in England (by the Office for Students).

Note: For more information on these Teaching Grant assumptions, please refer to the [Annex](#). All estimates here are rounded to the nearest £10.

¹ Northern Irish domiciled students studying in Scotland typically do not attract any Teaching Grant funding (from the Scottish Funding Council). This is due to the fact that these students are charged much higher tuition fees as compared to 'home' students studying in Scotland – so that the Teaching Grant paid to Scottish HEIs by the Scottish Funding Council generally applies to 'home' domiciled students only.

Scenario 1: Total costs for cohort

Resource flows (£/£m/%)	Baseline	Scenario 1	Difference
Exchequer			
Cost of maintenance grants	(£40m)	(£40m)	-
Cost of maintenance loans	(£15m)	(£22m)	(£7m)
Cost of tuition fee grants	(£3m)	(£3m)	-
Cost of tuition fee loans	(£22m)	(£43m)	(£21m)
Cost of Teaching Grants	(£93m)	(£27m)	£65m
Total Exchequer cost	(£172m)	(£135m)	£37m

RAB charge (%)	10.0%	13.8%	+3.8 pp
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Higher education institutions			
Gross fee income	£247m	£371m	£125m
Teaching Grant income	£93m	£27m	(£65m)
Cost of bursary provision	(£4m)	(£4m)	£0m
Net HEI income	£335m	£395m	£59m

Students/Graduates (FT first degree students from NI studying in NI)			
Average debt on graduation	£29,500	£43,000	£13,500
Average lifetime repayments (M/F)	£31,100/£23,100	£44,000/£29,900	£12,900/£6,800

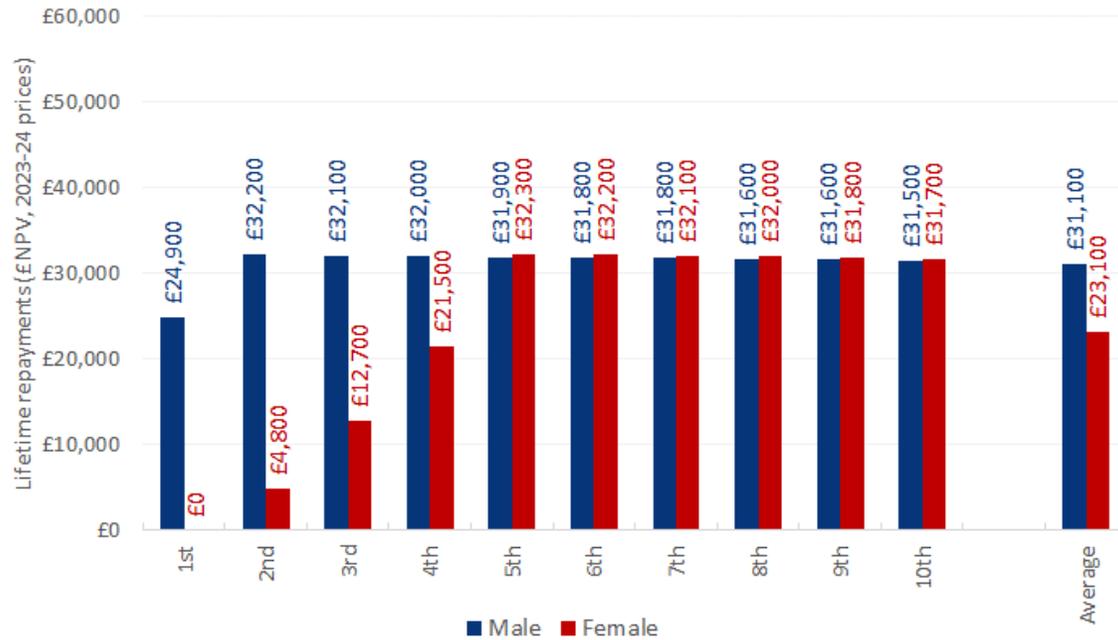
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- Scenario 1 would *reduce* the total Exchequer cost per cohort by **£37m (21%)**, driven exclusively by cost savings associated with students studying in Northern Ireland. While there would be higher loan write-offs for both tuition fee loans (**£21m**) and maintenance loans (**£7m**), these higher costs would be more than offset by the significant cost savings from lower Teaching Grants (**£65m**). The RAB charge would increase by **3.8 percentage points, to 13.8%**.
- The average Exchequer cost per full-time Northern Irish domiciled student studying in Northern Ireland per year would decline to **£3,700 (-£1,100** compared to the current system).
- Northern Irish HEIs would receive an additional £59m in net income per cohort**, driven by the much larger fee income accrued (partially offset against lower Teaching Grants). RUK HEIs would be unaffected. The average HEI income per full-time Northern Irish domiciled student studying in Northern Ireland per year would increase to **£9,900 (+£2,300** compared to the current system).
- The average debt on graduation (per full-time first-degree student from NI in NI) would increase by **£13,500 (to £43,000)**. Average lifetime repayments would increase by **£12,900** for male graduates and by **£6,800** for female graduates.

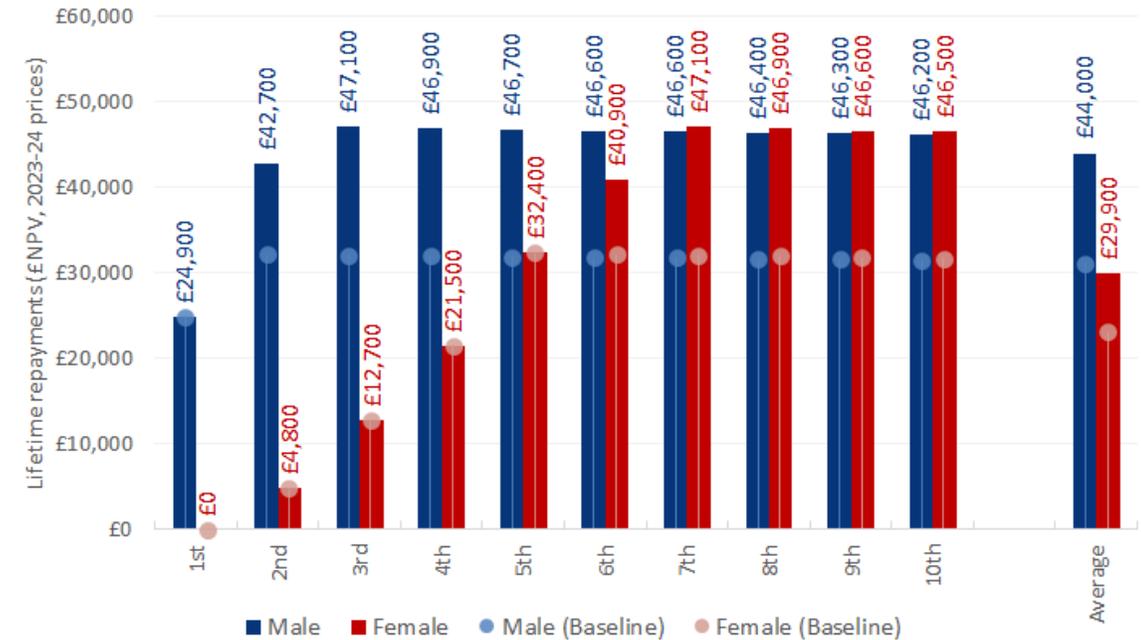
Scenario 1: Graduate loan repayments

Total loan repayments by NI domiciled students who complete FT first degrees in NI (NPV in 2023-24 prices), by lifetime earnings decile and gender

Baseline



Scenario 1: Higher fees + lower TGs in Northern Ireland

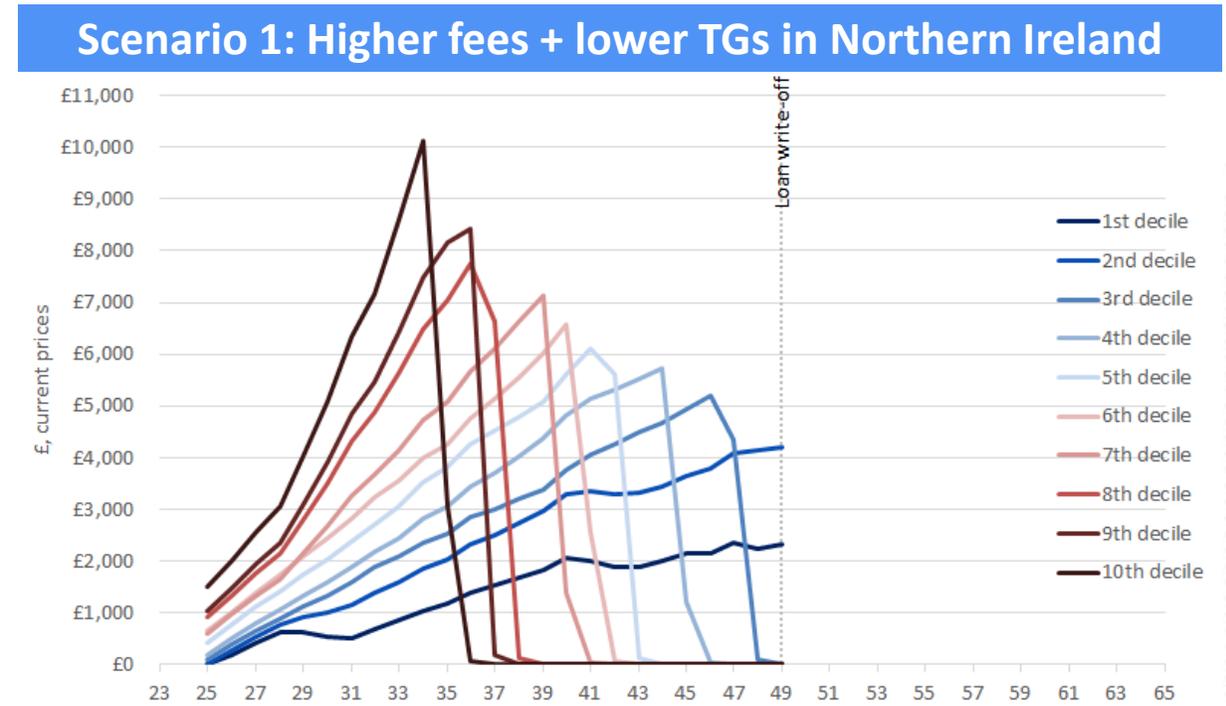
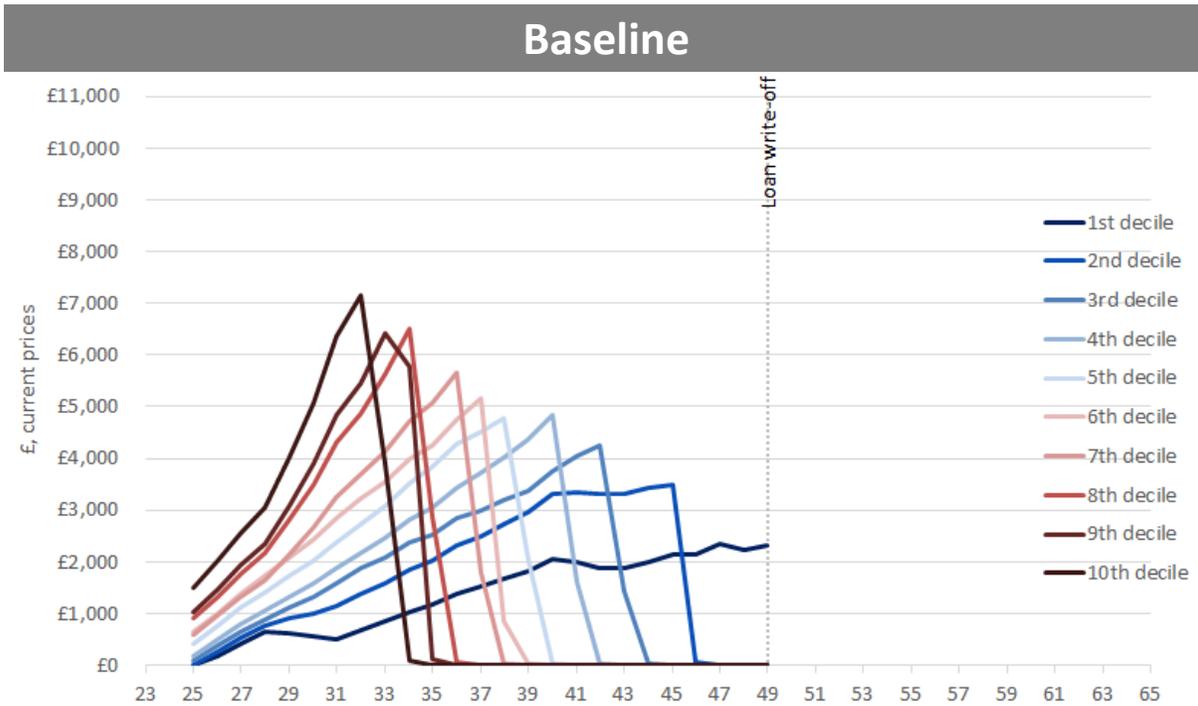


- Under Scenario 1, while middle- and high-income graduates would make higher loan repayments, graduates at the lower end of the income distribution (1st decile for men, and 1st to 4th decile for women¹) would be *unaffected* by the higher fees and increased student loan balance. This is because, even without the higher fees and fee loans, these graduates would already be expected to never fully pay off their loan by the end of the repayment period (i.e. they would make repayments for the entire 25-year period). As a result, their repayments are *not* impacted by higher fee loans (and, importantly, similar effects would be expected to apply under the abolition of tuition fees).
- The repayment system would continue to be locally regressive, but somewhat less so than the current system.

18 ¹ For female graduates on the 5th decile, the increase in the fee loan under Scenario 1 would result in a very small increase in their total lifetime repayments (by approximately £100).

