
Higher Education Policy Institute

LE London Economics

# How should undergraduate fees be funded?

Analysis of policy proposals for the Higher Education Policy Institute

Summary of findings, March 2024

# 1. INTRODUCTION AND OVERVIEW

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# Overview of the analysis

London Economics were commissioned by HEPI to **assess the implications of five different proposals for reforming the higher education (HE) funding system**, including four proposals for England and one for Scotland. In addition to the current (2023-24) higher education funding system, **we investigate the impact of each alternative system on the Exchequer, students/graduates, and higher education providers (HEPs)**:

- The analysis for England focuses on the **2023-24 cohort of first-year English domiciled undergraduate students studying at higher education institutions anywhere in the UK.** Similarly, the analysis for Scotland focuses on the **2023-24 cohort of first-year Scottish domiciled undergraduate students studying at higher education institutions anywhere in the UK *as well as* at further education (FE) colleges in Scotland**[1]. The modelling covers both full-time and part-time students and all types of undergraduate qualifications (i.e. first degrees and other undergraduate qualifications[2]).
- 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 alternative systems are based on the specific proposals made by five authors in their recent articles for HEPI; some of the (many) parameters involved in the different systems are not explicitly stated in these articles, but were instead confirmed with the authors separately.
- 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 off[3]), **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 student support provided to English/Scottish domiciled undergraduate students studying anywhere in the UK, and the associated Teaching Grant funding paid to HE providers; and
  - **HE provider funding**, in terms of tuition fee income and Teaching Grant funding received by institutions (minus the costs of any access bursaries provided to students).

[1] The data for students enrolled at higher education institutions is based on data published by the Higher Education Statistics Agency (HESA) for the 2021-22 academic year. 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. The HESA data includes students at publicly funded higher education institutions and alternative providers located anywhere in the UK, but excludes FE colleges (*except* colleges based in Wales - but there are only very few English or Scottish domiciled students studying at these institutions, so the number is negligible). For the Scottish model, we *also* included HE students studying at Scottish FE colleges, as these colleges make up a relatively large share of HE provision in Scotland (and as there is comprehensive published data available on this provision for Scotland (while there is no comparable data available for England)). The data on HE students in Scottish colleges is based on information provided by the Scottish Funding Council for the 2020-21 academic year, and we assume the same size and characteristics for the 2023-24 cohort as for the 2020-21 cohort. Please refer to the Annex for more information on our methodological approach.

[2] We exclude students studying for undergraduate-level institutional credits only (i.e. no formal qualifications), as these students are typically not eligible for public funding. In addition, for Scotland, we exclude full-time students studying paramedics, nursing, or midwifery in Scotland, as these are subject to different funding arrangements with the Scottish Government's Health and Social Care Directorate (through the separate Paramedic, Nursing and Midwifery Student Bursary (PNMSB) scheme; note that the PNMSB does not apply to part-time students in these subjects, so these students are *included* in our analysis, as they are covered by the general student support package provided by the Student Awards Agency for Scotland (SAAS)).

[3] As outlined in further detail in Annex III, to ensure that our methodology reflects the official approach employed by the Department for Education (DfE) 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 (for both England and Scotland) - likely understate the true cost of student loans to the Exchequer.

# Funding scenarios for *England* (I)

In addition to the **Baseline** (current English funding system), we model **four alternative scenarios for England**, based on the proposals put forward by Chloe Field, Jo Johnson, James Purnell, and Johnny Rich:

## BASELINE: CURRENT ENGLISH SYSTEM

**Current fees and funding arrangements** for English domiciled students who start undergraduate qualifications anywhere in the UK in 2023-24:

- **Tuition fees of £9,250 per full-time student**[1], backed by **fee loans**. **Fees are frozen over time**.
- **Means-tested maintenance loans of up to £9,978 for full-time students living away from home outside of London** ('LAFHOL'), and pro-rata loans for part-time students.
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter (also referred to as a **'fiscal drag'**). Repayment rate of **9%** of earnings above this threshold. **No real interest rate** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**[2].

## SCENARIO 1: CHLOE FIELD

**Free fees, (re-)introduction of maintenance grants, and stepped loan repayments**:

- **Tuition fees of £9,250 per full-time student**, backed by **non-repayable fee *grants*** (i.e. 'free fees'[3]), and **uprated with RPI inflation over time**[4]. Applies to English students **studying anywhere in the UK**.
- **Re-introduction of *full-time* English maintenance grants**[5] (based on the grants previously available to English full-time students pre-2016-17) *on top of* current maintenance loans.
- **Stepped repayment rates: 4%** on earnings between £12,570 and £27,570; **6%** on earnings between £27,571 and £57,570 and **3%** on earnings of £57,571 or more. Repayment period of **31 years.**
- **(Re-)introduction of real interest rates** of **3%** during study, and **0%-5.5%** for post-graduation earnings between £27,571 and £57,570 (and **5.5%** thereafter)
- **No 'fiscal drag'**, i.e. repayment and interest thresholds are uprated with average earnings growth over time (rather than RPI).

## SCENARIO 2: JO JOHNSON

**Uplifting fee caps in England with RPI depending on institutions' Teaching Excellence Framework (TEF) ratings:**

- From 2024-25 onwards (i.e. second year of study for the 2023-24 cohort), uplift of **100% of RPI** each year for providers with **Gold/Silver** TEF2023 rating; **50% of RPI** for providers with **Bronze** rating; and **0%** for providers with **no TEF2023 submission**. Applies to English students **studying in England only**.

[1] Fees, fee loans, and maintenance loans 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] The current repayment system is based on the new Plan 5 loan repayment terms for England, following the implementation of the Department for Education's response to the Augar Review (see here for more information). [3] Under this 'free fees' system, we assume that HE providers would no longer be required to provide access bursaries to students (i.e. we would assume that these bursaries would no longer be offered). [4] In addition, while under the current system, Teaching Grants paid to HE providers effectively remain constant over time, Scenario 1 instead assumes that this funding is uprated with RPI over time (similar to the uprating of tuition fees under this scenario). [5] For English domiciled part-time students, there were no maintenance grants available previously; hence, for part-time students, we assume the same maintenance loan funding as under the current system (and no maintenance grants).

# Funding scenarios for *England* (II)

In addition to the **Baseline** (current English funding system), we model **four alternative scenarios for England**, based on the proposals put forward by Chloe Field, Jo Johnson, James Purnell, and Johnny Rich:

## BASELINE: CURRENT ENGLISH SYSTEM

**Current fees and funding arrangements** for English domiciled students who start undergraduate qualifications anywhere in the UK in 2023-24:

- **Tuition fees of £9,250 per full-time student**, backed by **fee loans**. **Fees are frozen over time**.
- **Means-tested maintenance loans of up to £9,978 for full-time students living away from home outside of London** ('LAFHOL'), and pro-rata loans for part-time students.
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter (also referred to as a **'fiscal drag'**). Repayment rate of **9%** of earnings above this threshold. **No real interest rate** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

## SCENARIO 3: JAMES PURNELL

**Stepped loan repayments (only[1])**:

- **Stepped repayment rates: 3%** on earnings between £12,570 and £27,570; **6%** on earnings between £27,571 and £57,570 and **3%** on earnings of £57,571 or more. **(Re-)introduction of real interest rates** of **3%** during study, and **0%-3%** for post-graduation earnings between £27,571 and £57,570 (and **3%** thereafter).
- **No 'fiscal drag'**, i.e. repayment and interest thresholds are uprated with average earnings growth over time (rather than RPI).
- Repayment period of **30 years**.

## SCENARIO 4: JOHNNY RICH

**Free fees under the introduction of an Employer Levy:**

- **Tuition fees of £9,250 per full-time student**, backed by **non-repayable fee *grants*** (i.e. 'free fees'[2]). Applies to English students **studying anywhere in the UK**.
- **Reduction in loan repayment rate to 3% of earnings above the current loan repayment threshold** (with same threshold and threshold uprating as in current system).
- **Employer Levy of 3% of employee pay above the current loan repayment threshold**[3] (with same threshold and threshold uprating as in current system).

[1] Compared to Scenario 1, Scenario 3 would also involve a stepped repayment system, but with different repayment and real interest rates and a different repayment period than Scenario 1, and *no other changes* to the system (as opposed to a range of additional changes included under Scenario 1). [2] Under this 'free fees' system, similar to Scenario 1, we assume that HE providers would no longer be required to provide access bursaries to students. However, in contrast to Scenario 1, Scenario 3 assumes that the (notional) fees of £9,250 would continue to remain frozen in subsequent academic years. [3] To assess the impact of this hypothetical Employer Levy on the Exchequer, the analysis estimates the expected Employer Levy contributions as a proportion of the loan outlay associated with the 2023-24 cohort (i.e. students who started their qualifications in the 2023-24 academic year). We then apply the resulting proportions to the estimated loan outlay associated with the cohort, to estimate the potential *future* Employer Levy contributions associated with these students (in today's money terms).

