

Why the OBR's forecasts on students must improve

I have noted before the negative but slack way in which the Office for Budget Responsibility (OBR) models future student numbers. There seems to be a deeply-pessimistic gremlin somewhere inside their economic models for calculating future demand for high-level skills.

For instance, the document they published on 22 November 2017 alongside the Budget includes their third downgrading since November 2016 of student number projections for the next few years.

- November 2016: *Reflecting the latest UCAS acceptances data, we have revised our forecast for 2016-17 student numbers in England down by 5,000 relative to our March forecast. This has a knock-on effect in subsequent years. ... these changes reduce our student numbers forecast by 15,000 in 2020-21 relative to March.*

(Source: <http://cdn.budgetresponsibility.org.uk/Nov2016EFO.pdf>)

- March 2017: *Relative to November, we have revised down our forecast of student numbers in England. The latest UCAS entrant data suggest 5,000 fewer students in 2016-17 than we expected. The number of applications in 2017-18 is also lower than we assumed in November (due to fewer applications from EU-domiciled and mature students). ... these*

changes reduce our student numbers forecast by 14,000 in 2021-22 relative to November.

(Source: <http://cdn.budgetresponsibility.org.uk/March2017EFO-231.pdf>)

November 2017: Relative to March, we have revised down our forecast of student numbers in England. The most recent UCAS clearing data for September 2017 show that acceptances from UK- and EU-domiciled applicants to English institutions fell by 2 per cent, following slow growth in student application rates since 2015. We expect this to continue, so have assumed slower growth in the student entry rate than we did in March. New ONS population projections assume slightly more 18 to 19 year olds than the previous projections that underpinned our March forecast, but this age group is still expected to shrink year-on-year until 2021. The combined effect of these changes reduces our student numbers forecast by 5,000 in 2017-18, rising to 26,000 in 2021-22.

(Source: <http://cdn.budgetresponsibility.org.uk/Nov2017EFOwebversion-2.pdf>)

The end result is a forecast that (UK- and EU-domiciled HEFCE-fundable full-time) undergraduate entrants to English higher education institutions and further education colleges will fall in each of the next four years:

- by 2,000 in 2018;
- by 7,000 in 2019;
- by 6,000 in 2020; and
- by 5,000 in 2021.

The OBR's current projections (November 2017)

| | Percentage point change on a year earlier, unless otherwise stated Forecast ¹ | | | | | |
|---|--|---------|---------|---------|---------|---------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
| Weighted 18-24 population growth | -2.1 | -1.0 | -2.3 | -1.9 | -2.1 | 1.0 |
| Weighted growth in entry rate | 0.1 | 0.1 | 0.4 | 0.5 | 0.5 | 0.5 |
| Assumed growth in student numbers | -2.0 | -0.9 | -1.9 | -1.3 | -1.6 | 1.5 |
| | Thousands | | | | | |
| Student numbers ² | 363 | 361 | 354 | 349 | 344 | 350 |
| of which: | | | | | | |
| UK-domiciled | 343 | 341 | 335 | 330 | 324 | 330 |
| EU-domiciled | 20 | 20 | 20 | 20 | 20 | 19 |
| Memo: student numbers inclusive of nursing, midwifery and AHP entrants ³ | 393 | 394 | 388 | 383 | 378 | 385 |

¹ Forecast student numbers are provided in academic years to reflect the time period that these students are entering higher education institutions and further education colleges.

² Covers UK and EU domiciled HEFCE fundable full-time undergraduate entrants to English higher education institutions and further education colleges. Separate assumptions are made for students at alternative providers, who are not included in this baseline.

³ Since 2017-18 nursing, midwifery and allied health profession (AHP) entrants have been part of the main student support system.

Perhaps this seems a reasonable set of assumptions, given Brexit. But, among their pessimism, the OBR foresees no fall in EU-domiciled students whatsoever over this period (with a tiny drop off later on, in 2022/23).