Scenario 1: Loan repayment profiles (men)

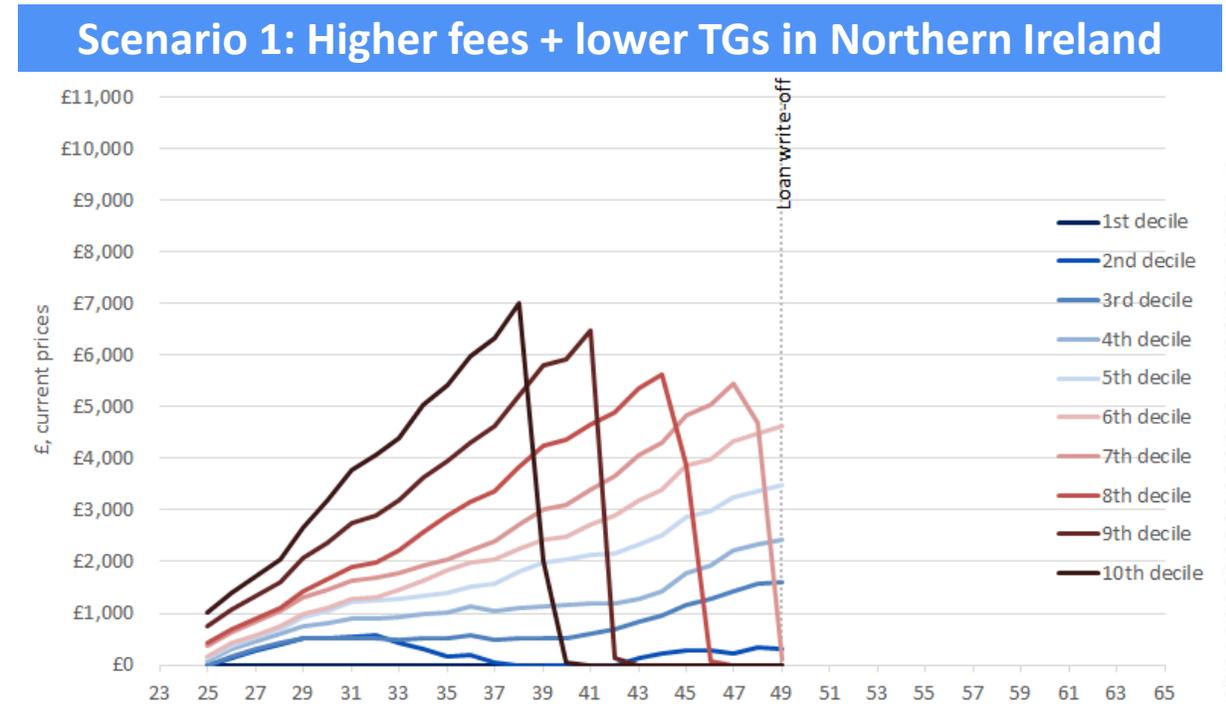
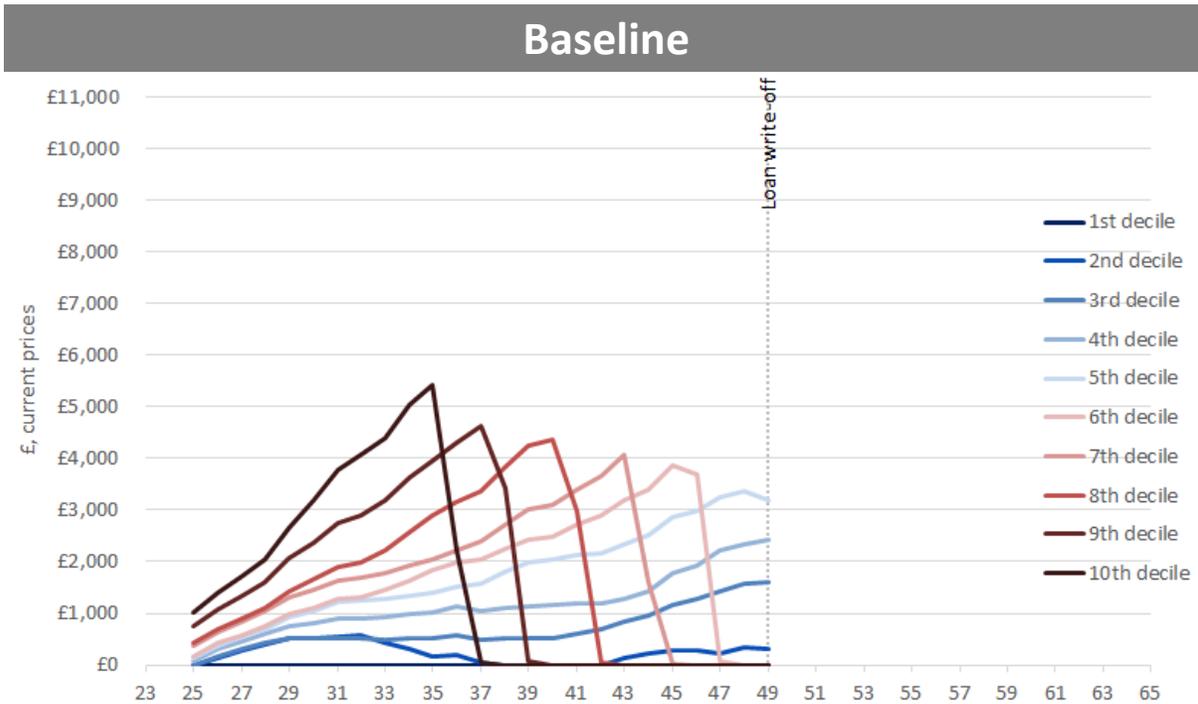
Lifetime loan repayment profiles (by age) for NI domiciled *male* students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 1, **middle- and high-earning graduates** (2nd decile and above for male graduates) would make larger loan repayments, as the higher loan outlay implies that they would repay their loans later than under the current system (or in some instances, would no longer repay the full loan).
- However, **graduates at the lower end of the earnings distribution** (who are currently *not* repaying their full loans) would make the same repayments as under the current system.

Scenario 1: Loan repayment profiles (women)

Lifetime loan repayment profiles (by age) for NI domiciled *female* students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 1, **middle- and high-earning graduates** (5th decile and above for male graduates) would make larger loan repayments, as the higher loan outlay implies that they would repay their loans later than under the current system (or in some instances, would no longer repay the full loan).
- However, **graduates at the lower end of the earnings distribution** (who are currently *not* repaying their full loans) would make the same repayments as under the current system.

Scenario 2: Higher maintenance support



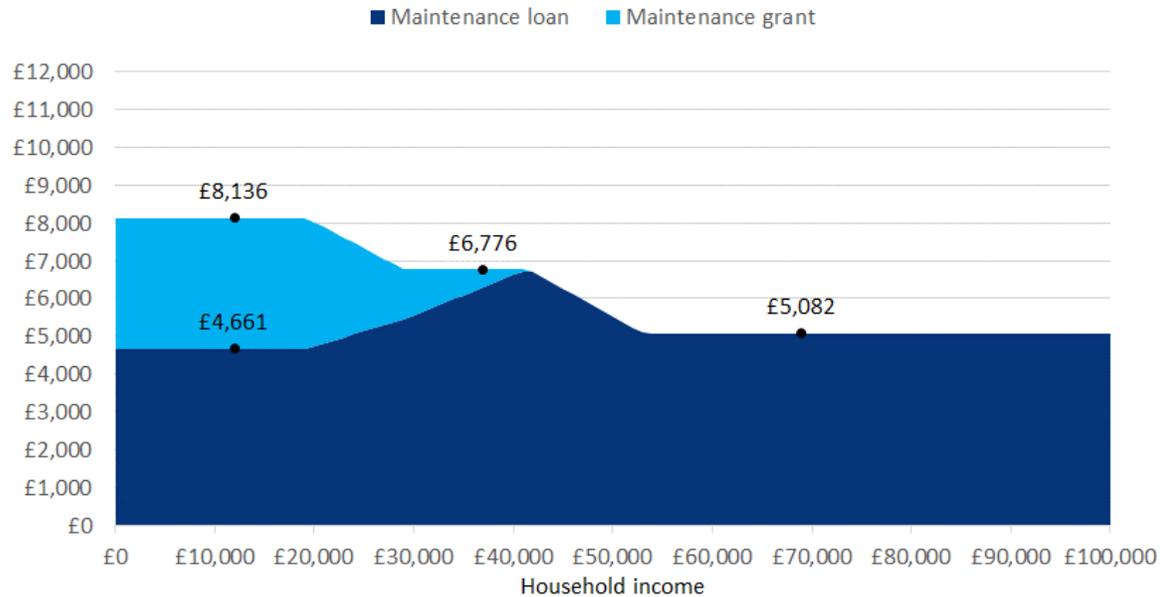
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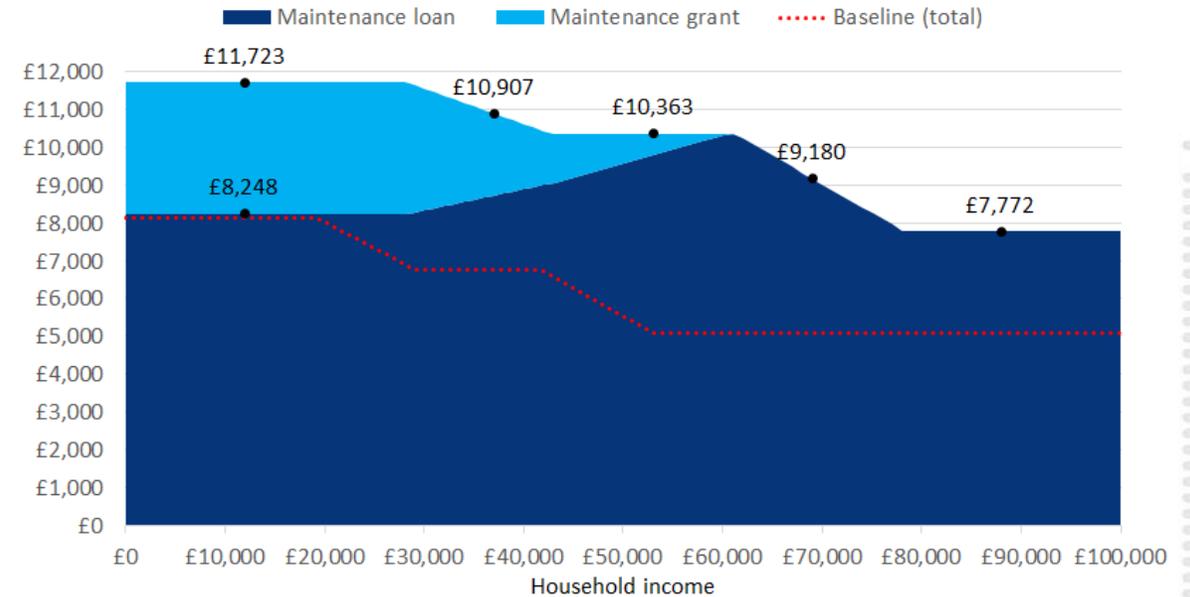
Scenario 2: Maintenance support

Maintenance support per year for NI domiciled full-time LAFHOL students (studying anywhere in the UK), by household income

Baseline



Scenario 2: Higher maintenance support



- In **Scenario 2**, we model an **increase in maintenance loans** such that the total maximum maintenance (loan and grant) funding is equal to **£11,723 per full-time LAFHOL student**, to place funding in line with the National Living Wage (NLW) (based on the current NLW per hour of £10.42¹ x 37.5 hours per week x 30 weeks per academic year)². We also model an **increase in the relevant household income thresholds for maintenance loan and grant eligibility**, since the thresholds have remained unchanged since the current level of maintenance support was introduced in 2010-11. Therefore, the thresholds here reflect what the original 2010-11 thresholds would be in 2023-24 if they had been uprated with average earnings growth each year³ (i.e. 2010-11 thresholds in 2023-24 values).
- Hence, under Scenario 2, full-time LAFHOL students would be eligible for maximum funding of **£11,723** (including a **£8,248** loan and **£3,475** grant, for household income of **up to £28,319**), declining to a minimum of **£7,772**⁴ (for household income of **more than £78,211**). These changes would apply to NI students studying anywhere in the UK.

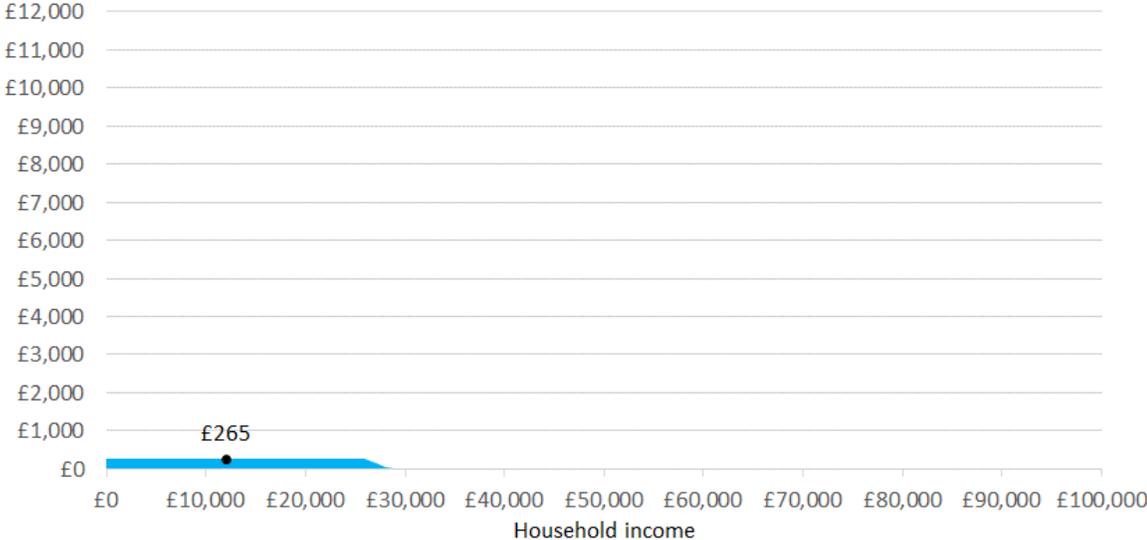
Note: The figures relate to fees and fee support in 2023-24. ¹ See [here](#) for the current NLW in 2023-24. As under the current system, we assume that maintenance funding and thresholds would remain the same in each subsequent year of study. ² The corresponding maximum loan rates for full-time LAFHIL and LAH students would stand at **£15,636** and **£9,524**, respectively (based on multiplying the LAFHOL rate under Scenario 2 by the ratio of LAFHIL to LAFHOL and LAH to LAFHOL rates under the current system). ³ Based on cumulative growth in average total weekly earnings in Great Britain between April 2010 and April 2023 (approximately **47%**), using data published by the Office for National Statistics ([here](#)). ⁴ As under the current system, for LAFHOL students, the minimum loan here equals **75%** of the maximum loan.

Scenario 2: Maintenance support

Maintenance support per year for NI domiciled part-time LAFHOL students (studying anywhere in the UK), by household income

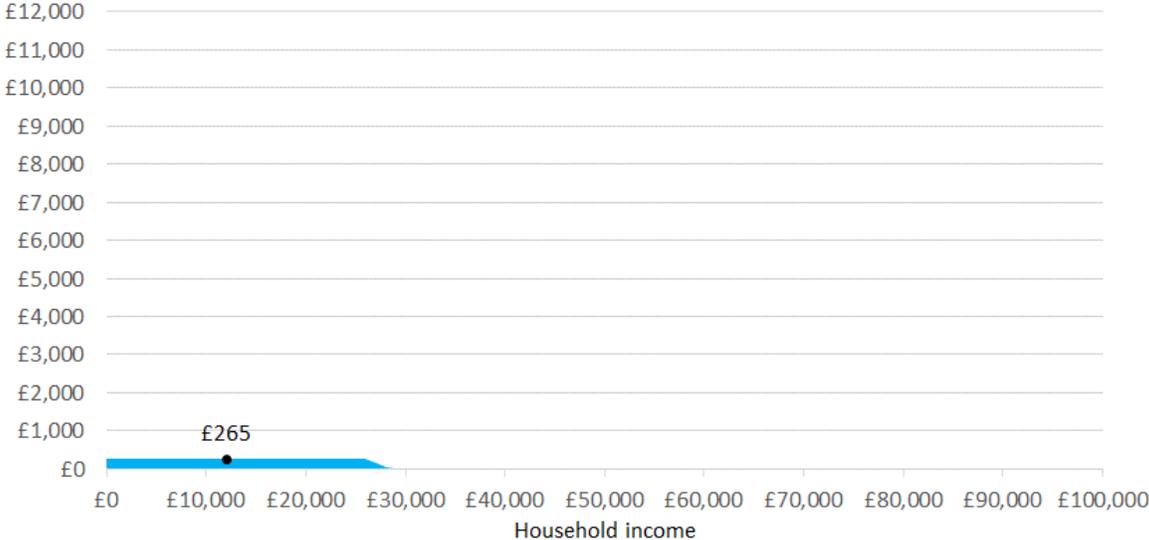
Baseline

■ Maintenance loan ■ Maintenance grant



Scenario 2: Higher maintenance support

■ Maintenance loan ■ Maintenance grant



- The current Northern Irish funding system currently typically provides **very limited maintenance support for part-time students**, and we have assumed that this would continue to be the case under Scenario 2 (i.e. no change in funding for part-time student compared to the current system).