# Funding scenarios for *Scotland*

In addition to the **Baseline** (current Scottish funding system), we model **one alternative scenario for Scotland**, based on the proposals put forward by Reform Scotland:

## BASELINE: CURRENT SCOTTISH SYSTEM

**Current fees and funding arrangements** for Scottish domiciled students who start undergraduate qualifications anywhere in the UK in 2023-24:

- **Tuition fees of £1,820/£1,285 for first degree/sub-degree students in Scotland**, and **£9,250 for students in RUK**[1]. Backed by full **fee grants** for students studying in **Scotland** (i.e. effectively free fees), and **fee loans** for students studying in **RUK**[2]. All of these fees are **frozen over time**.
- **Combination of means-tested maintenance loans and grants for full-time students of up to a total of £9,000**[3] (irrespective of living circumstances). No maintenance support for part-time students.
- **Repayment threshold of £27,660**, uprated with RPI every year. Repayment rate of **9%** of earnings above this threshold. **No real interest rate** applied to loans (so nominal interest = 0% + RPI). Repayment period of **30 years**[4].

## SCENARIO 5: REFORM SCOTLAND

**Removal of 'free fees' system for degree-level students in Scotland (only), through combination of fee grants *as well as* a graduate contribution (paid post-study)**:

- **For first degree students studying in Scotland, tuition fees of £1,820 per annum** (for full-time student, and pro-rata for part-time students), **backed by current full fee grant. *Additional* graduate contribution of £1,375 per annum** (per year of study, i.e. a total graduate contribution of £5,500 for full-time first degrees[5]).
- No change to fees or fee support for sub-degree level students studying in Scotland, or for students (at any level) studying in RUK.

[1] Again, fees for part-time students are set on a pro-rata basis. [2] Note that Scottish domiciled part-time students studying in Scotland are eligible for a *means-tested* fee grant (under the Part-Time Fee Grant (PTFG) scheme), while part-time students studying in RUK are typically *not* eligible for any public fee support from SAAS. [3] The Scottish Government recently announced that, in 2024-25, total maximum maintenance funding for Scottish domiciled students would increase to £11,400 (to bring funding in line with the Scottish Living Wage), and this increase has been taken account of throughout the analysis here. [4] The Scottish funding system is subject to Plan 4 loan repayment terms. [5] In their article for HEPI, as a starting point for a potential non-zero tuition fee model for Scotland, Reform Scotland describe a total 'graduate contribution' of £5,500 for a first degree over the *entire period of study* (typically 4 years for students studying in Scotland). Here, we have thus modelled this as an *annual* figure of £1,375 per student per year of study, which would be *on top of* the current fee of £1,820 per student per year. As described in further detail below, for simplicity, the graduate contribution here has been modelled as an effective tuition fee loan, using the same repayment terms that apply to maintenance loan repayments (and tuition fee loans, for Scottish domiciled students studying in RUK) under the current Scottish funding system.

# 2. MODELLING POLICY PROPOSALS FOR ENGLAND

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# Current English funding system (Baseline)

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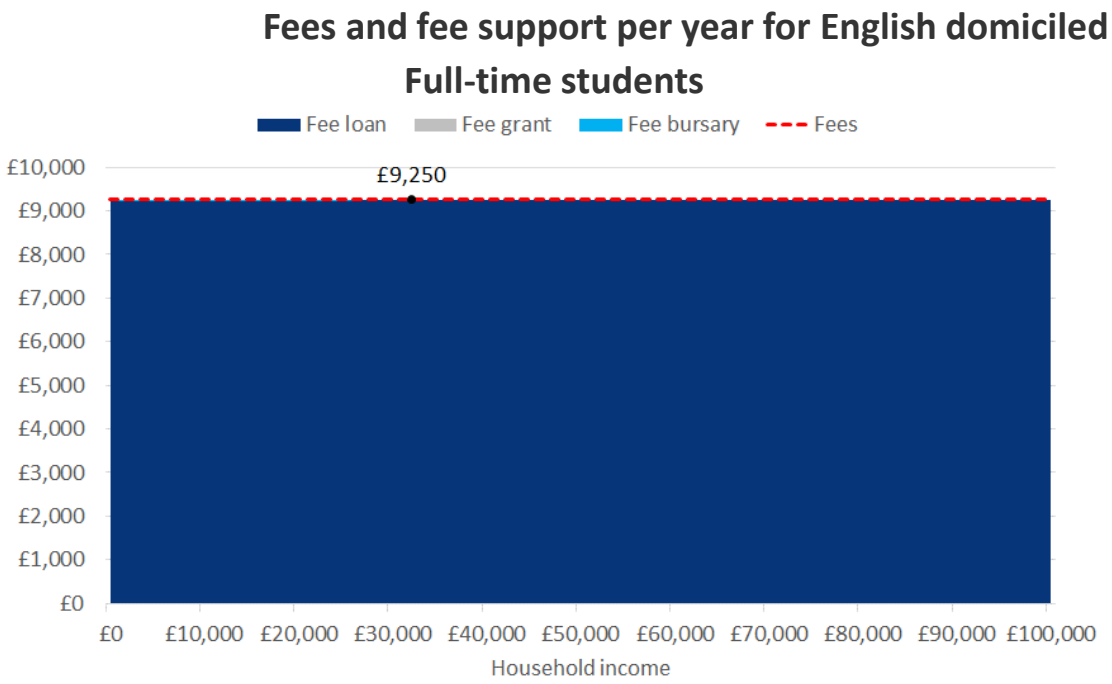
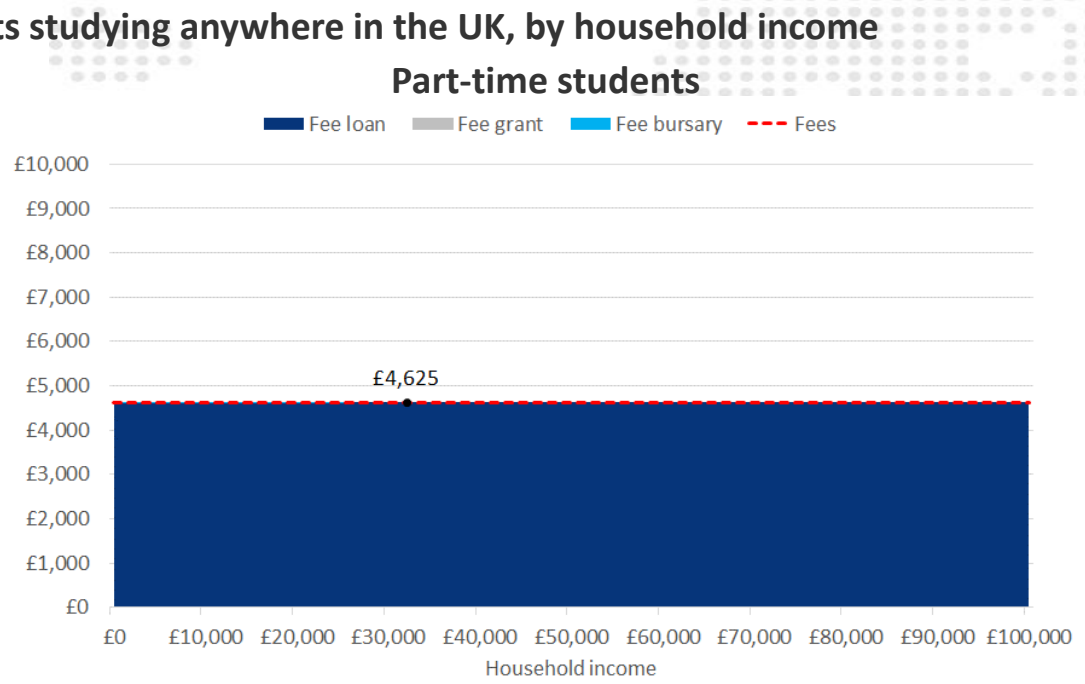
# Baseline (current system): Fees and fee support



- Under the **current system**, the fees for **full-time** English domiciled students studying anywhere in the UK (i.e. in England or elsewhere) stand at **£9,250**, supported by (non-means-tested) fee loans as well as access bursaries provided by universities[1].
- **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 **£4,625**. These fees are again supported through non-means-tested fee loans and access bursaries provided by HEIs.

**Fees and fee support per year for English domiciled students studying anywhere in the UK, by household income**




Note: The figures relate to fees and fee support in 2023-24, and we assume that these figures remain 'frozen' over the cohort's entire study duration under the Baseline. Also see Annex I for more information on our methodology.