It is bizarre that our primary independent economic forecasters:

1. take only a couple of variables (demographic data and information from UCAS) into account in their modelling;

The OBR's projections, March 2016

| | Percentage point change on a year earlier (unless otherwise stated) | | | | | |
|-----------------------------------|---|---------|---------|---------|---------|---------|
| | Forecast | | | | | |
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Weighted 18-24 population growth | | 0.2 | -2.0 | -0.8 | -2.3 | -1.9 |
| Weighted growth in entry rate | | 2.6 | 3.1 | 3.0 | 3.0 | 2.9 |
| Assumed growth in student numbers | | 2.8 | 1.1 | 2.2 | 0.7 | 1.0 |
| | Thousands | | | | | |
| Student numbers | | 380 | 385 | 393 | 396 | 400 |

There has been no public debate about these missing 51,000 entrants and there is no evidence the OBR has had proper conversations with the sector about their ever-changing numbers.

This matters because these forecasts feed into the country's economic planning on things like levels of borrowing, which in turn affects the room for manoeuvre that policymakers feel they have.

Because the OBR is only interested in the *flow* of new entrants to higher education, their numbers suggest the total *stock* of students will actually fall by a greater number than any one year's entry figures. We can make a (very) rough assumption that full-time undergraduates stay at university for three years:

- In March 2016, the OBR's figures suggested there would be 1,189,000 UK and EU-domiciled HEFCE-fundable full-time undergraduates in 2020/21 (the sum of entrants in 2018, 2019 and 2020); and
- now, on the same basis, they reckon there will be 1,064,000 – or 125,000 fewer.

That is a drop of more than 10 per cent in their forecasts – and, even if we assume some students do not complete a full three years, we are still talking about 100,000 people.

Perhaps at least one of the OBR's many different forecasts will turn out to be correct – even broken clocks are right twice a day. But, given the reliance the OBR puts on UCAS statistics in their modelling, I cannot help noticing the stark contrast between the OBR's position and UCAS's latest news release, which came out on 27 November 2017. UCAS say:

A record proportion of 18 year olds, from across the UK, gained a place at university or college in 2017. This is despite a fall of 1.2 per cent in the 18 year old population in the UK in 2017. ...

... the proportion of 18 year olds in the UK population who gained a place in higher education has increased by 0.7

2. believe they can model future student demand precisely on this basis; and
3. regard their rough modelling as a sensible mechanism for producing a new forecast every few months.

The changes have a dramatic impact. In March 2016, the OBR predicted there would be 400,000 new students in 2020/21. Now, on a like-for-like basis, they predict there will be 349,000 (with a further fall in the following year).

percentage points, to 32.6 per cent – the highest on record. This equates to an overall increase in the number of placed UK 18 year olds to 241,585, up 1.1% from 2016.

Clare Marchant, Chief Executive of UCAS, said: 'These headline entry rates for UK 18 year olds indicate that young people are increasingly attracted to full-time undergraduate education. It is encouraging to see almost 86% of those who applied to university were accepted – a record high.'

The OBR data only cover England while UCAS's data are for the whole UK, but the UCAS press release also states: 'The entry rate for 18 year olds in England increased by 0.8 percentage points to 33.3 per cent'

The planners in higher education institutions evidently do not agree with the OBR. At the end of October, the [Higher Education Funding Council for England](#) published a report on the financial health of the sector based on information submitted to them by institutions:

These latest forecasts show that the sector is projecting growth of 6.0 per cent in full-time undergraduate home and EU students between 2016-17 and 2019-20, with numbers expected to grow by 4.0 per cent between 2016-17 and 2018-19.

Although these projections are lower than last year, HEFCE is sceptical they can be achieved across the board: 'Some HEIs may find it difficult to achieve their recruitment projections'

But it is possible to think the sector's own projections may be too optimistic and, simultaneously, that the OBR's continuing negativity about the fortunes of institutions and learners is too pessimistic.

Remember: the projections from individual institutions published by HEFCE do not have to be right for the OBR to be wrong.

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