Scenario 2: Total costs for cohort

Resource flows (£/£m/%)	Baseline	Scenario 2	Difference
Exchequer			
Cost of maintenance grants	(£40m)	(£52m)	(£12m)
Cost of maintenance loans	(£15m)	(£37m)	(£22m)
Cost of tuition fee grants	(£3m)	(£3m)	-
Cost of tuition fee loans	(£22m)	(£31m)	(£10m)
Cost of Teaching Grants	(£93m)	(£93m)	-
Total Exchequer cost	(£172m)	(£216m)	(£44m)

RAB charge (%)	10.0%	14.6%	+4.6 pp
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Higher education institutions			
Gross fee income	£247m	£247m	-
Teaching Grant income	£93m	£93m	-
Cost of bursary provision	(£4m)	(£4m)	-
Net HEI income	£335m	£335m	-

Students/Graduates (FT first degree students from NI studying in NI)			
Average debt on graduation	£29,500	£39,200	£9,700
Average lifetime repayments (M/F)	£31,100/£23,100	£40,700/£28,300	£9,600/£5,200

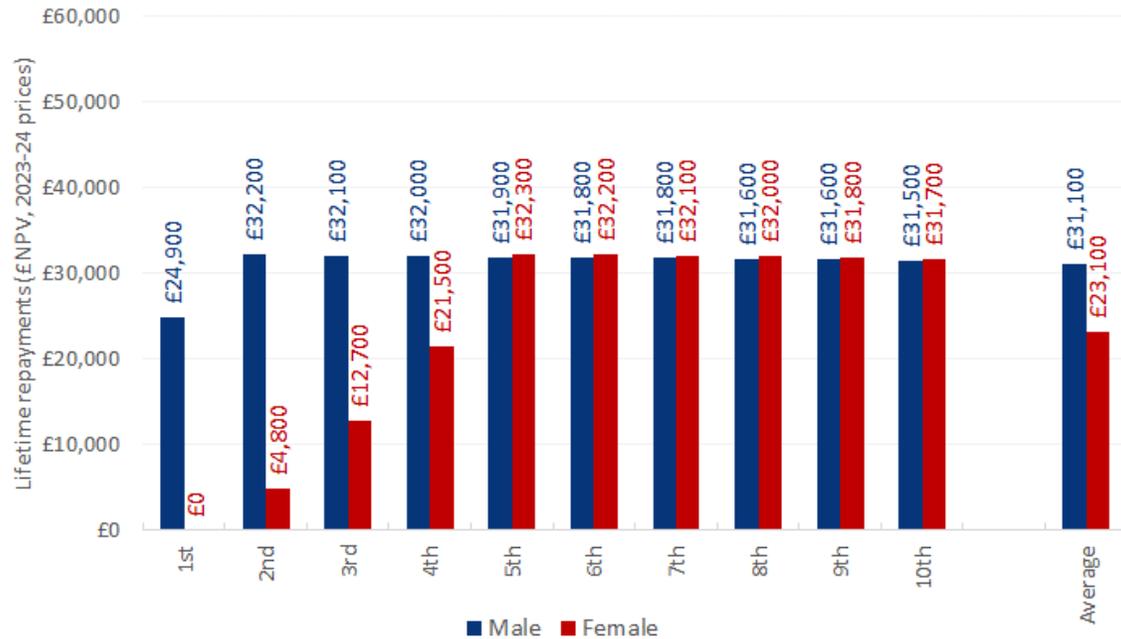
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- Whereas Scenario 1 would *reduce* the Exchequer cost of the system, **Scenario 2 would increase the cost per cohort by approximately £44m (26%)**, driven by the higher loan outlay and maintenance grant funding. While Teaching Grants would be unaffected, the cost of maintenance grant provision would increase by **£12m**, and the cost of loan write-offs would rise by **£10m** for fee loans and **£22m** for maintenance loans (with an increase in the RAB charge by **4.6 percentage points**, to **14.6%**).
- The average Exchequer cost per full-time Northern Irish domiciled student studying in Northern Ireland per year would increase to approximately **£5,900 (+£1,100)** compared to the current system).
- HEIs would be unaffected.**
- Reflecting the more generous maintenance loans, the average debt on graduation (per full-time first degree student from NI studying in NI) would increase by **£9,700 (to £39,200)**. Average lifetime repayments would increase by **£9,600** for male graduates and by **£5,200** for female graduates.

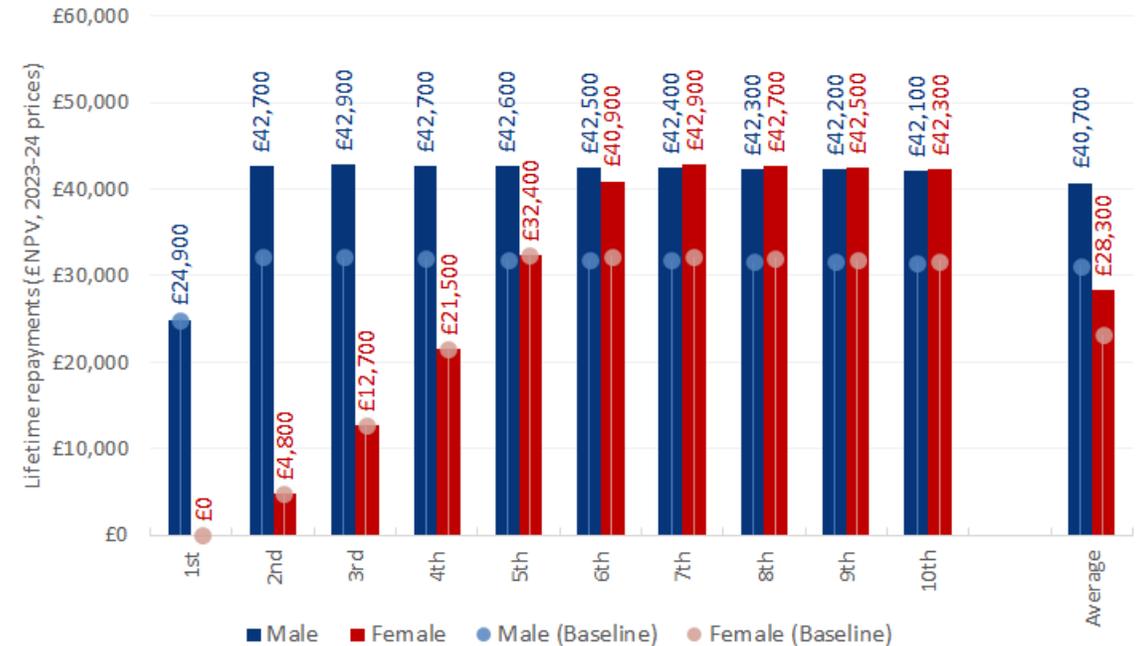
Scenario 2: Graduate loan repayments

Total loan repayments by NI domiciled students who complete FT first degrees in NI (NPV in 2023-24 prices), by lifetime earnings decile and gender

Baseline



Scenario 2: Higher maintenance support

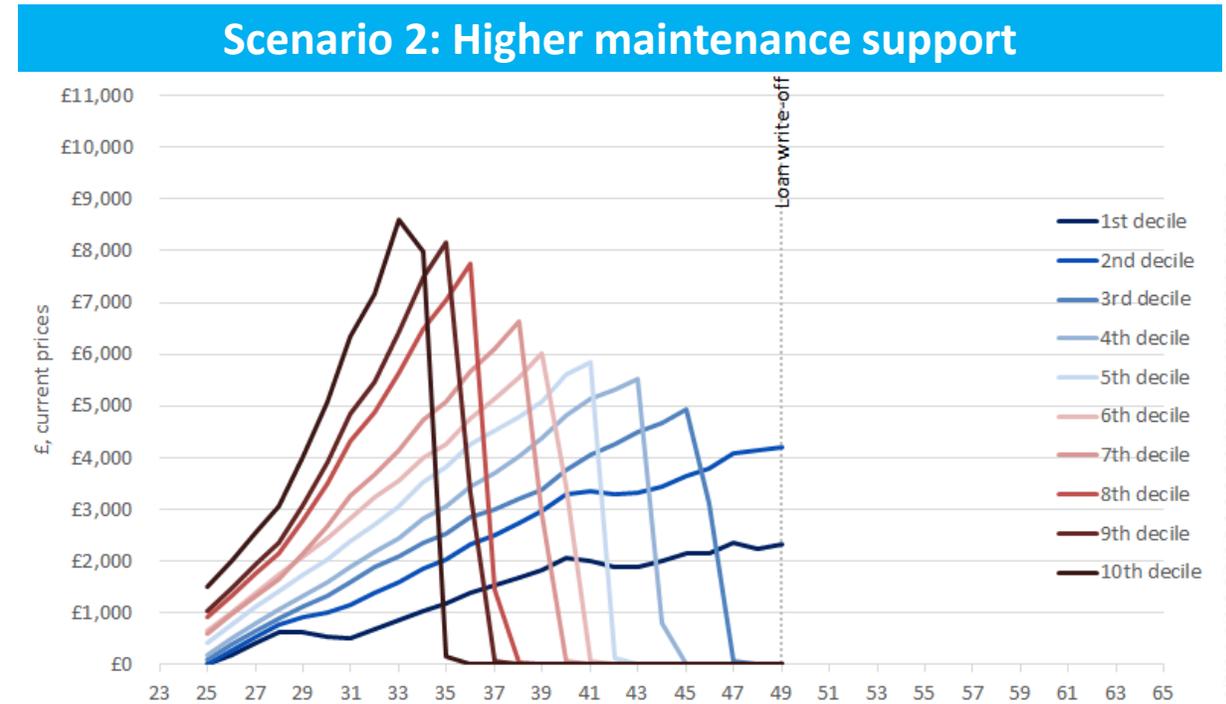
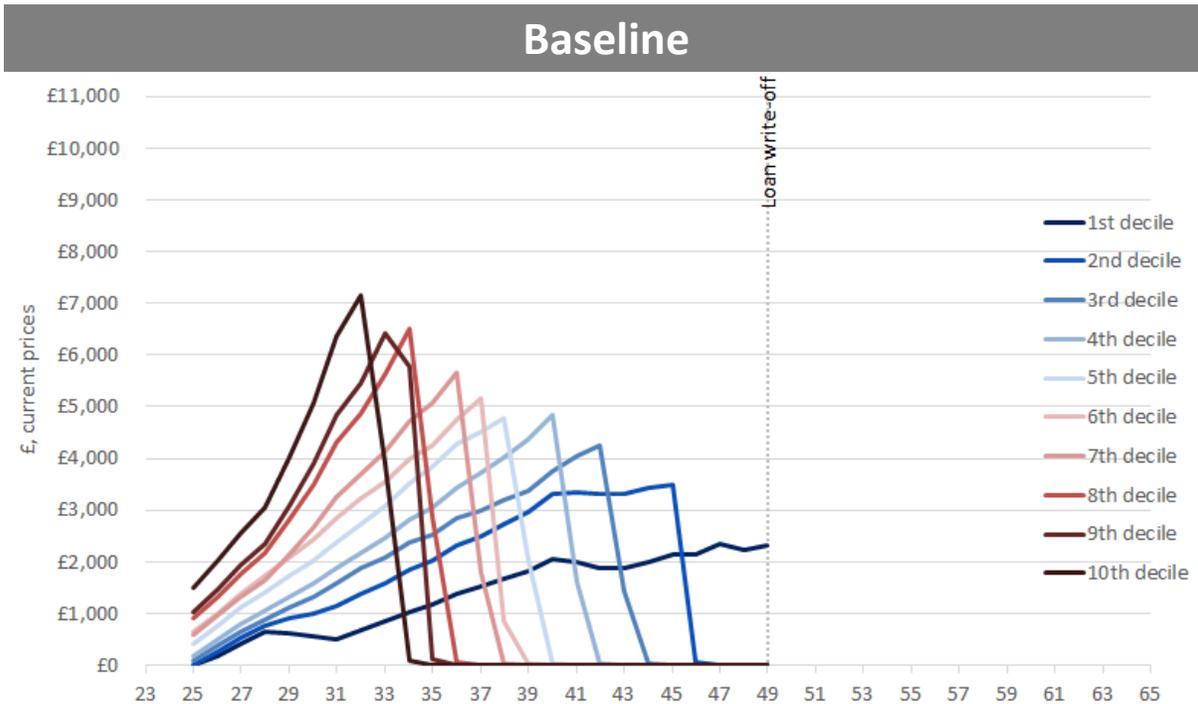


- The increase in maintenance loans under Scenario 2 would have a similar impact on graduates' loan repayments as the increase in fee loans under Scenario 1.
- Under Scenario 2, middle- and high-income graduates would again repay *more* than under the current system (though the increase is typically smaller than under Scenario 1). In contrast, graduates at the bottom of the income distribution (1st decile for men, and 1st to 4th decile for women) would again be *unaffected* as they would currently already never fully repay their loans.
- For middle- and high-income graduates, repayments would increase by approximately the same amount across different deciles (by approximately £11,000 for men on the 2nd to 10th decile and for women on the 7th to 10th decile¹).

¹ As under Scenario 1, for female graduates on the 5th decile, the increase in the maintenance loan under Scenario 2 would result in a very small increase in their total lifetime repayments (by approximately £100). Repayments by female graduates on the 6th decile would increase by approximately £8,700.

Scenario 2: Loan repayment profiles (men)