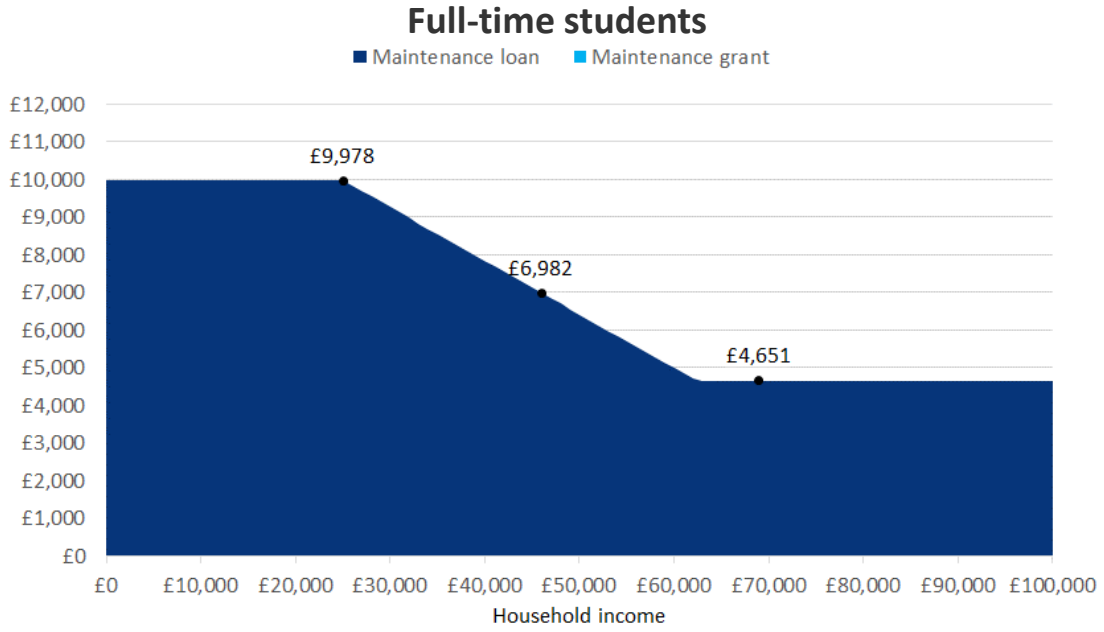
[1] Based on Office for Student data (here), according to institutions' access plans for 2023-24, we assume that (on average) approximately **0.3%** of the tuition fee charged in excess of the Basic Fee (of **£6,165** per annum for full-time students) is handed back to students in the form of fee waivers. 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**. We assume that these bursaries available in England also apply to English domiciled students studying in Wales, Scotland, and Northern Ireland (again, also see Annex I for more information on our methodological approach and assumptions). The resulting fee bursaries are very small (approximately **£10** per eligible full-time student per year), so that they are not displayed in the figures here.

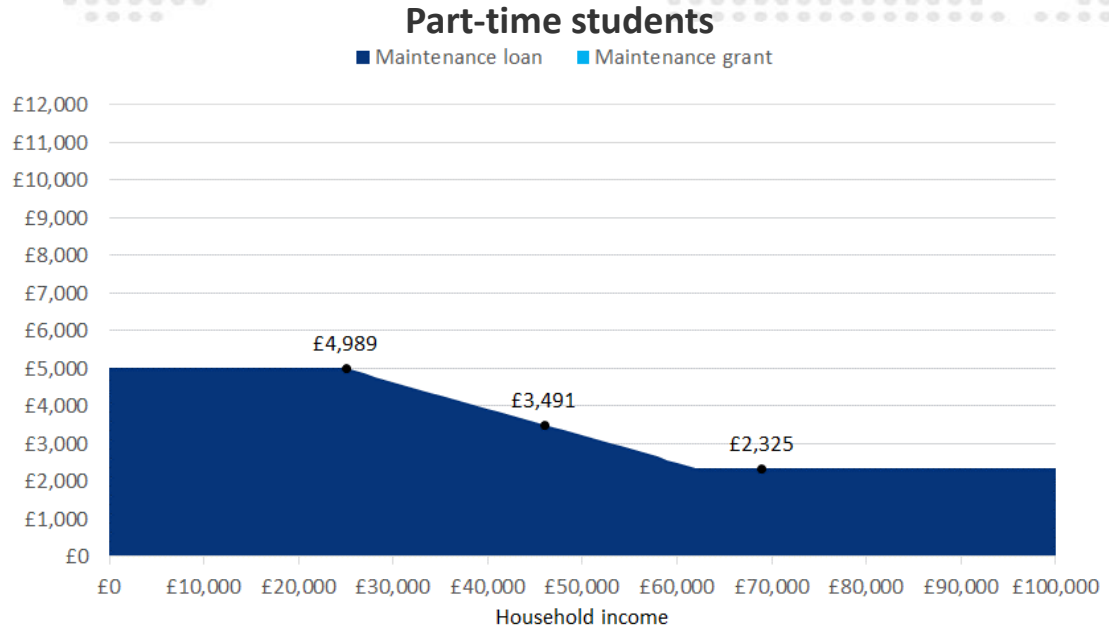
# Baseline (current system): Maintenance support



- The current English funding system provides **only relatively limited maintenance support to students**. Maintenance grants for English domiciled (full-time) students were abolished from 2016-17 onwards, and students who entered HE since then have only been able to access maintenance loans.
- **Full-time** undergraduate students living away from home outside of London (LAFHOL) are currently eligible for a maximum loan of **£9,978** (for household income **up to £25,000**), with a minimum loan of **£4,651** (for household income of **£62,343 or more**)[1]. With support for part-time students provided on a pro-rata basis, the corresponding maximum and minimum loan rates for part-time LAFHOL students stand at **£4,989** and **£2,325**, respectively (based on the same household income thresholds as for full-time students).

**Maintenance support per year for English 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 these figures increase with RPIX (Retail Price Index excluding mortgage interest payments) in each subsequent year of study for the cohort of interest. Again, see Annex I for more information.

[1] Students living away from home in London (LAFHIL) are instead eligible for a maximum loan of **£13,022** (for household income **up to £25,000**), with a minimum of **£6,485** (for household income of **£70,040 or more**); while students living at home (LAH) are eligible for a maximum loan of **£8,400** (for household income **up to £25,000**) and a minimum of **£3,698** (for household income of **£58,291 or more**)

# Baseline (current system): Total costs for cohort

Baseline system (England)

| Resource flows (£/£m/%) | Baseline |
|---|---|
| **Net Exchequer cost (adjusted for RAB)** | |
| Cost of maintenance loans | (£326m) |
| Cost of tuition fee loans | (£423m) |
| Cost of Teaching Grants | (£1,257m) |
| **Total** | **(£2,006m)** |
| | |
| **RAB charge (%)** | **4.1%** |
| | |
| **Net HEP income (UK HEIs)** | |
| Gross fee income | £11,302m |
| Teaching Grant income | £1,257m |
| Cost of bursary provision | (£108m) |
| **Total** | **£12,451m** |
| | |
| **Students/Graduates (FT first degree students from England studying in England)** | |
| **Average debt on graduation** | **£50,500** |
| **Average lifetime repayments (M/F)** | **£53,800/£42,100** |

- Under the current Baseline funding system for England in 2023-24, the **public purse** contributes approximately **£2.01bn** per cohort of English domiciled students (**£1.99bn** from the Westminster Government and **£17m** from HE funding bodies in the rest of the UK[1]).
- Within this total, **maintenance loan write-offs** cost the public purse approximately **£326m** per cohort, while **fee loan write-offs** cost **£423m**. The cost associated with the provision of **Teaching Grants** to HEIs stands at **£1.26bn** per cohort, including **£1.24bn** for English HEIs (allocated by the Office for Students) and **£17m** for Welsh HEIs (allocated by the Higher Education Funding Council for Wales).
- **Higher education institutions** receive **£12.45bn** in net income per cohort, including **£11.30bn** in **fees** and the above **£1.26bn** in **Teaching Grants**. Against this income, HEIs contribute **£108m** per cohort in fee and maintenance **bursaries**.
- The average debt on graduation per student in the cohort (for full-time first degree students studying in England[2]) was estimated at **£50,500**, with average lifetime repayments of **£53,800** and **£42,100** for male and female graduates, respectively.
- The RAB charge associated with the cohort is estimated at **4.1%** (on average across all study levels and modes).

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.