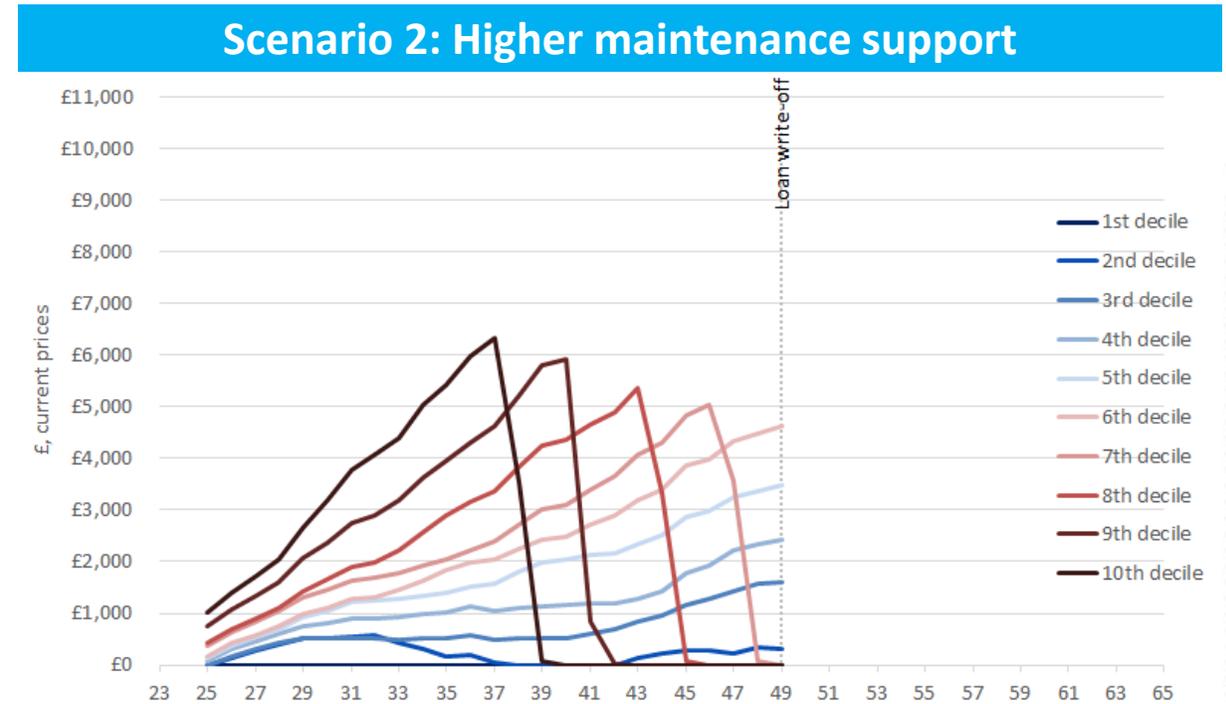
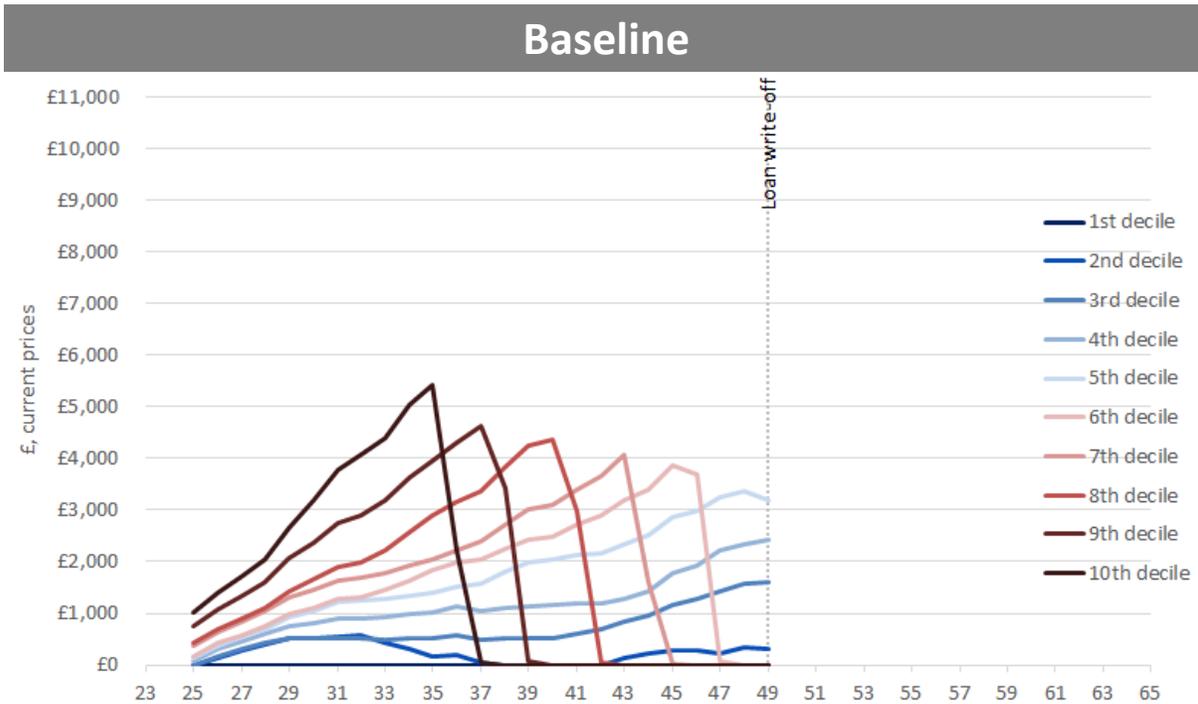
Lifetime loan repayment profiles (by age) for NI domiciled **male** students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 2, middle- and high-earning graduates (2nd decile and above for male graduates) would make larger total repayments due to the higher maintenance loan outlay.
- In contrast, graduates at the bottom of the earnings distribution (who are currently already *not* repaying their full loans) would make the same repayments as under the current system (i.e. would be unaffected).

Scenario 2: Loan repayment profiles (women)

Lifetime loan repayment profiles (by age) for NI domiciled *female* students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 2, middle- and high-earning graduates (5th decile and above for female graduates) would make larger total repayments due to the higher maintenance loan outlay.
- In contrast, graduates at the bottom of the earnings distribution (who are currently already *not* repaying their full loans) would make the same repayments as under the current system (i.e. would be unaffected).

Scenario 3: Introducing real loan interest rates



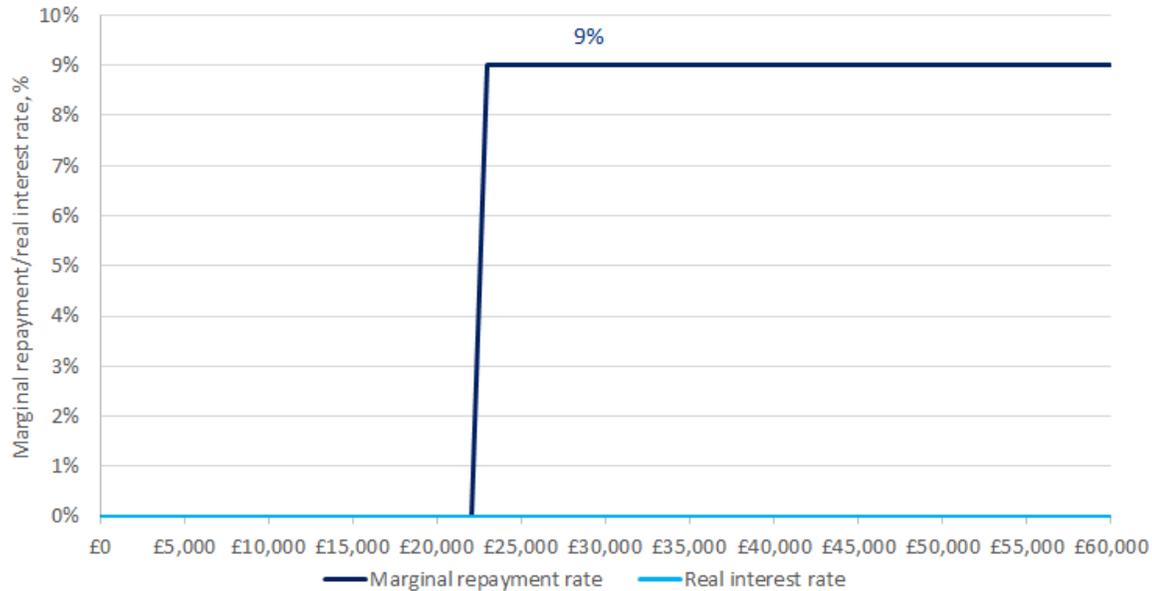
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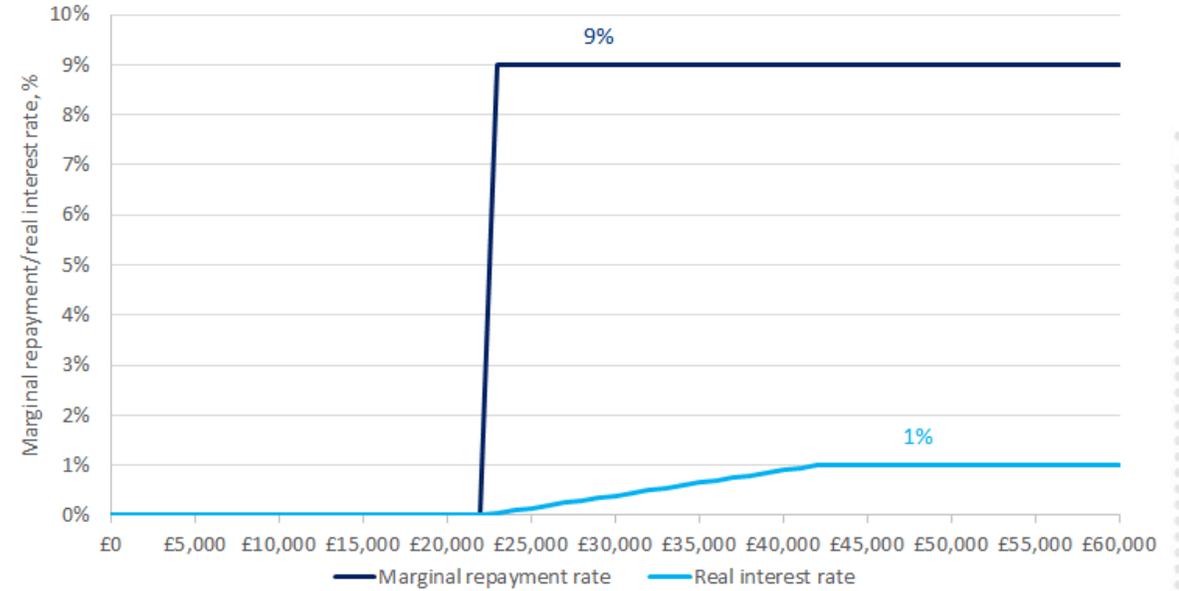
Scenario 3: Repayment and interest rates

Loan repayment and real interest rates by graduate income

Baseline



Scenario 3: Introducing real loan interest rates



- Finally, Scenario 3 assumes the same fees, fee support, and maintenance support as under the current system, but instead models a **change in loan repayment conditions** for the cohort of interest.
- Specifically, we model the **introduction** of real loan interest rates, assuming a **1% real interest rate during study¹**; **0%-1%** post-study for graduates earning **between £22,015 and £42,015²**; and **1%** for graduates earning **more than £42,015**. Nominal interest rates would be set at the relevant real interest rate + RPI.

¹ i.e. before each graduate's Statutory Repayment Due Date (SRDD).

² The £22,015 threshold is equivalent to the current loan repayment threshold. As under the current system, both thresholds here are assumed to be updated with RPI inflation in each subsequent year.

Scenario 3: Total costs for cohort

Resource flows (£/£m/%)	Baseline	Scenario 3	Difference
Exchequer			
Cost of maintenance grants	(£40m)	(£40m)	-
Cost of maintenance loans	(£15m)	(£5m)	£10m
Cost of tuition fee grants	(£3m)	(£3m)	-
Cost of tuition fee loans	(£22m)	(£9m)	£13m
Cost of Teaching Grants	(£93m)	(£93m)	-
Total Exchequer cost	(£172m)	(£149m)	£23m

RAB charge (%)	10.0%	3.8%	-6.2 pp
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Higher education institutions			
Gross fee income	£247m	£247m	-
Teaching Grant income	£93m	£93m	-
Cost of bursary provision	(£4m)	(£4m)	-
Net HEI income	£335m	£335m	-

Students/Graduates (FT first degree students from NI studying in NI)			
Average debt on graduation	£29,500	£29,700	£200
Average lifetime repayments (M/F)	£31,100/£23,100	£33,400/£24,500	£2,300/£1,400

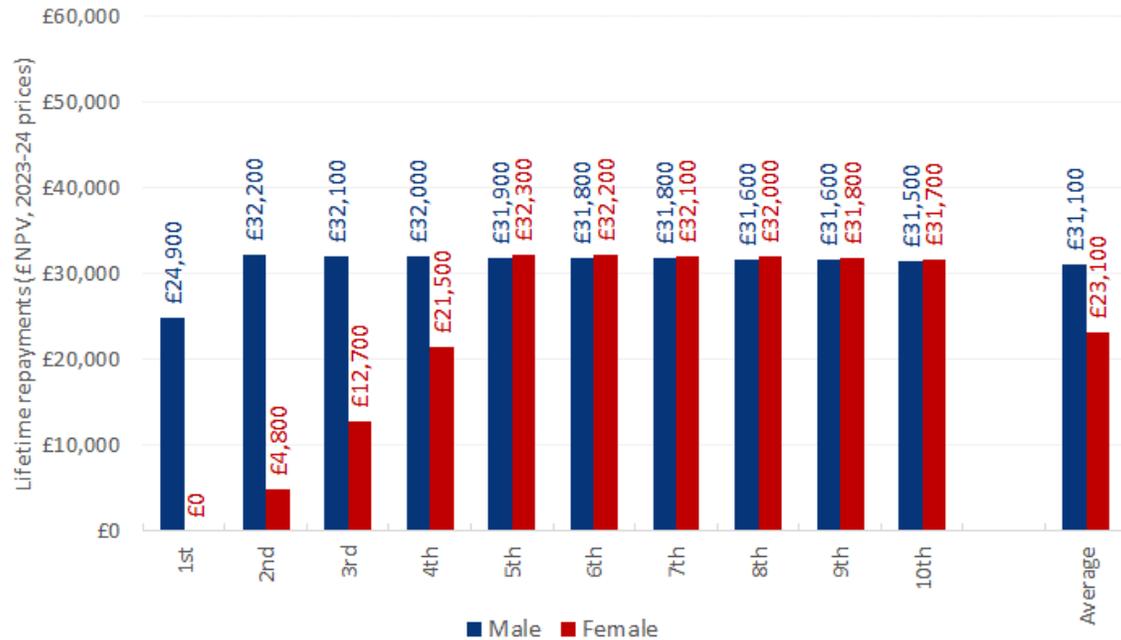
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- The introduction of real interest rates under Scenario 3 would result in a *reduction* in the Exchequer cost per cohort (by £23m (13%)), and a decrease in the RAB charge by **6.2 percentage points** (to 3.8%). These savings would be driven by lower maintenance loan write-offs (£10m) and fee loan write-offs (£13m) compared to the current system.
- The average Exchequer cost per full-time Northern Irish domiciled student studying in Northern Ireland per year would stand at approximately **£4,300** (-£500 compared to the current system).
- As under Scenario 2, HEIs would again be unaffected.
- Reflecting the introduction of real interest during study, the average debt on graduation (again per full-time first degree student from NI studying in NI) would increase slightly (by £200, to £29,700). Average lifetime repayments would also increase, by **£2,300** for male graduates and by **£1,400** for female graduates.

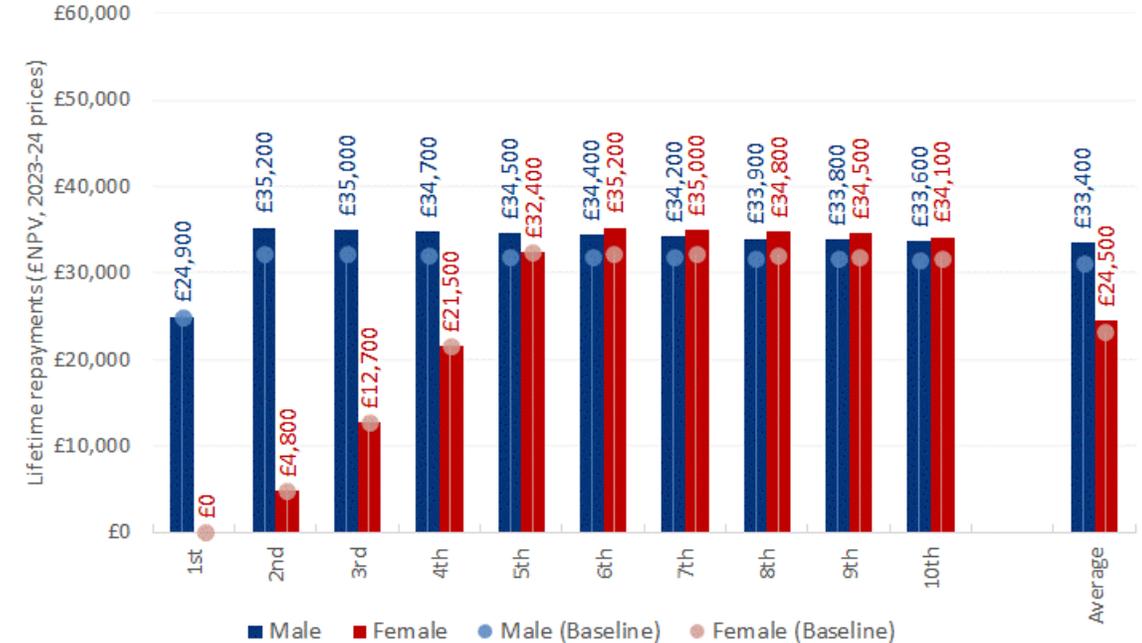
Scenario 3: Graduate loan repayments

Total loan repayments by NI domiciled students who complete FT first degrees in NI (NPV in 2023-24 prices), by lifetime earnings decile and gender

Baseline



Scenario 3: Introducing real interest rates

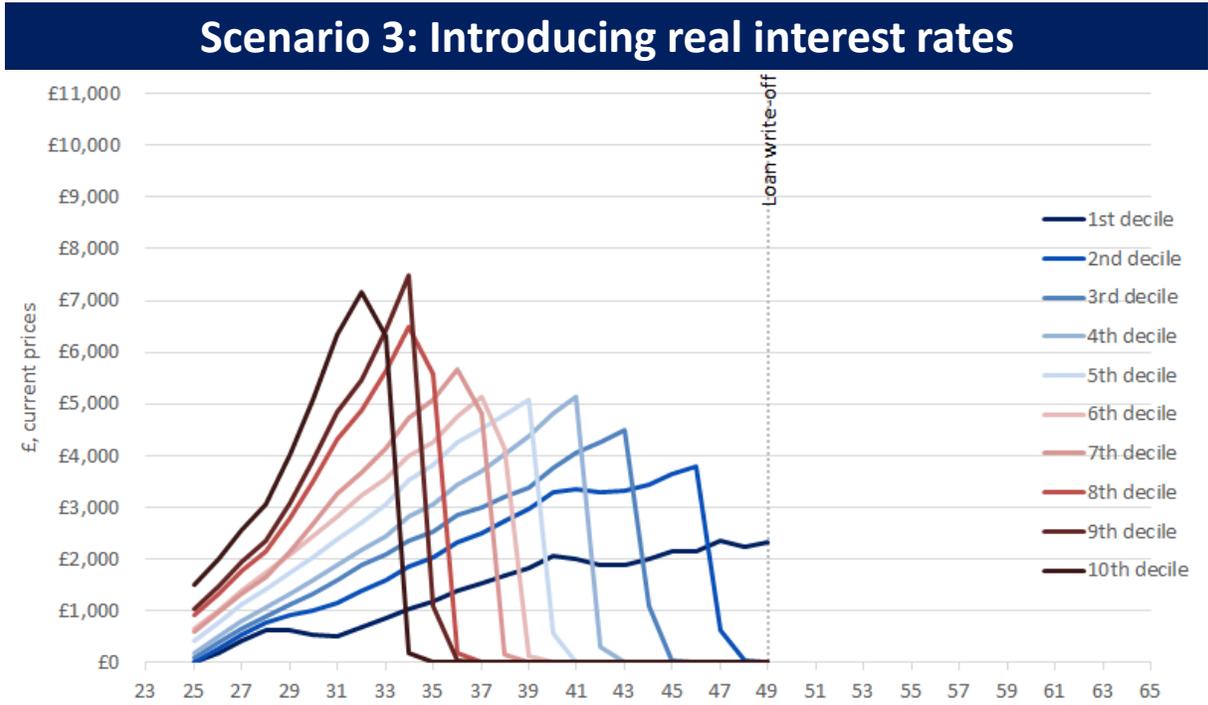
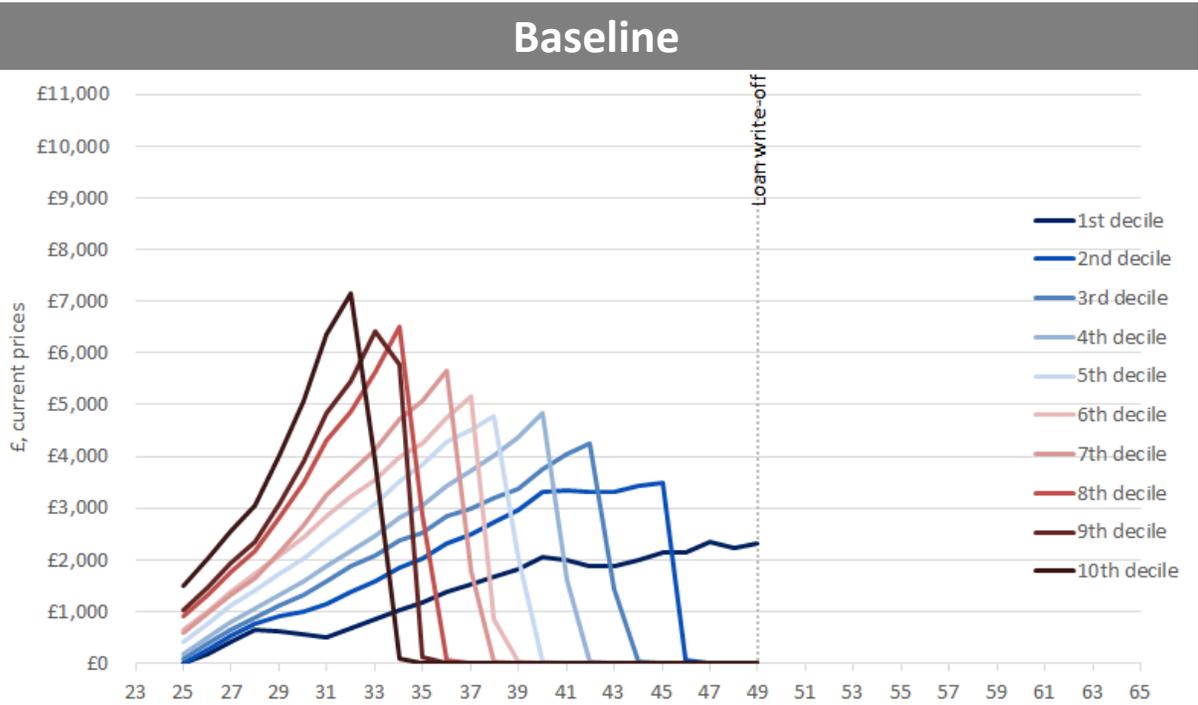


- Similar to the increase in fee loans (for students in NI) under Scenario 1 and the increase in maintenance loans under Scenario 2, the introduction of real interest rates under Scenario 3 would imply that **middle- and high-income graduates would repay *more*** than under the current system, but the increase in repayments here would be relatively small.
- Graduates at the bottom of the income distribution (1st decile for men, and 1st to 4th decile for women¹) would again be *unaffected***, as they would currently already never fully repay their loans (so the imposition of real interest rates would not impact their repayments).
- Again, the repayment system would continue to be locally regressive.

31 ¹ As under Scenarios 1 and 2, for female graduates on the 5th decile, Scenario 3 would result in a very small increase in their total lifetime repayments (by approximately £100).

Scenario 3: Loan repayment profiles (men)

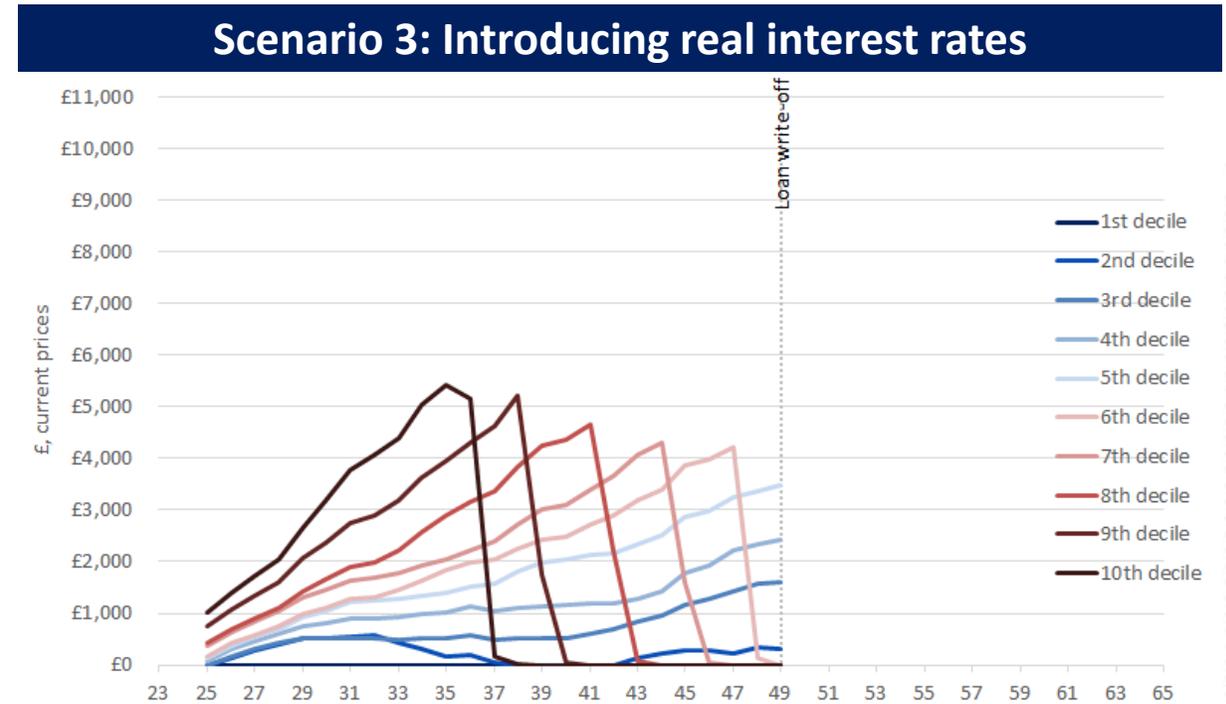
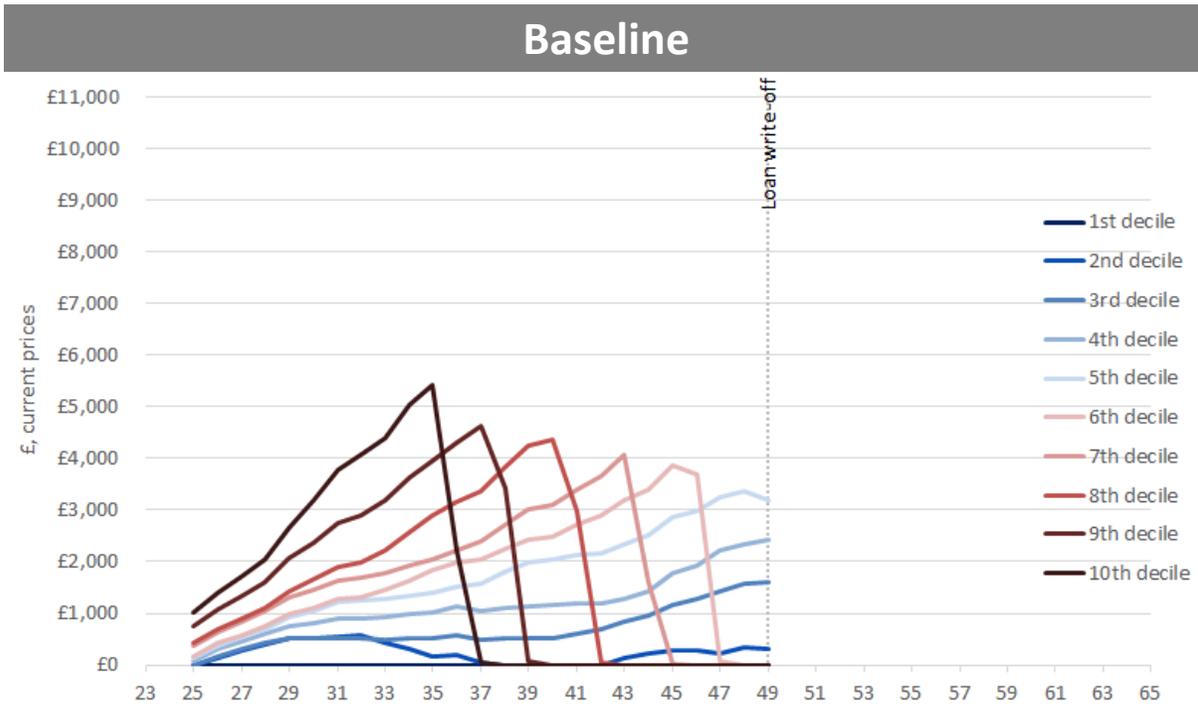
Lifetime loan repayment profiles (by age) for NI domiciled *male* students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 3, middle- and high-earning graduates (2nd decile and above for male graduates) would make *slightly* larger repayments, as the introduction of real interest rate would keep these graduates in the repayment system for slightly longer.
- In contrast, as under Scenarios 1 and 2, graduates at the bottom of the earnings distribution would again be unaffected (i.e. they would be expected to make the same total lifetime loan repayments as under the current system).

Scenario 3: Loan repayment profiles (women)

Lifetime loan repayment profiles (by age) for NI domiciled *female* students who complete FT first degrees in NI (cash terms (not discounted) in current prices), by lifetime earnings decile



- Under Scenario 3, middle- and high-earning graduates (5th decile and above for female graduates) would make *slightly* larger repayments, as the introduction of real interest rate would keep these graduates in the repayment system for slightly longer.
- In contrast, as under Scenarios 1 and 2, graduates at the bottom of the earnings distribution would again be unaffected (i.e. they would be expected to make the same total lifetime loan repayments as under the current system).

Conclusion and discussion



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Comparison across all scenarios

Negative values = “worse off”
Positive values = “better off”

Resource flows (£m/%)	Baseline (Current system)	Scenario 1 (Higher fees + lower TGs in NI)		Scenario 2 (Higher maintenance support)		Scenario 3 (Introducing real interest rates)	
		Total	Diff. to Baseline	Total	Diff. to Baseline	Total	Diff. to Baseline
'Net' Exchequer cost (adjusted for RAB)							
Cost of maintenance grants	(£40m)	(£40m)	-	(£52m)	-£12m	(£40m)	-
Cost of maintenance loans	(£15m)	(£22m)	-£7m	(£37m)	-£22m	(£5m)	+£10m
Cost of tuition fee grants	(£3m)	(£3m)	-	(£3m)	-	(£3m)	-
Cost of tuition fee loans	(£22m)	(£43m)	-£21m	(£31m)	-£10m	(£9m)	+£13m
Cost of Teaching Grants	(£93m)	(£27m)	+£65m	(£93m)	-	(£93m)	-
Total	(£172m)	(£135m)	+£37m	(£216m)	-£44m	(£149m)	+£23m
Net HEI income							
Gross fee income	£247m	£371m	+£125m	£247m	-	£247m	-
Teaching Grant income	£93m	£27m	-£65m	£93m	-	£93m	-
Cost of bursary provision	(£4m)	(£4m)	+£0m	(£4m)	-	(£4m)	-
Total	£335m	£395m	+£59m	£335m	-	£335m	-
'Net' cost to students/graduates (adjusted for RAB)							
Cost of gross fees	(£247m)	(£371m)	-£125m	(£247m)	-	(£247m)	-
Fee grant income	£3m	£3m	-	£3m	-	£3m	-
Fee loan income	£22m	£43m	+£21m	£31m	+£10m	£9m	-£13m
Bursary income	£4m	£4m	-£0m	£4m	-	£4m	-
Maintenance grant income	£40m	£40m	-	£52m	+£12m	£40m	-
Maintenance loan income	£15m	£22m	+£7m	£37m	+£22m	£5m	-£10m
Total	(£163m)	(£259m)	-£96m	(£119m)	+£44m	(£186m)	-£23m
% of cost covered by Exchequer vs. students/graduates							
Exchequer	51%	34%		64%		44%	
Students/graduates	49%	66%		36%		56%	
Total	100%	100%		100%		100%	

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £1m.

Comparison across all scenarios

In summary, compared to the current (2023-24) HE fees and funding system for Northern Ireland:



KEY FINDINGS

Under SCENARIO 1 (higher fees and lower Teaching Grants for students in NI):

- The Exchequer cost of the system would *decrease* by £37m per cohort.
- Income for HEIs would *increase* by £59m per cohort.
- The cost to students/graduates would *increase* by £96m. Graduates at the bottom of the earnings would be unaffected, while middle- and high-income graduates would make higher repayments. The loan repayment system would thus become somewhat less regressive.