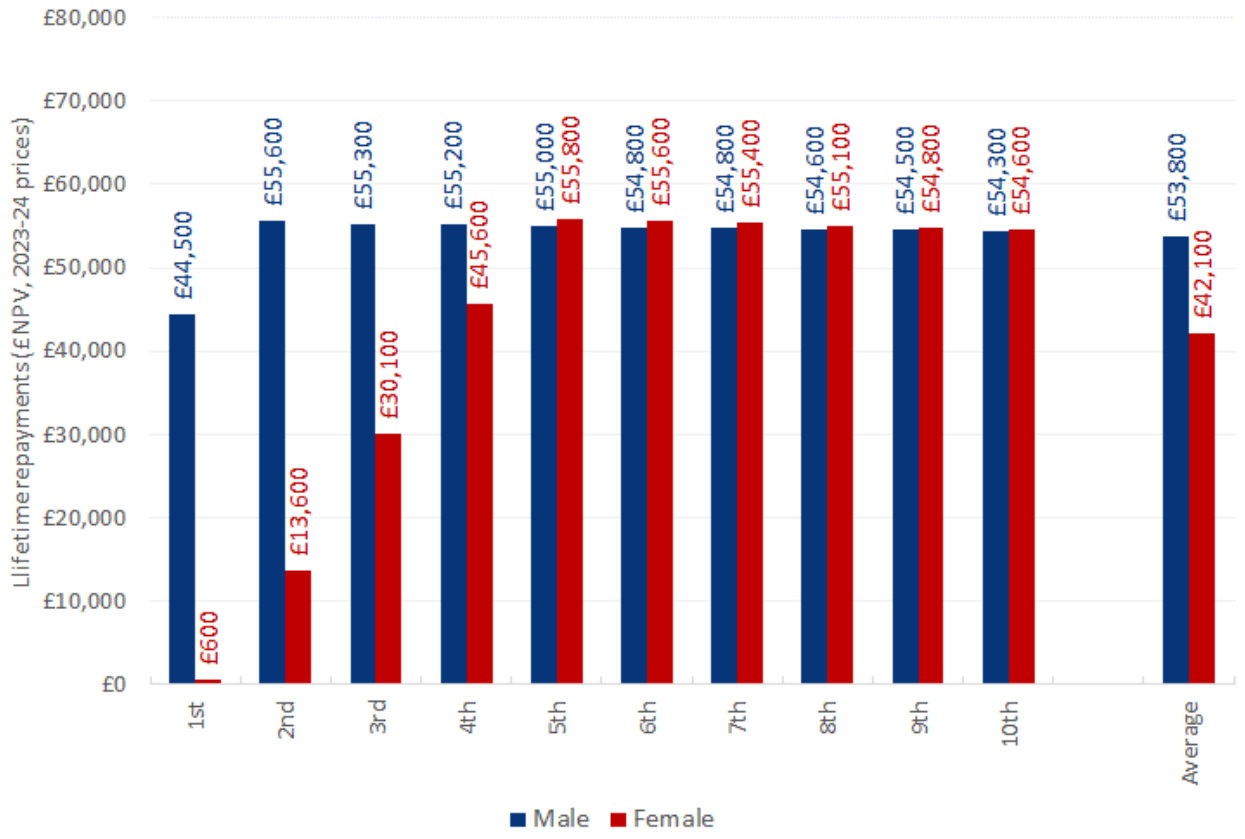
[1] The **£17m** relates to Teaching Grants paid to Welsh HEIs by the Higher Education Funding Council for Wales only (to be replaced by the Commission for Tertiary Education and Research in April 2024). English domiciled students studying in Scotland or Northern Ireland typically do not attract any Teaching Grant funding (from the Scottish Funding Council or the Department for the Economy Northern Ireland, respectively), since these students are charged much higher tuition fees as compared to 'home' students studying in these Home Nations – so that the Teaching Grants paid to Scottish and Northern Irish HEIs generally apply to 'home' domiciled students only.

[2] Debt on graduation and expected lifetime repayments per student are presented for full-time first degree English domiciled students studying in England; in the Baseline (current) funding system – as well as in Scenarios 1, 3, and 4 – the estimated debt on graduation and repayments for students studying in the rest of the UK are the same as for students studying in England.

# Baseline (current system): Graduate loan repayments

Baseline system (England)

**Total loan repayments by English domiciled students who complete FT first degrees in England[1] (NPV in 2023-24 prices), by lifetime earnings decile and gender**




- The average repayments made by **male graduates** stand at **£53,800**. The new Plan 5 repayment conditions (introduced by the Department for Education in response to the Augar Review) have increased repayments for low- to middle-income graduates, but effectively 'guillotined' the repayments made by higher earning graduates. As such, these reforms are regressive[2]. Male graduates on the 2nd to 10th income decile now all make roughly the same total level of loan repayments (in real NPV terms), standing at between **£54,300** and **£55,600**.
- The average lifetime repayments made by **female graduates** stand at **£42,100**. Female graduates in the bottom decile are expected to repay only approximately **£600** over the 40-year repayment period. However, repayments increase sharply thereafter, with female graduates on the 5th to 10th decile all expected to repay between **£54,600** and **£55,800**.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

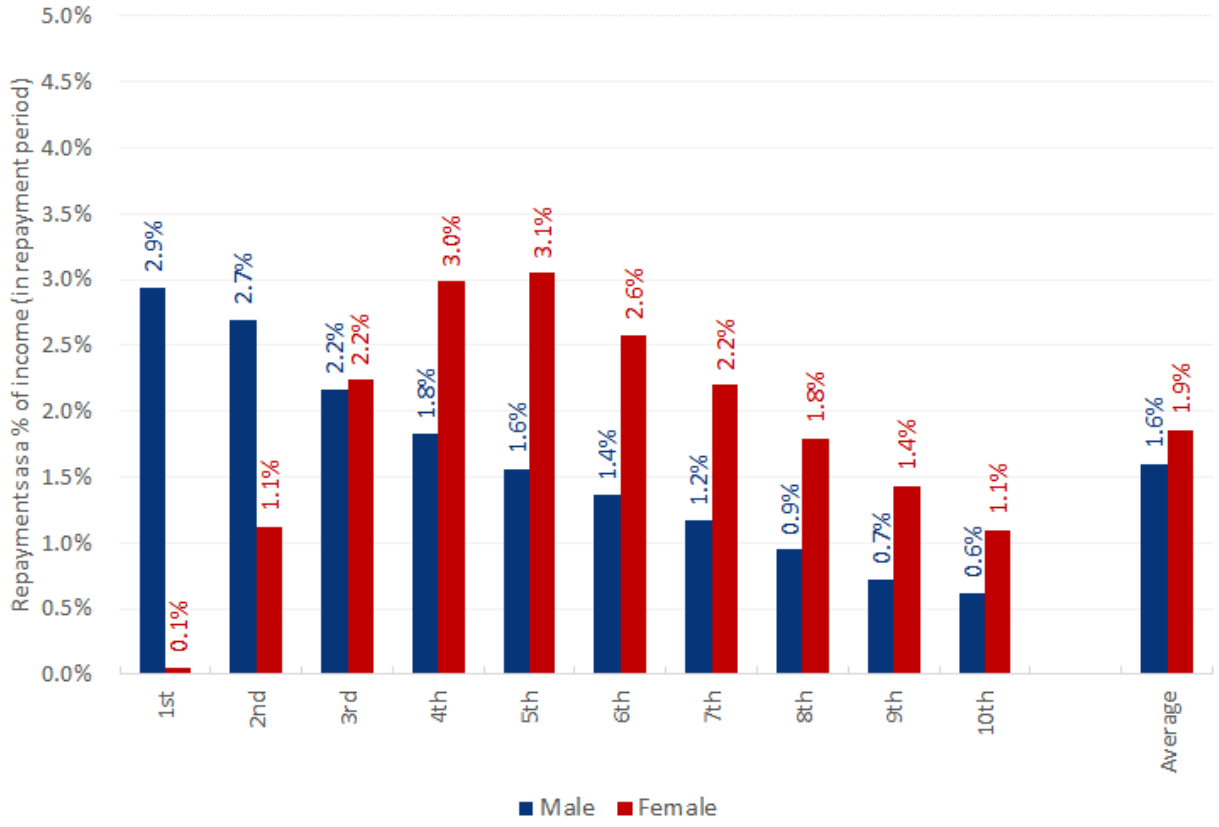
[1] Note again that, under the Baseline and under Scenarios 1, 3 and 4, lifetime repayments for English domiciled students studying in England are the same as for English domiciled students studying in the rest of the UK. In contrast, Scenario 2 models different tuition fees for students studying in England vs. elsewhere in the UK, thus resulting in different lifetime repayments (and debt at graduation etc.) between these types of students.

[2] For more information, also see our previous analysis of the impact of DfE's Augar response, here.

# Baseline (current system): Loan repayment progressivity

Baseline system (England)