Under SCENARIO 2 (higher maintenance support):

- The Exchequer cost of the system would *increase* by £44m per cohort.
- HEIs would be unaffected.
- The cost to students/graduates would *decrease* by £44m. All students would benefit from a more generous maintenance loan package while studying, but graduates at the bottom of the earnings distribution would repay the same amount as under the current system (i.e. would benefit the most). Middle- and high-income graduates would see their repayments increase.

Under SCENARIO 3 (introduction of real interest rates):

- The Exchequer cost of the system would *decrease* by £23m per cohort.
- HEIs would again be unaffected.
- The cost to students/graduates would *increase* by £23m. Graduates at the bottom of the earnings would again be unaffected, while middle- and high-income graduates would make higher repayments.

Conclusion and discussion

- **Higher education funding has resulted in major political divisions across the UK since the 1990s.** There has been significant debate over the level of tuition fees in Northern Ireland, where the provision of relatively large Teaching Grants for ‘home’ students alongside relatively low tuition fees has resulted in student number controls that lead many young people to leave Northern Ireland to study elsewhere in the UK (with these student number caps considered to be placing an ‘economic handbrake’ on the Northern Irish economy (e.g. see [here](#))). While per-student public investment in higher education in Northern Ireland is approximately **3 times as high as in England**, HEIs in Northern Ireland receive approximately **25% less funding per student** than their counterparts in England¹. In addition, maintenance support under the Northern Irish system is considerably lower than the corresponding support available in other Home Nations.
- **With significant funding constraints manifesting themselves across the entire public sector, ahead of the next General Election, a number of potential policy options might need to be considered to reduce the burden on the public purse.** Here, we have presented three scenarios to illustrate the impact of different aspects of the Northern Irish funding system on students/graduates, the Exchequer, and HEIs. Compared to the current Exchequer cost of the system of **£172m** per cohort, increasing tuition fees for Northern Irish domiciled students studying in Northern Ireland from the current £4,710 to £9,250 per annum and reducing Teaching Grants would save the Exchequer approximately **£37m (21%)**, while also addressing some of the funding issues facing universities. Increasing maintenance loans and extending eligibility for maintenance loans and grants would cost the Exchequer an additional **£44m (26%)**. Introducing real interest rates (to a maximum of 1%) would reduce the Exchequer costs by approximately **£23m (13%)**.
- **In terms of the key ‘winners’ and ‘losers’ from these different scenarios, they are not who you may think they are.** For instance, the lowest earning graduates typically would **not** be adversely affected by an increase in tuition fees and the associated fee loans.
- **The aim of this study is to raise the level of information on and understanding of the different HE funding systems operating in each Home Nation ahead of the next General Election.** We hope that this ensures that any manifesto pledges are properly understood – by politicians and voters alike – for the long-term sustainability of the higher education sector, and for the benefit of the public more generally.

¹ The comparisons here relates to funding per English domiciled student studying in England vs. Northern Irish domiciled student studying in Northern Ireland, in terms of the average Exchequer cost/HEI income per full-time undergraduate student (across first degrees and sub-degree qualifications) in 2023-24 (i.e., the first year of study for the relevant student cohort).

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ANNEX

Methodology and assumptions



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Economics

Assumptions and methodology

- The model considers the total number of full-time and part-time **first-year undergraduate students from Northern Ireland studying anywhere in the UK, and from the Republic of Ireland studying in Northern Ireland, in the 2023-24 academic year**. We use student data published by the Higher Education Statistics Agency (HESA, [here](#)) for 2021-22, assuming that the size and characteristics of the student cohort have **remained unchanged** between 2021-22 and 2023-24 (in the absence of more recent published data).
- We **exclude students studying nursing or midwifery in Northern Ireland**, as these students are covered by different funding arrangements with the Department of Health:
 - For NI domiciled students studying in NI, out of a total of **12,745** first-year undergraduate students (across all subjects), we exclude **1,455** students studying nursing or midwifery subjects (estimated based on the proportion of all NI domiciled students (studying anywhere in the UK) by subject (separately by level and mode of study)¹, again based on the HESA student data).
 - For ROI domiciled students in NI, out of a total of **600** first-year undergraduate students (across all subjects)², we exclude **60** students studying nursing or midwifery subjects (again estimated using the same approach as for NI domiciled students).

- We also **exclude students studying for institutional credits only** (i.e. no formal qualifications), as these students are typically not eligible for public funding.
- After these exclusions, the analysis assumes that there are **16,395 first-year undergraduate students in the relevant cohort of interest** (see [next slide](#))³.
- Based on the same HESA data, we assume the following distribution of students in the cohort by **qualification level**⁴:

Qualification level	Full-time	Part-time
Other undergraduate	0.4%	32.0%
HNC/HND	0.0%	0.2%
Foundation Degree	0.2%	0.9%
First degree	99.4%	66.9%
Total	100.0%	100.0%

- Part-time students are assumed to study at **50% full-time equivalence (FTE)**⁵.

¹ In other words, we implicitly assume the same subject distribution among NI domiciled students studying in Northern Ireland as for NI domiciled students studying anywhere in the UK.

² The number of ROI domiciled students studying in Northern Ireland was also *estimated*, based on the total number of first-year ROI students studying in Northern Ireland (including both undergraduate *and* postgraduate students), combined with the distribution of all EU domiciled first-year students studying in Northern Ireland by level and mode of study (and note that the vast majority of EU domiciled students in Northern Ireland are ROI domiciled students).

³ The analysis includes students studying at higher education institutions only (including alternative providers), but excludes students at FE colleges (note that FE colleges in Wales are technically included in the relevant HESA data - but the data indicate that there are no Northern Irish domiciled students studying at these institutions).

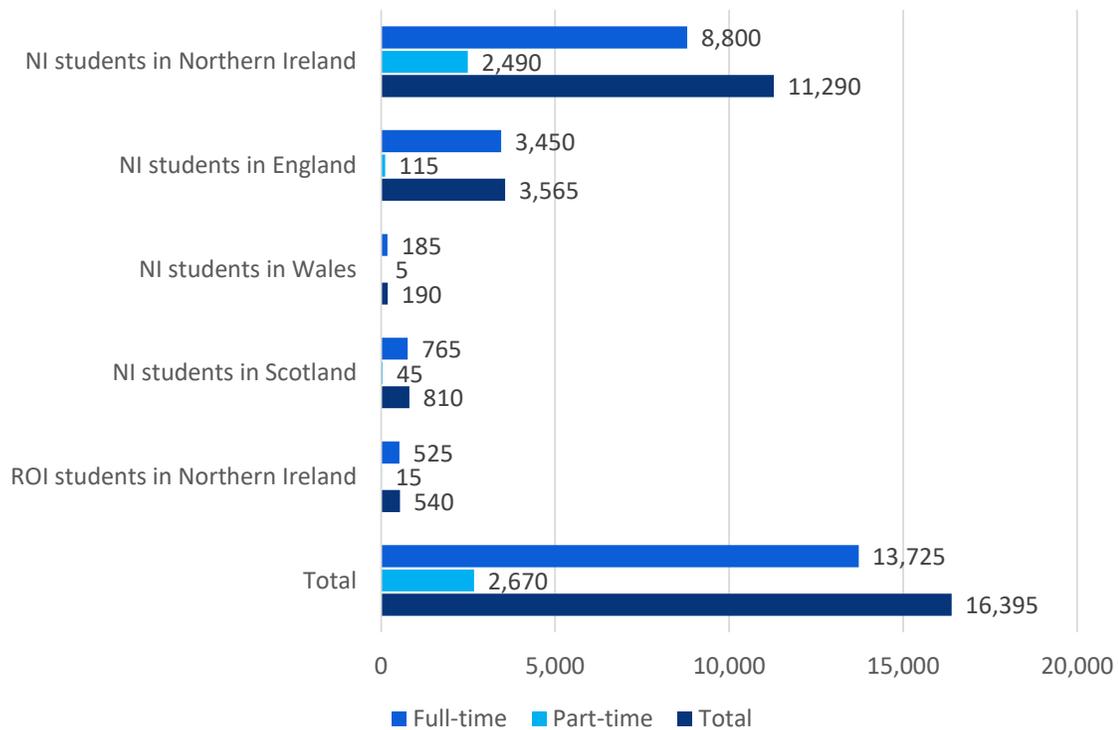
⁴ The breakdown by level is based on the study level distribution of NI domiciled students studying anywhere in the UK, and we assume that the same distribution applies to ROI domiciled students studying in NI.

⁵ Based on data provided to us by HESA on the average study intensity among all UK domiciled first-year part-time students in 2021-22 (separately by study level, and again excluding students studying for credit only).

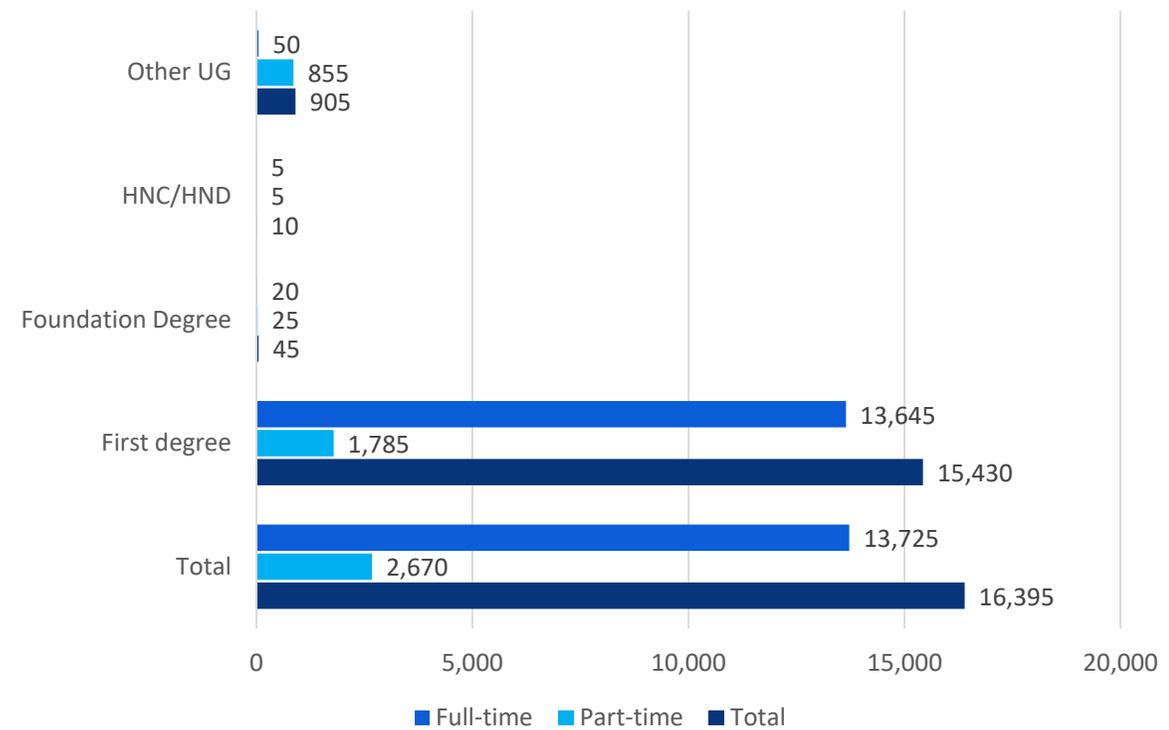
Assumptions and methodology

- The analysis is based on a total of **16,395** students in the relevant cohort, including **15,855** first-year undergraduate NI domiciled students studying anywhere in the UK and **540** ROI domiciled students studying in NI:

By domicile, location of study, and study mode



By study level and mode



Note: All student numbers are rounded to the nearest 5. The information is based on the 2021-22 academic year, and we assume the same size and characteristics for the 2023-24 cohort as for the 2021-22 cohort. The analysis includes students studying at higher education institutions only (excluding further education colleges but including alternative providers); excludes students studying for institutional credits at undergraduate level (i.e. students who are not studying for a qualification); and excludes students studying nursing or midwifery subjects in Northern Ireland.

Source: London Economics' analysis based on data published by HESA ([here](#))

Assumptions and methodology

- Again based on HESA data ([here](#)), we assume an annual continuation rate of **93.1%** for full-time students and **84.0%** for part-time students. This is based on the proportion of students who entered higher education in 2019-20¹ (full-time students) or 2018-19 (part-time students) and who were still enrolled in higher education one year (full-time students) or two years (part-time students) after enrolling. The information is based on all UK domiciled students studying at HEIs anywhere in the UK (as a breakdown by domicile was not available).
- The underlying analysis is undertaken separately by gender. Based on HESA information on NI domiciled qualification completers (who graduated from institutions anywhere in the UK in 2021-22 ([here](#))) by gender and qualification level, we assume the following **gender distribution**²:

Qualification level	Full-time		Part-time	
	Male	Female	Male	Female
Other undergraduate	51%	49%	20%	80%
HNC/HND	100%	0%	100%	0%
Foundation Degree	0%	100%	67%	33%
First degree	41%	59%	47%	53%

- We assume the following **average age at enrolment** (again based on HESA information³) and **average duration of qualification attainment** (by qualification level and study mode):

Qualification level	Age at enrolment		Study duration	
	Full-time	Part-time	Full-time	Part-time
Other undergraduate	29	34	1	2
HNC/HND	23	28	2	4
Foundation Degree	28	32	2	4
First degree	22	31	3	6

¹ This is the latest academic year for which HESA non-continuation rate information is currently available.

² As with the breakdown by level, the gender distribution here is based on NI domiciled graduates who studied anywhere in the UK, and we assume that the same gender distribution applies to ROI domiciled students studying in NI. Further note that the gender split here is based on students across all subjects of study, and an exclusion of nursing and midwifery students was not possible due to a lack of granularity in the underlying HESA data.

³ The assumptions in relation to the age at enrolment are based on data provided to us by HESA on the average age at enrolment among all UK domiciled first-year students starting HE qualifications anywhere in the UK in 2021-22 (separately by study level and mode).

Assumptions and methodology

- For the **current funding system (Baseline)**, the analysis assumes a (gross) **tuition fee** charged to **full-time students** in 2023-24 of **£9,250** per student per year for NI domiciled students studying in RUK, and **£4,710** for NI (and ROI) domiciled students studying in NI. The corresponding gross fees charged to part-time students are assumed to be **£4,625** and **£2,355**, respectively (pro-rata, based on the corresponding full-time fee adjusted for the assumed 50% part-time study intensity).
- In terms of fee growth in subsequent academic years, we assume that fees for **NI and ROI students studying in Northern Ireland** will increase (with RPI inflation) in subsequent academic years. In contrast, we assume that the fees charged to **NI students studying in RUK** will continue to remain frozen in every subsequent year of study for the cohort (i.e. 2024-25 onwards).
- We assume the following **bursaries provided by HEIs**:
 - For **NI domiciled full-time students studying in NI**, we assume that Northern Irish HEIs offer a bursary of 10% of the tuition fee to students who are eligible for the full maintenance grant (i.e. students with a household income of £19,203 or less); see [here](#). We treat this entire bursary as a fee bursary/waiver, and therefore deduct it from the maximum tuition fee loan available to these students.

We assume that **part-time students** are *not* eligible for bursaries (as these students are *not* eligible for maintenance grant funding beyond the small Course Grant).