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



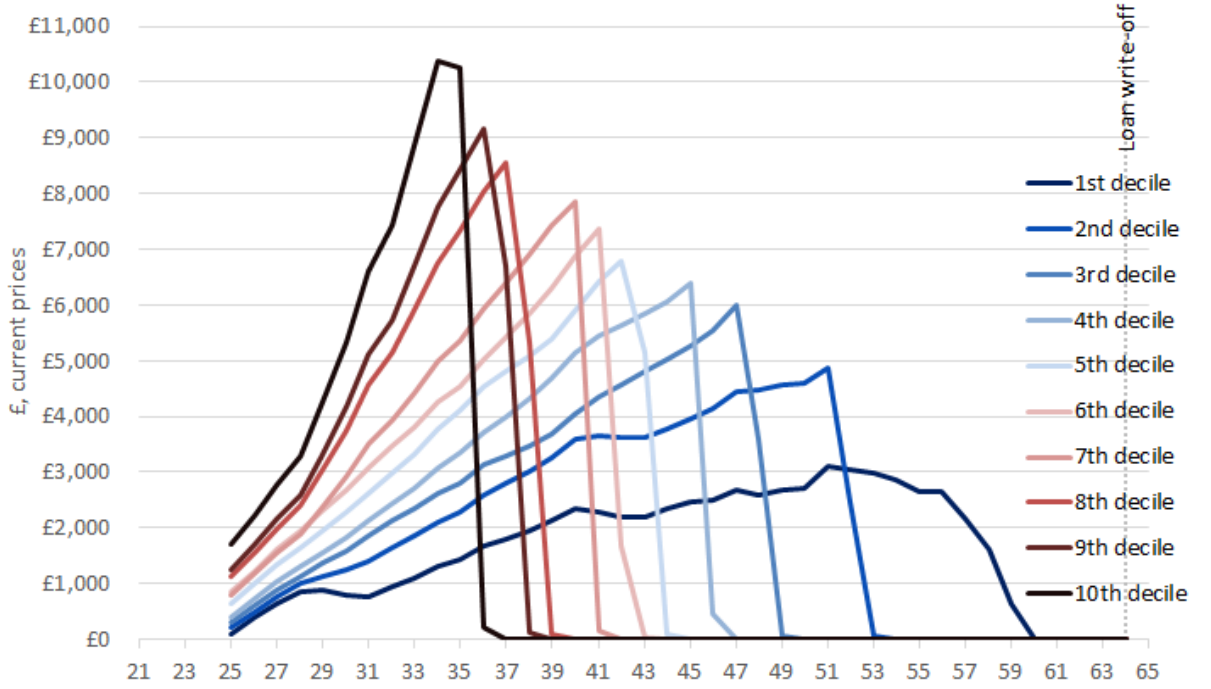

- The current loan repayment system (again, based on the new Plan 5 repayment system) is **regressive for most of the graduate earnings distribution** (and even more regressive than the previous Plan 2 repayment system that applies to students who entered HE prior to 2023-24 (as a result of the extension of the repayment period to 40 years and the reduction, freeze, and subsequent slower uprating of the repayment threshold)).
- Reflecting lifetime loan repayments, male graduates on the **1st lifetime earnings decile** contribute **2.9%** of their income in loan repayments over the 40-year repayment period. Illustrating the regressivity of the system, this proportion *declines* when moving up the earnings distribution, to only **0.6%** for the highest earning male graduates (**10th lifetime earnings decile**).
- Female graduates in the **bottom lifetime earnings decile** contribute **0.1%** of their earnings in repayments, increasing to approximately **3.1%** for women on the **5th decile**. However, the proportion again decreases for successive earnings deciles, declining to **1.4%** for women on the **9th decile** and **1.1%** on the **10th lifetime earnings decile**.

Note: Figures relate to repayments as a % of income throughout the repayment period (calculated based on cash terms (not discounted), for both income and repayments).

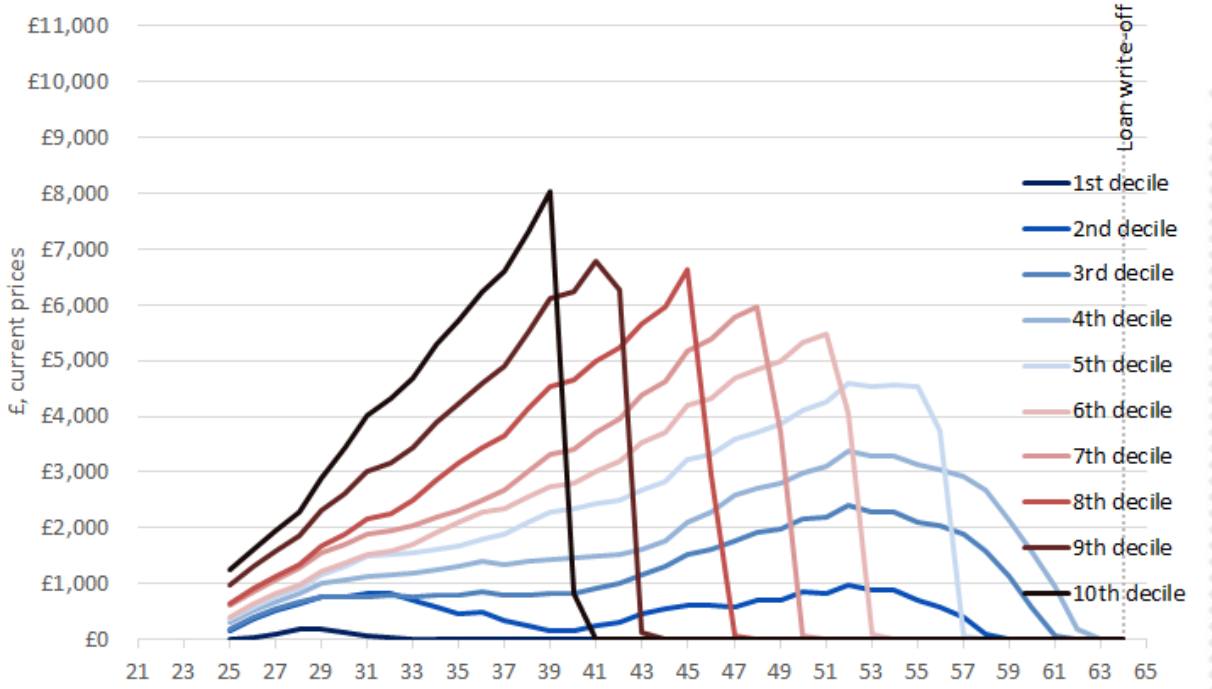
# Baseline (current system): Loan repayment profiles

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

## Baseline (England): Male graduates




## Baseline (England): Female graduates




- Under the current system, **high-income graduates** make higher *annual* repayments while they repay, and so are able to fully repay their loan relatively early on (and the higher their income, the earlier they tend to pay off their loan). 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 roughly the same total amount as graduates at the top of the earnings distribution.
- **Low-income graduates** (1st lifetime earnings decile for men, and 1st to 4th decile for women) typically also make repayments for most of the repayment period, but without ever repaying the full loan, as their expected annual repayments are too low to allow them to fully repay by the end of the 40-year period. Low-income graduates are especially impacted by the extension of the repayment period to 40 years.

# Scenario 1: Chloe Field

## (Free fees, re-introduction of maintenance grants, and stepped repayment system)

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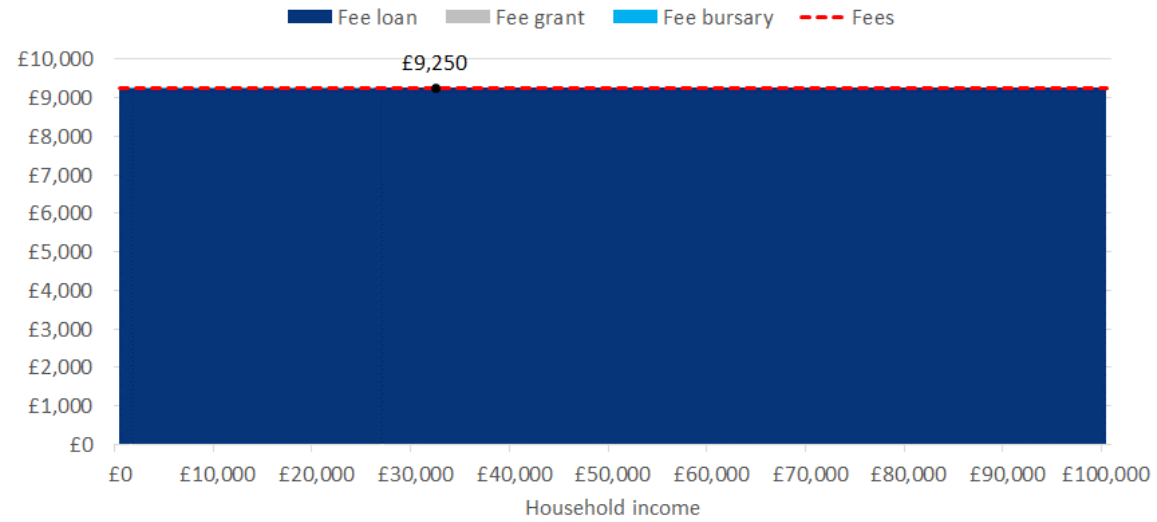
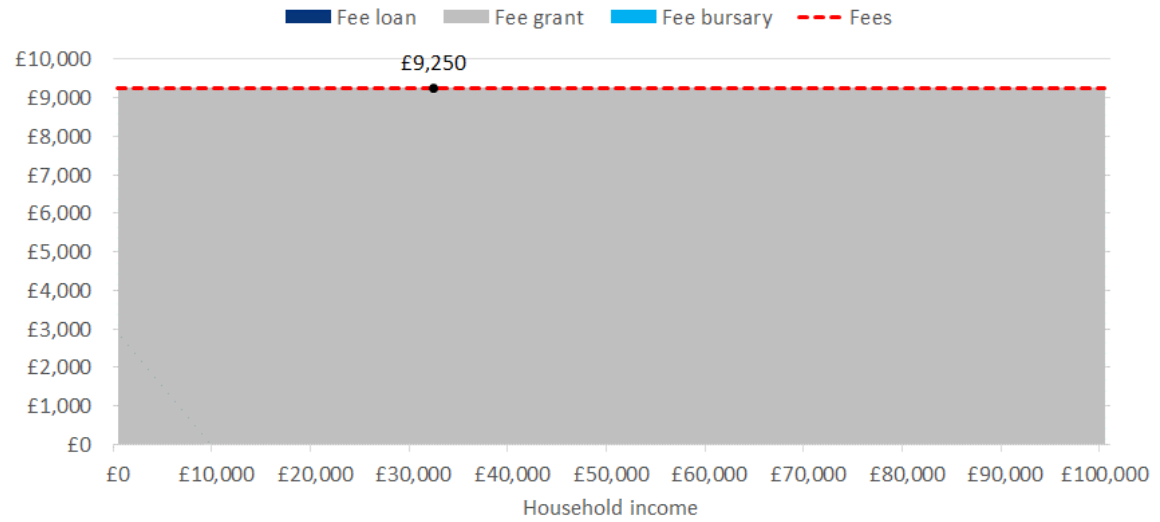
# Scenario 1: Fees and fee support

**Fees and fee support per year for English domiciled full-time students (studying anywhere in the UK), by household income**

## Baseline (England)




## Scenario 1: Chloe Field




- The changes to the English funding system proposed by Chloe Field (Scenario1) are **wide-ranging**, as they include changes to fees and fee support, Teaching Grants, maintenance support, and loan repayment arrangements.
- Regarding fees, **Scenario 1 would involve the effective abolition of tuition fees for English domiciled students studying anywhere in the UK, by replacing the current fee loan of £9,250 per full-time student per year with a full fee grant**. Under this free fees system, we assume that HEIs would no longer be required to provide access bursaries to students (i.e. we assume that these bursaries would no longer be offered[1]).
- While fees are assumed to remain frozen over time under the current system, under Scenario 1, **fees (and associated fee grants) would instead be uprated with RPI inflation each year**. The same uprating would also apply to **Teaching Grants** paid to higher education providers (by the Office for Students and by the Higher Education Funding Council for Wales) under this scenario.