- We also assume that this 10% bursary does *not* apply to **ROI domiciled (full-time or part-time) students studying in NI**, as these students are also typically *not* eligible for maintenance grant funding from the SLC.
 - For **NI domiciled full-time students studying in RUK**, based on Office for Students data for **England** (from its access and participation plans monitoring exercise, last undertaken in 2020-21, [here](#)), according to institutions' access plans for 2023-24, we assume that approximately **0.3%** of the tuition fee charged in excess of the Basic Fee (of **£6,165** per annum) is handed back to students in the form of fee waivers/bursaries, with an additional **9.6%** provided through maintenance bursaries
- Mirroring the current household income thresholds associated with maintenance loans for *English* domiciled undergraduate students, we assume that these bursaries are only available to students with a household income of **£25,000 or less**. In the absence of corresponding bursary data for Welsh and Scottish institutions, we assume that these bursaries available in England also apply to NI domiciled students studying in **Wales** and **Scotland**.
- As for students studying in NI, we assume that these bursaries are *not* available to **part-time students**.
- Again, we deduct the resulting estimated fee bursary/waiver from the maximum tuition fee loan available (though note that the relatively low tuition fee bursary has a negligible impact on the assumed fee loan here).

Assumptions and methodology

- In terms of **public fee support under the current system**:
 - We assume that **full-time students** studying in NI or in RUK cover the above-described fees (net of any fee waivers/bursaries) by taking out a (non-means-tested) **tuition fee loan** of the same amount. Based on SLC data on student support provided to NI students in 2021-22, we assume a fee loan take-up rate of **92%** for full-time students (i.e. that 92% of all full-time students in the relevant student body avail of this fee loan¹).
 - To cover the **£2,355** fee per student per year (see above), **part-time students studying in NI** can access both a **(non-means-tested) fee loan** and a **means-tested fee grant**. Students with household income of £16,843 or less are eligible for a maximum fee grant of **£820**, tapering out to **£0** for students with household income of £25,420 or more. These grants partially reduce the corresponding fee loan received, so that students with a household income of £16,843 or less receive a fee loan of **£1,535**, increasing to **£2,355** for students with a household income of £25,420 or more². Again, based on SLC data on student support provided to NI students in 2021-22, we assume a fee loan take-up rate of **28%** for part-time students.
 - Importantly, despite the significant difference in fees charged in NI vs. RUK, **part-time fee support is the same irrespective of students' location of study**. In other words, (the very small number of) NI domiciled students studying in RUK pay a tuition fee of **£4,625** but are only eligible for a total of **£2,355** in fee support – so the combination of fee loans and grants only covers *part* of their tuition fees under the current system. This is a particular complexity of the Northern Irish funding system that does not exist in the corresponding funding systems in other Home Nations.
- In **Scenario 1** (higher fees and lower Teaching Grants in Northern Ireland):
 - **We assume that NI and ROI domiciled students studying in NI would see their fees increase to the same level currently charged to NI students studying in RUK – i.e. £9,250 (for full-time students) and £4,625 (for part-time students) – and that these fees (and associated fee support) remain frozen over time.**
 - In terms of **bursaries** (again, assumed to apply to full-time students only), we assume that the **bursary provided to NI students in NI would remain the same as under the current system** in absolute terms – so that the bursary would under Scenario 1 amount to approximately 5% of the fee of £9,250.
 - In terms of **fee support**:
 - For **full-time students**, we assume that the fee loans for NI and ROI domiciled students studying in NI would be increased in line with the increase in fees (again net of bursaries).
 - We assume that the same would apply to **part-time students**, so that the maximum part-time fee loan would increase to **£4,625** per student per year³. We assume that the part-time fee grant would remain unchanged (i.e. same as under the current system).
 - In **Scenario 2** (higher maintenance support) and **Scenario 3** (introducing real interest rates), we assume the **same levels of fees, bursaries, and public fee support as under the current system**.

¹ The full-time take-up rate was calculated by dividing the number of Northern Irish domiciled full-time undergraduate students in receipt of SLC fee loans in 2021-22 (i.e. *funded* students from SLC data, [here](#)) by the *total* number of NI domiciled full-time undergraduate students studying at UK HEIs in 2021-22 (from HESA data, [here](#)). We undertook similar calculations for part-time students to estimate the part-time fee loan take-up rate.

² We assume that these household income thresholds associated with part-time fee grants remain constant over time (i.e. in all subsequent years of study for the relevant cohort of interest).

³ We assume that this higher fee loan would apply to both NI (and ROI) students studying in NI as well as NI domiciled students studying in RUK.

Assumptions and methodology

- In terms of **maintenance funding**, under the **current (Baseline) funding system**:
 - **Full-time students** are eligible for a combination of maintenance loans and grants. Full-time students living away from home outside of London (**LAFHOL**) are currently eligible for maximum support of **£8,136** (for household income **up to £19,203**) through a combination of loans and grants, with a minimum of **£5,082** (through a loan only, for household income of **more than £53,035**). Students living away from home in London (**LAFHIL**) are eligible for maximum support of **£10,852** (for household income **up to £19,203**), declining to a minimum of **£7,119** (for household income of **more than £57,643**); and students living at home (**LAH**) are eligible for maximum support of **£6,610** (for household income **up to £19,203**), declining to a minimum of **£3,938** (for household income of more than **£50,451**).
 - **Part-time students** are eligible for a small maintenance grant of **£265** (for household income **up to £26,029**; irrespective of living circumstances)¹, declining to **£0** for household income of **more than £28,066**. There are no maintenance loans available to part-time students.
- We have modelled **full-time students' maintenance loan eligibility by students' living conditions**, separately for full-time students living at home (**LAH, 23%** of students), living away from home outside of London (**LAFHOL, 75%** of students) and living away from home in London (**LAFHIL, 2%** of students)². In contrast, the part-time maintenance grants do not depend on students' living conditions.
- In terms of **maintenance loan take-up rates**, again based on SLC data on student support for NI domiciled undergraduate students in 2021-22, we assume a **maintenance loan take-up rate of 94% for full-time students**³. For maintenance grants, we assume that all students take out the maximum available maintenance grant to which they are entitled.
- In terms of students' **household income**, we base eligibility for maintenance loans and maintenance grants on the current household income thresholds applied by Student Finance Northern Ireland.
 - For **full-time students**, we combine this with information from the Student Loans Company (SLC, [here](#)) on the distribution of Northern Irish domiciled full-time students by household income. Specifically, our assumptions are based on the proportion of Northern Irish domiciled full-time students in receipt of full, partial, or nil maintenance grants from Student Finance Northern Ireland in 2021-22 (and the associated household income thresholds).
 - The SLC data for Northern Ireland do not include any corresponding information on **part-time** students. Hence, in the absence of this information for NI, we instead made use of separate SLC data for Wales ([here](#)) on the proportion of *Welsh* domiciled part-time students in receipt of full, partial, or nil maintenance grants from Student Finance Wales in 2021-22 (and the associated household income thresholds applicable to Welsh part-time maintenance grants in that year).

¹ Note that maintenance funding (for both full-time and part-time students) is available to NI domiciled students only, but is *not* available to students from the Republic of Ireland who are studying in Northern Ireland (instead, these students are only eligible for tuition fee funding from the Student Loans Company/Student Finance Northern Ireland).

² The distribution of students across these different living conditions is based on information from the 2014-15 Student Income and Expenditure Survey for Wales (on the proportion of full-time students living at home vs. living away from home; [here](#)), combined with HESA data on the number of first-year Northern Irish domiciled full-time undergraduate students living in London vs. elsewhere in the UK, in 2021-22 ([here](#)). Corresponding information for Northern Irish domiciled students, or more recent information for Wales, was not available at the time that the analysis was undertaken.

³ Here, the full-time take-up rate was calculated by dividing the number of NI domiciled full-time undergraduate students in receipt of SLC maintenance loans in 2021-22 (i.e. *funded* students from SLC data, [here](#)) by the *total* number of NI domiciled full-time undergraduate students studying at UK HEIs in 2021-22 (from HESA data, [here](#)).

Assumptions and methodology

- We then adjust the information for both full-time and part-time students to 2023-24 values to reflect the fact that average household income is expected to grow over time, by applying OBR estimates of UK annual average earnings growth in 2022-23 and 2023-24 ([here](#)).
 - In addition, as the information for *part-time students* is based on Wales, we adjust the assumptions for differences in average household income between Northern Ireland and Wales. Specifically, we adjust the assumptions for the ratio of median gross weekly earnings in Northern Ireland vs. Wales, based on data (for 2022, which is the latest year for which the information was available) from the Annual Survey of Hours and Earnings, published by StatsWales ([here](#)).
- In terms of **growth over time** (i.e. in subsequent academic years), we assume that:
 - **Students' household income** increases with UK-wide nominal average earnings growth in each subsequent year of study for the cohort (based on Office for Budget Responsibility (OBR) forecasts of UK average earnings growth; see further detail below);
 - **Maintenance loans and maintenance grants** remain constant in all years (full-time maintenance loans were increased by 40% in 2023-24 but had not been raised since 2010-11 prior to that; full-time maintenance grants have remained unchanged since 2010-11); and that
 - The **household income thresholds associated with maintenance loans and maintenance grants** (which have also remained unchanged since 2010-11) remain constant in all years.
- In **Scenario 1 and Scenario 3**, we assume the same maintenance support (and associated growth rates over time) as under the current system.
- In **Scenario 2** (higher maintenance funding), we model an increase in full-time maintenance loan levels and loan and grant eligibility thresholds, where:
 - **Full-time students** living away from home outside of London (**LAFHOL**) would be eligible for maximum maintenance funding of **£11,723¹** (for household income **up to £28,319²**), declining to a minimum of **£7,772³** (for household income of **more than £78,211**). This maintenance package would be a mixture of loan and grant funding for students with a household income below **£60,559**, with maintenance grants reduced to **£0** at that income level. Students living away from home in London (**LAFHIL**) would be eligible for maximum funding of **£15,636** (for household income **up to £28,319**), declining to a minimum of **£10,707** (for household income of **more than £85,007**); and students living at home (**LAH**) would be eligible for a maximum of **£9,524** (for household income **up to £28,319**) and a minimum of **£6,123** (for household income of more than **£74,400**).
 - We assume that the maintenance grants for **part-time students** would be the same as under the current (Baseline) system.
 - In terms of **growth over time**, as under the current system, we assume that these maintenance grants and loans, as well as the associated household income thresholds, would remain constant in subsequent academic years (i.e. in all years of study for the relevant cohort).

¹ The maximum loan level for LAFHOL students is based on the current NLW per hour of £10.42 ([here](#)) x 37.5 hours per week x 30 weeks per academic year. The corresponding maximum funding rates for LAFHIL and LAH students under Scenario 2 were then extrapolated using the ratios of current LAFHIL and LAH rates relatively to the current LAFHOL rate (e.g. LAFHIL rate under Scenario 2 (£15,636 = £11,723 x [£10,852 / £8,136]).

² The household income thresholds under Scenario 2 here reflect what the original 2010-11 thresholds would be in 2023-24 if they had been uprated with average earnings growth each year (i.e. 2010-11 thresholds in 2023-24 values). To convert these thresholds into 2023-24 values, we applied the cumulative growth in average total weekly earnings in Great Britain between April 2010 and April 2023 (approximately 47%), using data published by the Office for National Statistics ([here](#)).

³ As under the current system, the minimum loan levels under Scenario 2 have been set such that the minimum loan here equals 75% of the maximum loan for LAFHOL, LAFHIL and LAH students under this scenario (£10,363, £14,276, and £8,164, respectively).

Assumptions and methodology

Loan repayment terms

- In terms of loan repayment terms, under the **current funding system** (where Northern Irish domiciled students/graduates are subject to Repayment Plan 1 ([here](#))):
 - Student loans accumulate **0% real interest**, and outstanding loan balances are only indexed against the **Retail Price Index (RPI) inflation** (i.e. adjusted with inflation each year), so that all graduates (irrespective of income) are charged the same interest rate^{1, 2}.
 - Loans are repaid at a rate of **9%** of earnings in excess of **£22,015** per annum (uprated with RPI each year (also see the [next slide](#) for more information)).
 - All loans are written off **25 years** from the Statutory Repayment Due Date (SRDD).
- Under **Scenarios 1 and 2**, we assume the same loan repayment terms as under the current system.
- In **Scenario 3**, we have modelled the **introduction of real interest rates**, where:
 - Student loans would accumulate total (i.e. nominal) interest at **1% + RPI** during the period of study (i.e. before the SRDD).
 - After graduation, loans accumulate interest depending on earnings, with individuals who earn up to **£22,015** (in 2023-24, i.e. equal to the repayment threshold) incurring interest at **0% + RPI**, increasing to **1% + RPI** for individuals with earnings above **£42,015** per annum (with both thresholds uprated with RPI in every subsequent year, as under the current system).
 - The loan repayment rate, threshold, and repayment period would all be the same as under the current system.

Calculating the RAB charge

- We use the following equation to calculate the RAB charge:

$$RAB\ charge = \frac{NPV\ loan\ outlay - NPV\ repayments}{NPV\ loan\ outlay}$$

- The RAB charge is therefore calculated based on the net present value of the aggregate loan outlay provided to students in the 2023-24 cohort over the course of their studies (i.e. in total throughout all years of study), as well as the net present value of the total estimated loan repayments expected to be made by these students after they graduate.

¹ Under the currently exceptionally high RPI inflation rates, where the (nominal) student loan interest rate is too high in comparison to the prevailing market rate, the Government will temporarily cap the maximum loan interest rate. Our modelling assumes that an interest cap of **6.25%** in nominal terms applies to 2023-24 (based on the interest rate cap for Plan 1 loans as of 1st September 2023, [here](#) and [here](#)). This cap is applied to *all* scenarios modelled here.

² For more information on how RPI affects loan interest rates, see the [next slide](#).

Assumptions and methodology

- We use the most recent OBR medium- and long-term forecasts in relation to the expected **RPI** per annum as well as expected **nominal average earnings growth** per annum (see [here](#) (for medium-term projections from the OBR’s November 2023 Economic and Fiscal Outlook), and [here](#) (for long-term projections from the OBR’s March 2023 Economic and Fiscal Outlook, which are the most recent long-term forecasts currently available from the OBR)). Where applicable, we also rely on historical RPI data published by the Office for National Statistics (ONS; [here](#))¹.
- Specifically, the **loan interest rate** is usually set in September each year, based on the RPI of *March in that same year*. Hence, the RPI figure used in calculating the interest rate for academic year 2023-24 is based on March 2023 RPI data from the ONS². For subsequent academic years, the OBR only publishes quarterly medium-term forecasts, and only annual forecasts (for each fiscal year) in the long-term. We therefore use the forecast for the corresponding first quarter (January to March) of each year from the OBR’s medium-term projections (e.g. we use forecasts for Q1 2025 for the assumed interest rate in 2025-26), and the annual figure for the corresponding previous financial year from the long-term projections (e.g. we use forecasts for financial year 2030-31 for the assumed interest rate in 2031-32).
- Under Plan 1 loan repayment terms, the **loan repayment threshold** is updated in April each year in line with RPI in the year to the *previous March* (e.g. we assume that the repayment threshold will increase by **13.5%** in 2024-25, again based on March 2023 RPI data from the ONS)³.
- In relation to **discount rates for the estimation of aggregate financial flows across the cohort**, for the first 30 years, we assume the standard HMT Green Book real discount rate of **3.5%** (see [here](#)), with the nominal discount rate amounting to **3.5% + RPI**. The assumed rates for Year 31 onwards stand at **3.0%** in real terms, and **3.0% + RPI** in nominal terms.
- In terms of **discount rates used to calculate the RAB charge** (which is based on expected loan repayments and loan outlay in NPV terms in constant prices, see [previous slide](#)), we assume a discount rate of **-1.3% + RPI** up to and including 2029-30, and **-0.2% + RPI** from 2030-31 onwards (based on official HM Treasury discount rates for financial instruments to be applied as of 31st March 2023, see [here](#) and [here](#)). These discount rates match the assumptions used by the Department for Education in its forecasts of the RAB charge and the associated long-run cost of student loans in England ([here](#)). **Importantly, these real discount rates are lower than the current long-term real Government cost of borrowing** (i.e. Government gilt yields), since the official discount rates applied to student loans predominantly reflect *historical* rather than current gilt yields (e.g. see a recent report by the Institute for Fiscal Studies ([here](#))). This results in a significant *underestimation* of the true Exchequer cost of providing student loans, and, therefore, an effective implicit public subsidy for these loans. While our use of the above discount rates reflects the Government’s own approach to measuring the cost of student loans, this constitutes one of the key caveats associated with our estimates, as further discussed below (see [this slide](#)).