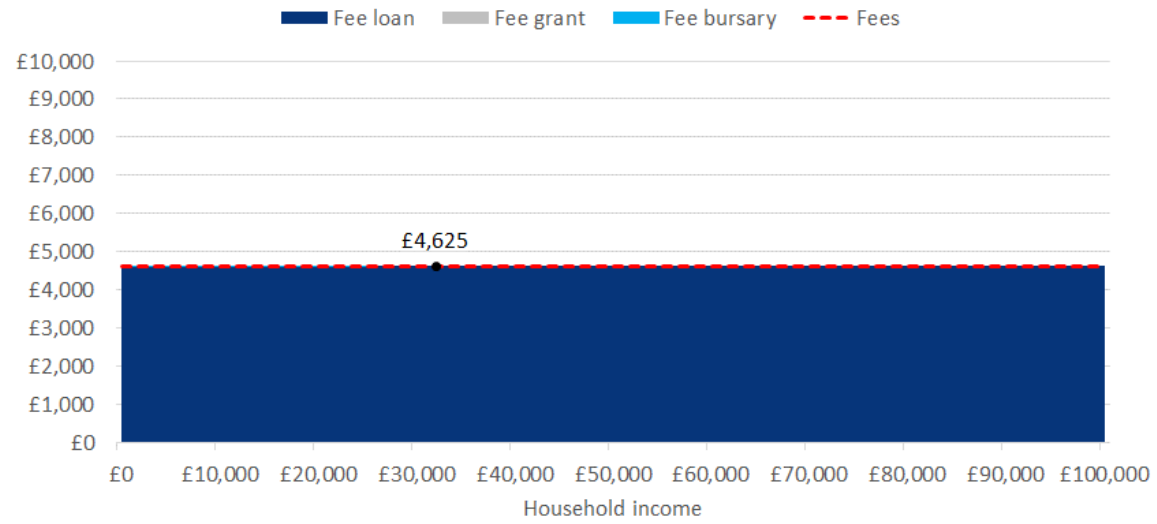
Note: The figures relate to fees and fee support in 2023-24. While fees and fee loan are frozen under the current system, under Scenario 1, the fee and associated fee grant would instead be uprated with RPI inflation over time.

[1] Again, note that the current average levels of fee bursaries are very small (approximately **£10** per eligible full-time student per year), so that they are not displayed in the Baseline figure here.

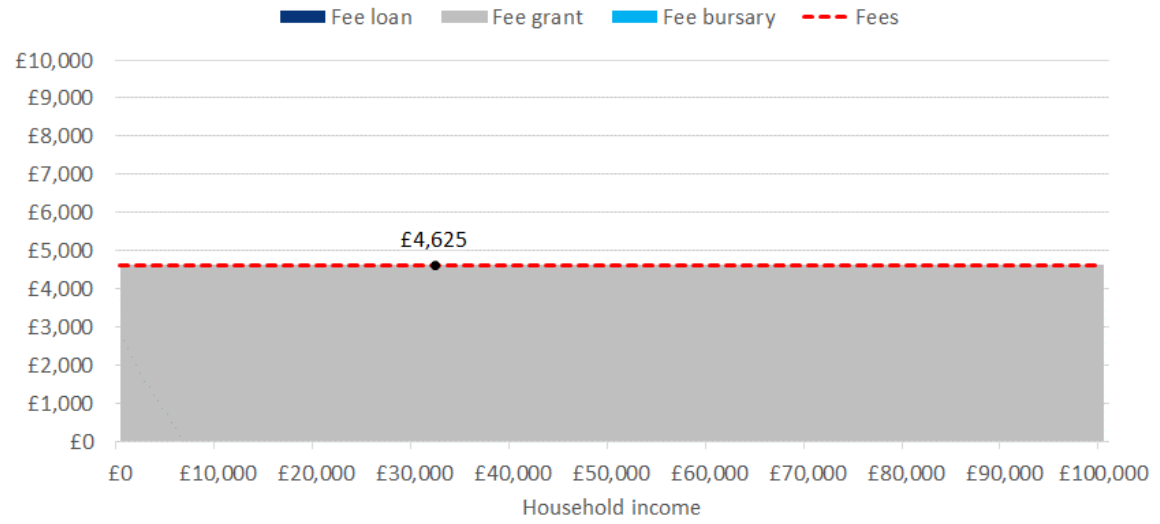
# Scenario 1: Fees and fee support

**Fees and fee support per year for English domiciled part-time students (studying anywhere in the UK), by household income**

**Baseline (England)**




**Scenario 1: Chloe Field**




- For **part-time students**, similarly to full-time students (but on a pro-rata basis based on a 50% study intensity), Scenario 1 would involve the replacement of the current fee loan of **£4,625** with a fee grant of the same amount - again applicable to English students studying anywhere in the UK - and we assume that HEIs would no longer provide access bursaries[1].

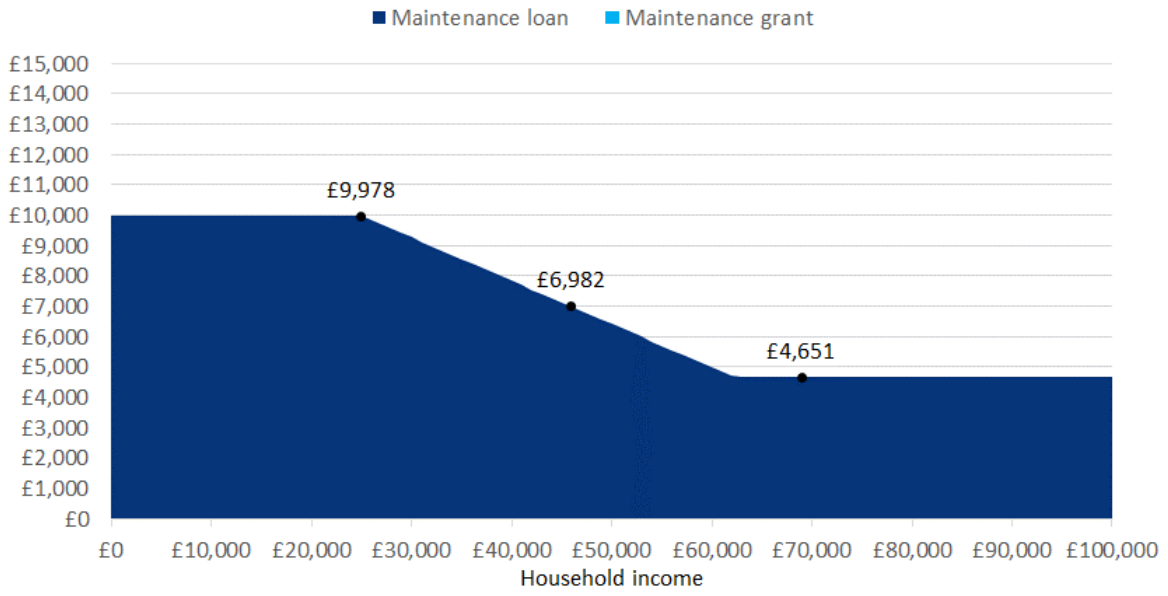
Note: The figures relate to fees and fee support in 2023-24. While fees and fee loan are frozen under the current system, under Scenario 1, the fee and associated fee grant would instead be uprated with RPI inflation over time.

[1] As for full-time students, the current average levels of fee bursaries for part-time students are too small to be displayed in the Baseline figure here.