¹ Note that the Retail Price Index will be effectively abolished from 2030 onwards, after which it will equal the (lower) measure of Consumer Price Index inflation.

² According to the ONS data, March 2023 RPI inflation stood at **13.5%** (i.e. the Retail Price Index was 13.5% higher in March 2023 than in March 2022). As noted on the [previous slide](#), given this exceptionally high level of inflation, the Plan 1 interest rate is currently capped at **6.25%** (as of 1st September 2023).

³ The corresponding threshold increase for 2024-25 has already been announced (see [here](#)).

Assumptions and methodology

- As outlined above, the analysis focuses on **Northern Irish domiciled students in the 2023-24 cohort studying at higher education institutions anywhere in the UK** (and ROI domiciled students studying in Northern Ireland). Therefore, the estimated level of Teaching Grant funding associated with the cohort includes Teaching Grants paid to **Northern Irish HEIs** (by the NI Department for the Economy), **English HEIs** (by the Office for Students) and **Welsh HEIs** (by the Higher Education Funding Council for Wales (soon-to-be replaced by the Commission for Tertiary Education and Research)). Again, note that NI domiciled students studying in **Scotland** typically do not attract any Teaching Grant funding (from the Scottish Funding Council), as these students are charged much higher fees as compared to ‘home’ students studying in Scotland, so that the Teaching Grants paid to Scottish HEIs generally apply to ‘home’ domiciled students only.
- To estimate the average level of Teaching Grant per student per year under the **current system** for students in the cohort studying in Northern Ireland, England, and Wales, we use HESA financial data ([here](#)) and student data ([here](#)) for the 2021-22 academic year (i.e. in the absence of more recent information, we assume the same average Teaching Grants in 2023-24 as in 2021-22). Specifically, we divide the total Teaching Grant income received by HEIs in NI, England, and Wales (respectively) by the total number of relevant students to whom these Teaching Grants typically apply, where:
 - We exclude any non-EU domiciled students and higher degree (research) students (since it is assumed that there is no Teaching Grant funding paid for these students);
 - We also exclude EU first-year students (since, from 2021-22 onwards, these students are typically no longer eligible for Teaching Grant funding, given the significant changes to funding rules for EU students post-Brexit); and
 - To estimate average Teaching Grants for students studying in Northern Ireland specifically, we exclude any students from the rest of the UK studying in Northern Ireland (as these students pay much higher tuition fees compared to NI (and ROI) students studying in NI, so we assume that this funding does not apply to RUK students in NI).
- We again adjusted for the assumed average study intensity among full-time students vs. part-time students, to arrive at separate rates of Teaching Grant funding per student per year by study mode.
- Using this approach, we assume the following **average Teaching Grant funding rates per student per year** (all rounded to the nearest £10):

Study location	Full-time	Part-time
Northern Ireland	£3,030	£1,510
England	£720	£360
Wales	£490	£240
Scotland	-	-
- We assume that these Teaching Grant funding rates do not increase over time (i.e. we assume the same amount per student per year in every year of interest throughout the analysis here).
- The Teaching Grant funding rates under **Scenarios 2 and 3** are assumed to be the same as under the current system. In contrast, under **Scenario 1**, we have **lowered the Teaching Grants in NI to the same average per student per year as in England**.

Assumptions and methodology

- The estimation of student loan outcomes (such as the RAB charge) relies on **forecasting the student cohort’s predicted lifetime earnings** by qualification level (again broken down into first degrees, Foundation Degrees, HNCs/HNDs and other undergraduate qualifications), gender, study mode, and lifetime income decile. To estimate these lifetime earnings profiles, we make use of **pooled UK Quarterly Labour Force Survey (LFS) data for the period 2010 Q1 to 2023 Q2**, combined with information from the **1970 British Cohort Study (BCS)** (which follows a cohort of individuals born in a single week of April 1970 (in England, Wales, and Scotland), with the most recent data available for age 46 of the cohort).
- Using the **Labour Force Survey** data, we first assessed the annual salaries (expressed in June 2023 prices, inflated using Consumer Price Index (CPI) data) of individuals in possession of each of the different higher education qualifications¹. For each type of qualification, the earnings were assessed separately by income decile (including the 1st to 9th income deciles and the 95th percentile²), gender, and age (for first degrees) or age band (for qualifications below degree level (due to sample size)). To generate ‘smoothed’ age-earnings profiles for sub-degree qualifications, the original results by age band were assigned to the mid-point of the given band (e.g. age 28 for age band 26-30), and we then assumed constant annual growth between two given mid-points (e.g. we assumed constant annual growth between age 28 (the mid-point of band 26-30) and 33 (the mid-point for band 31-35)).
- To assess the expected loan repayments for part-time students specifically (who typically start repaying their loans *during study*), we further calculated earnings by decile (and the 95th percentile) for individuals in possession of Level 3 qualifications as their highest level of attainment (used as part-time students’ assumed earnings during study), again separately by age and gender.
- The LFS analysis provided us with earnings estimates by decile (and qualification level, mode, and gender), where the earnings deciles are defined *at each individual age* (e.g. the 1st decile at age 30 means that 10% of individuals in the data have earnings smaller than or equal to the given earnings *at that age*). However, to take account of graduates’ income mobility over their lifetime (i.e. the extent to which graduates move across the income distribution over time), we then **combined the LFS results with an analysis of data from the BCS** (focusing on data for ages 26 to 46 of the 1970 cohort) to generate **age-earnings profiles by lifetime earnings decile**.
- Specifically, based on weekly earnings information available within the BCS data, we again divided individuals within the distribution into 10 income deciles *at each individual age* observed in the study³. Again, the analysis was undertaken separately by gender and qualification level attained, where we distinguished between individuals in possession of first degrees vs. all other undergraduate qualifications (note that a further disaggregation into different types of sub-degree qualifications was not possible within the BCS data).
- From the LFS analysis, we then imported the estimated annual earnings value (in June 2023 prices) corresponding to each age and income decile (again separately by qualification level⁴).

¹ This includes all individuals in possession of the given qualification, *irrespective of* whether that qualification was their highest educational attainment or not (e.g. the average earnings for individuals in possession of first degrees includes individuals who subsequently completed a Master and/or Doctorate degree).

² The 95th percentile here was used to approximate the earnings for individuals on the 10th decile (i.e. rather than using the actual value for the 10th (i.e. 100th percentile) within the LFS data, since this captures the maximum earnings value observed in the data in each instance and is likely to include significant outliers).

³ Note that the BCS data is not available for each separate age but is instead based on multiple ‘sweeps’ of data collections undertaken at specific ages for the cohort (e.g. age 26, 30, 34, 38, 42, and 46; see [here](#) for more information). We assume here that individuals stay in the same decile between two sweeps (and stay in the last recorded decile after the age of 46). In addition, to boost sample size, imputation was undertaken in case of a respondent not being available at a given age (or missing information more generally).

⁴ Again, separately for first degrees, Foundation Degrees, HNCs/HNDs, and other undergraduate qualifications.

Assumptions and methodology

Graduate earnings

- Using the merged LFS/BCS data, we then computed the lifetime earnings for each individual within the data, based on the sum of annual earnings between the assumed first year post-graduation for our relevant cohort of students (i.e. the age at completion for each given qualification (e.g. age 25 for full-time first degrees)¹) and the assumed age of retirement (68). This allowed us to assign each individual to a *lifetime* earnings decile (again by gender and qualification level).
- Finally, for each single year of age, we then computed the **average earnings among all individuals within the specific lifetime earnings decile** (e.g. the average earnings at age 30 among individuals in the 1st lifetime earnings decile), i.e. we generated age-earnings profiles by lifetime decile (for each gender and qualification). We then further ‘smoothed’ these age-earnings profiles using 3-year rolling averages.

Graduate employment probabilities

- Again using LFS data, we also calculated the **employment rate** (i.e. the proportion of individuals in employment) for individuals in possession of the different qualification levels of interest, by age/age band, and gender.
- To reflect the fact that the age of retirement is planned to be increased to age 68 (compared to 65 for most respondents in the historical LFS data), we assume that the trend in employment rates observed from the age of 55 onwards will reflect the trend currently observed from age 52 onwards (in other words, the analysis ‘shifts’ the decline in employment rates due to approaching the age of retirement back by 3 years). As a result, the decline in employment rates occurs at a slower rate than what is observed in the historical LFS data², so that our estimated employment rates at age 68 are in line with what is currently observed at age 65.
- Combining the resulting age-earnings and age-employment profiles, we then estimate the **employment-adjusted annual age-earnings profiles** of individuals in possession of each qualification, by study mode, gender, and lifetime earnings decile. We **adjust these age-earnings profiles for expected future growth, i.e. to account for the fact that earnings are expected to increase over time** (using the above-mentioned Office for Budget Responsibility forecasts of average nominal earnings growth per year (see [this slide](#))).

¹ See [this slide](#) for more information on the assumed age at graduation by qualification level and mode among the 2023-24 student cohort.

² We use a 2-year annualised change to determine these new rates of decline (to provide a smoother evolution).

Assumptions and methodology

- Our modelling is based on a range of key simplifying assumptions to avoid excessive complexity and to keep the analysis flexible and tractable. Therefore, our modelling is subject to **several key limitations and caveats**:
 - The analysis is based on estimated (employment-adjusted) average lifetime earnings profiles across a range of different groups of graduates (estimated separately by gender, age, qualification level, mode of study, and lifetime earnings decile), which are necessary to allow us to estimate graduates' expected lifetime loan repayments under each scenario. These estimates are highly uncertain, and rely on (and are sensitive to) forecasts of average earnings growth and inflation many years into the future.
 - We implicitly assume that there will be no change in HE fees and funding policy for many decades into the future (i.e. apart from any changes to loan repayment conditions modelled under the different scenarios here, we assume that there will be no further change in repayment terms for the relevant cohort going forward).
 - All our estimates are based on the 2023-24 entry cohort and are 'static' in the sense that we do *not* take account of the impact of potential funding changes on the size or characteristics of this cohort. Instead, we assume that there are no changes in the number or characteristics of students in the cohort under each scenario.
 - We also assume that the HE funding system (including loan repayment conditions) does *not* affect graduates' gross lifetime earnings.
 - To avoid excessive complexity, our estimates of graduates' lifetime loan repayments do *not* adjust for potential graduate income from investments; early or voluntary repayments; early loan cancellation (e.g. due to death or disability); or loan repayments by drop-outs.

- **Another important caveat relates to our use of official discount rates to estimate the cost of student loans.** As noted [above](#), the official HM Treasury discount rates applied by the DfE to estimate the RAB charge and the long-run cost of student loans (for England) are substantially lower than the current Government cost of borrowing. Specifically, as detailed in a recent report by the Institute for Fiscal Studies (IFS, [here](#)):

"If the government can borrow at a lower rate of interest than the interest it charges on student loans, then borrowing to lend money to a student who goes on to repay the loan in full will be a profitable transaction for the government (because the interest it pays on its extra borrowing is more than offset by the interest it receives from the student). When the opposite is true, the transaction is loss-making: it becomes costly for the government to provide student loans even to those students who go on to repay them in full, because the interest costs on the government's borrowing exceed the interest payments received from the student."

Hypothetically, in the calculation of the long-run Exchequer cost of student loans, the Government's borrowing costs are accounted for through the discount rate, which determines the effective value of expected future repayments relative to the up-front loan outlay (and a higher discount rate means that future repayments are valued less). However, the HMT discount rates used by the DfE to produce its official student loan statistics are much lower than the current long-term Government cost of borrowing (measured by long-term gilt yields), since the official discount rates reflect *historical* (as opposed to current) gilt yields (see [next slide](#) for further details).

Assumptions and methodology

Specifically, the Government’s borrowing costs have increased significantly over the last two years, with the annual yield on 15-year gilts standing at 4.0% at the end of 2023¹, which is 1.6 percentage points higher than projected RPI (2.4%) over the next 15 years. In other words, the gilt yield equals **RPI+1.6%**. In contrast, the official discount rates for student loans stand at **RPI-1.3%** pre-2030 and **RPI-0.2%** from 2030 onwards, which are substantially lower than the current gilt yield. At the same time, with the student loan interest rate in England now equal to RPI under the post Augar system (rather than up to RPI+3% under the pre Augar system), this means that student loan interest rates in England are now 1.6 percentage points *lower* than the current gilt yield – so that, in addition to the loss of loan write-offs, the Government now *also* makes an expected loss on loans that are fully repaid.

All of this implies that the DfE’s official statistics for England likely understate the true cost of student loans to the Exchequer. Since we use the same HMT discount rates for consistency with the Government’s own official student loan calculations, the same applies to our estimates for Northern Ireland here.

Since expected loan repayments reach far into the future, the results are very sensitive to the discount rate, so the impact of these assumptions on the size of the estimates is substantial. For example, if we instead assumed a discount rate of **RPI+1.6%** to estimate the RAB charge (to mirror the above 15-year gilt yield)², the estimated Exchequer cost of the current Northern Irish funding system associated with the 2023-24 entry cohort would increase from **£172m to £251m (+£80m;** see the table on the right-hand side).

Net Exchequer cost associated with the 2023-24 cohort under different discount rates for calculating the RAB charge (NPV in 2023-24 prices)

Net Exchequer cost (adjusted for RAB)	Baseline	Scenario 1	Scenario 2	Scenario 3
Original estimates (discount rate of RPI-1.3%/RPI-0.2%)				
Cost of maintenance grants	(£40m)	(£40m)	(£52m)	(£40m)
Cost of maintenance loans	(£15m)	(£22m)	(£37m)	(£5m)
Cost of tuition fee grants	(£3m)	(£3m)	(£3m)	(£3m)
Cost of tuition fee loans	(£22m)	(£43m)	(£31m)	(£9m)
Cost of Teaching Grants	(£93m)	(£27m)	(£93m)	(£93m)
Total	(£172m)	(£135m)	(£216m)	(£149m)
Revised estimates (discount rate of RPI+1.6%)				
Cost of maintenance grants	(£40m)	(£40m)	(£52m)	(£40m)
Cost of maintenance loans	(£50m)	(£57m)	(£94m)	(£43m)
Cost of tuition fee grants	(£3m)	(£3m)	(£3m)	(£3m)
Cost of tuition fee loans	(£67m)	(£111m)	(£76m)	(£58m)
Cost of Teaching Grants	(£93m)	(£27m)	(£93m)	(£93m)
Total	(£251m)	(£238m)	(£318m)	(£236m)

Note: All values have been discounted to net present values (using the different discount rates indicated), are presented in constant 2023-24 prices, and have been rounded to the nearest £1m.

¹ Up from 1.2% at the end of 2021. All numbers here are based on Bank of England historical 15-year gilt yields and OBR RPI forecasts as reported by the IFS (again, see [here](#)).

² As noted [above](#), the HMT’s official negative real discount rates are *only* used to calculate the RAB charge throughout our analysis, which is then applied to the aggregate loan outlay associated with the cohort to estimate the net (RAB-adjusted) Exchequer cost associated with these loans. The aggregate loan outlay, as well as all other aggregate financial flows associated with the cohort (e.g. Teaching Grants), are discounted using the standard HMT Green Book discount rates of **3.5% + RPI** (Years 1 to 30) and **3.0% + RPI** (Year 31 and onwards). As a result, all Exchequer costs *except* the cost of student loans are *not* impacted by the sensitivity analysis w.r.t. the discount rate here (i.e. the ‘revised’ estimates for these costs are the same as the ‘original’ estimates).