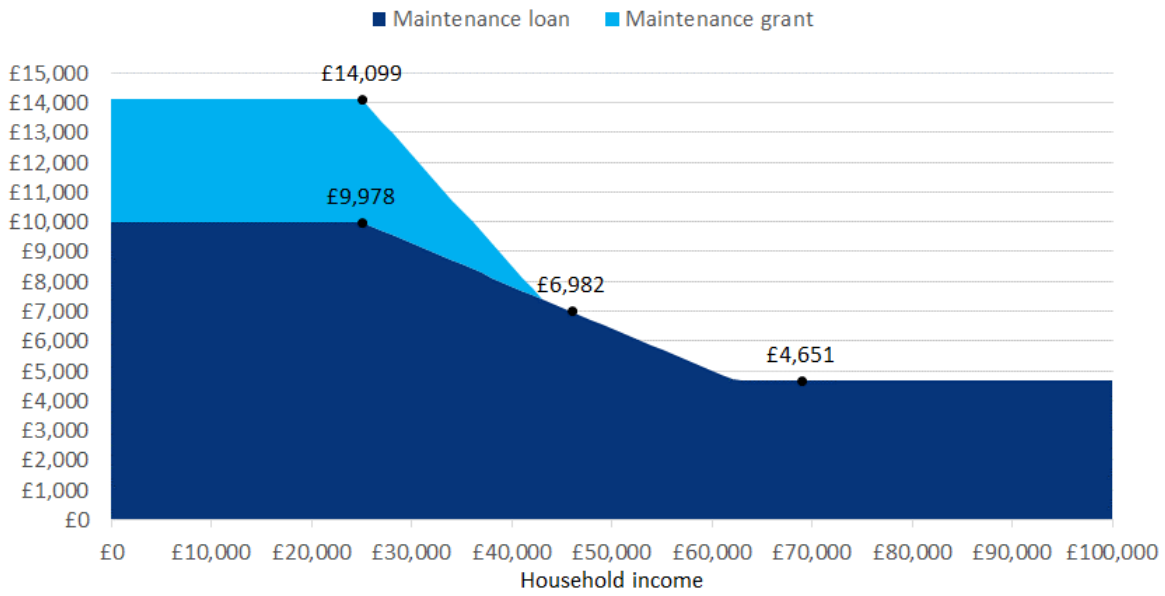
# Scenario 1: Maintenance support

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

## Baseline (England)




## Scenario 1: Chloe Field



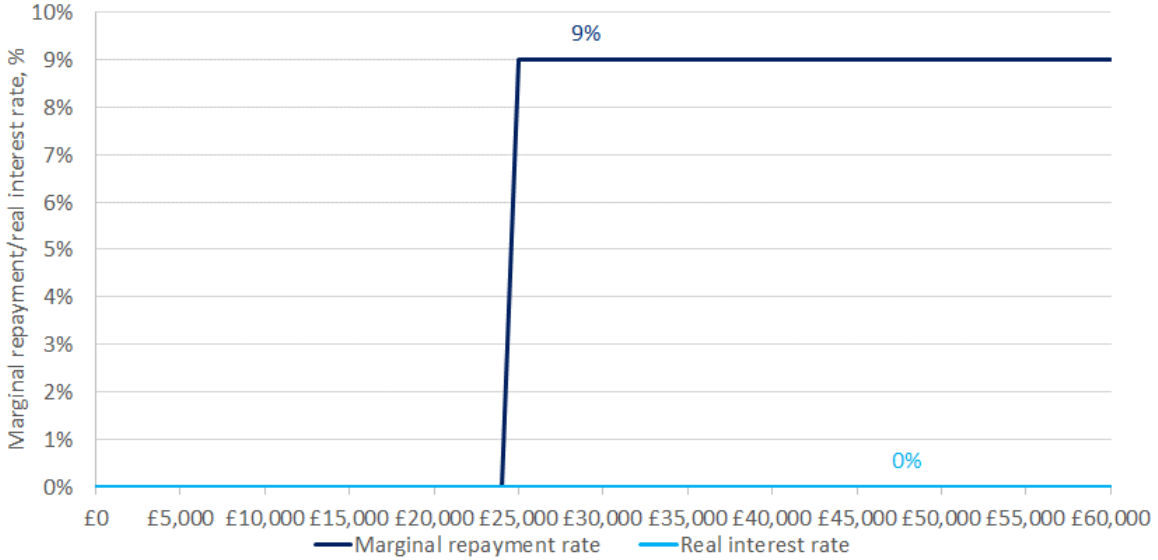

- In relation to maintenance support, Scenario 1 would involve the **re-introduction of English maintenance grants for full-time students** (based on the grants that are currently available to *continuing* English domiciled students who started their studies prior to 2016-17). The maintenance grants would be ***on top of*** **the current maintenance loans provided**, thus resulting in an increase in total maintenance funding. Hence, under Scenario 1, full-time LAFHOL students would be eligible for maximum support of **£14,099** (for household income **up to £25,000**), split into a **loan of £9,978** and a grant of **£4,121**. The grant would decline to **£0** for students with a household income of more than **£42,738**. As under the current system, students with a household income of **£62,343 or more** would only receive the minimum loan level, of **£4,651**.
- There were no maintenance grants available for part-time students previously; hence, **for part-time students, we assume the same maintenance loans (and no maintenance grants) in Scenario 1 as under the current system**.

Note: The figures relate to fees and fee support in 2023-24, and we assume that maintenance support increases with forecast RPIX in each subsequent year of study for the cohort of interest.

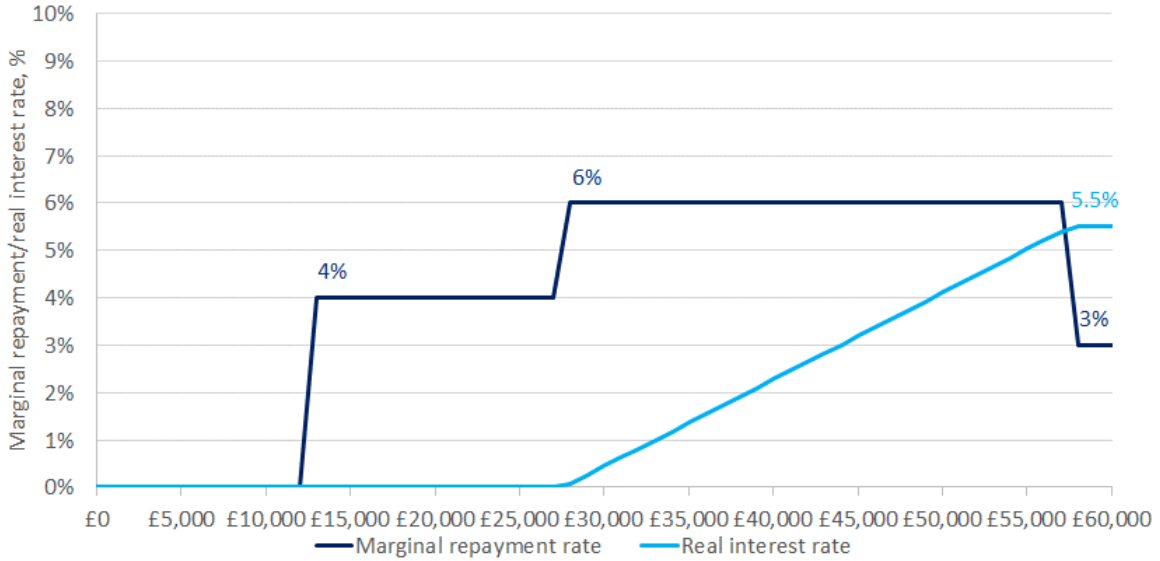
# Scenario 1: Repayment and interest rates

## Loan repayment and real interest rates by graduate income

### Baseline (England)




### Scenario 1: Chloe Field




- Scenario 1 also includes a **range of changes in loan repayment conditions**. There would be a **stepped repayment profile**, where graduates repay **4%** on earnings **between £12,570**[1] **and £27,570**; **6%** on earnings **between £27,571 and £57,570**; and **3%** on earnings of **£57,571 or more**.
- The **loan repayment period would be reduced from 40 years to 31 years**.
- **Real interest rates would be (re-)introduced**[2] at **3%** during study[3], **0%-5.5%** for post-graduation earnings **between £27,571 and £57,570**, and **5.5%** for earnings **above £57,570**.
- Finally, the **earnings thresholds for repayment and interest would be uplifted with average earnings growth** instead of RPI (as under the previous repayment system before the implementation of the DfE's Augar response).

[1] The £12,570 threshold mirrors the current Personal Allowance limit for income tax in 2023-24.

[2] One of the core elements of the DfE's response to the Augar Review (and the resulting introduction of new repayment Plan 5 for undergraduate students entering HE from 2023-24 onwards) was the abolition of real interest rates, which previously stood at **3%** during study and **0-3%** (depending on income) post-study. For more information, again see the new Plan 5 loan repayment terms for England, and the Department for Education's response to the Augar Review (see here for more information).

[3] i.e. before the Statutory Repayment Due Date (SRDD).

# Scenario 1: Total costs for cohort

Scenario 1: Chloe Field

| Resource flows (£/£m/%) | Baseline | Scenario 1 | Difference |
|---|---|---|---|
| **Net Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance grants | - | (£1,624m) | (£1,624m) |
| Cost of maintenance loans | (£326m) | £2,010m | £2,336m |
| Cost of tuition fee grants | - | (£11,603m) | (£11,603m) |
| Cost of tuition fee loans | (£423m) | - | £423m |
| Cost of Teaching Grants | (£1,257m) | (£1,290m) | (£34m) |
| **Total** | **(£2,006m)** | **(£12,508m)** | **(£10,502m)** |
| | | | |
| **RAB charge (%)** | **4.1%** | **-25.4%** | **-29.5 pp** |
| | | | |
| **Net HEP income (UK HEIs)** | | | |
| Gross fee income | £11,302m | £11,603m | £301m |
| Teaching Grant income | £1,257m | £1,290m | £34m |
| Cost of bursary provision | (£108m) | - | £108m |
| **Total** | **£12,451m** | **£12,893m** | **£443m** |
| | | | |
| **Students/Graduates (FT first degree students from England studying in England)** | | | |
| **Average debt on graduation** | **£50,500** | **£22,700** | **(£27,800)** |
| **Average lifetime repayments (M/F)** | **£53,800/£42,100** | **£30,100/£24,500** | **(£23,700)/(£17,600)** |

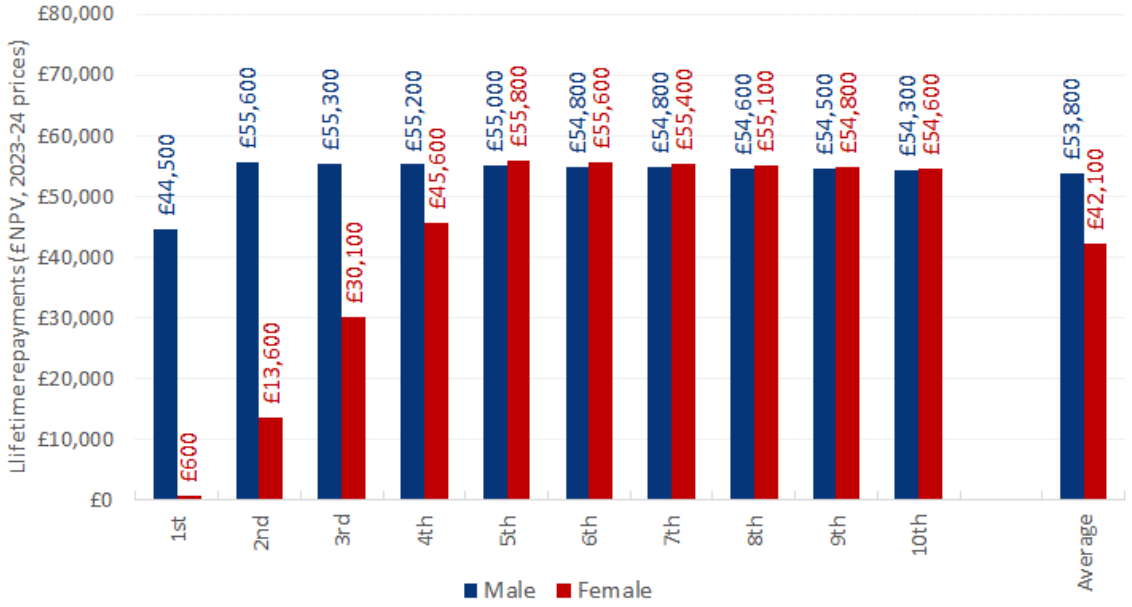
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 1 would result in a very substantial increase in the total Exchequer cost of the system of approximately £10.50bn per cohort** (**524%**). On the one hand, the Exchequer would *save* **£423m** from the removal of fee loans and **£2.34bn** due to higher maintenance loan repayments (due to the lower loan outlay, the stepped repayment system, and the (re-)introduction of real interest rates). However, on the other hand, there would be large additional costs associated with the provision of fee grants (**£11.60bn**), the re-introduction of maintenance grants (**£1.62bn**), and the uprating of Teaching Grant funding with RPI going forward (**£34m**).
- Driven by the lower loan outlay and the changes to the repayment system, the RAB charge would decline by **29.5 percentage points**, to **-25.4%**. Hence, on average, graduates would repay *more* than their original loan outlay (in NPV in real terms), resulting in a **negative RAB charge**. In other words, the (maintenance only) loan system here would generate a **net surplus** for the Exchequer.
- **HEIs would benefit from an additional £443m in net income per cohort**. This includes an additional **£301m** in gross fee income (driven by the uprating of tuition fees with RPI under Scenario 1, vs. frozen fees under the Baseline), **£34m** in additional Teaching Grant funding (as Teaching Grants would *also* be uprated with RPI), and **£108m** in savings as institutions would no longer be required to provide access bursaries to students.
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£27,800** (to **£22,700**), again due to the removal of fee loans. Average lifetime repayments would decline by **£23,700** for male graduates and by **£17,600** for female graduates.

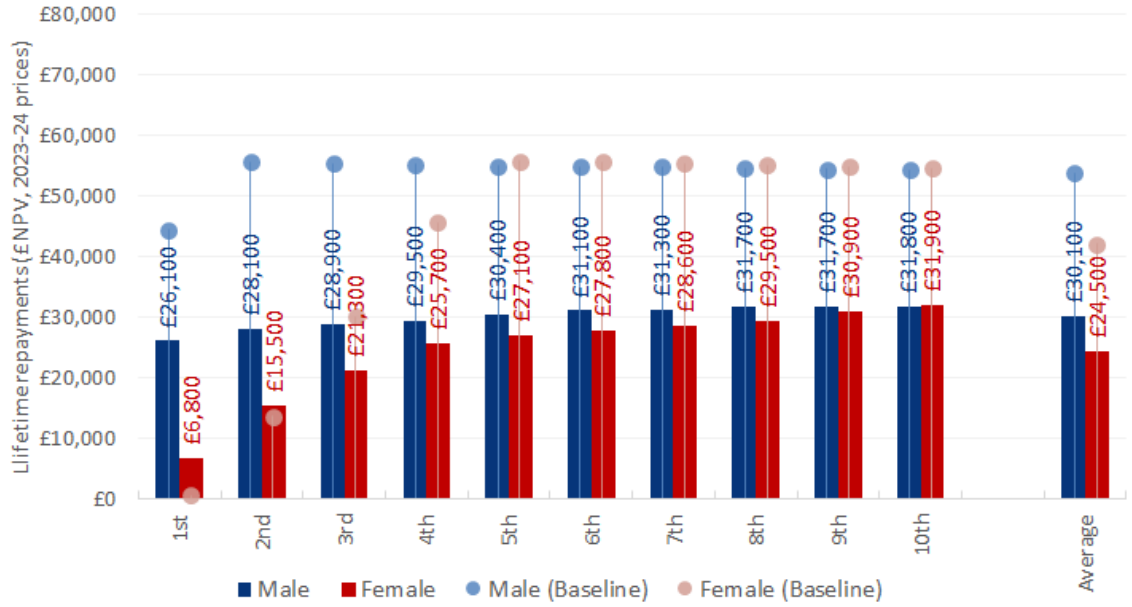
# Scenario 1: Graduate loan repayments

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

## Baseline (England)




## Scenario 1: Chloe Field




- **Under Scenario 1, most graduates would make *lower* lifetime loan repayments than under the current system**, driven predominantly by the much lower loan balance resulting from the replacement of fee loans with fee grants. Only female graduates on the 1st and 2nd lifetime earnings deciles would see their total repayments *increase*, as the impact of the lower loan outlay is outweighed by the reduction in the loan repayment threshold (from £25,000 to £12,570).

# Scenario 2: Jo Johnson

(Uplifting fee caps with RPI depending on TEF results)

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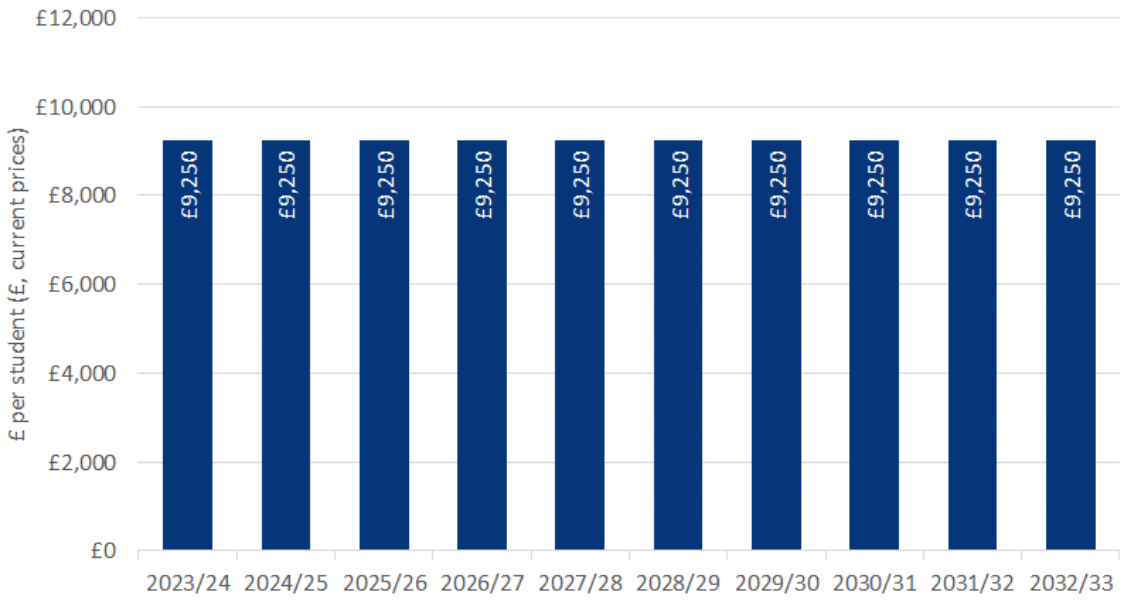
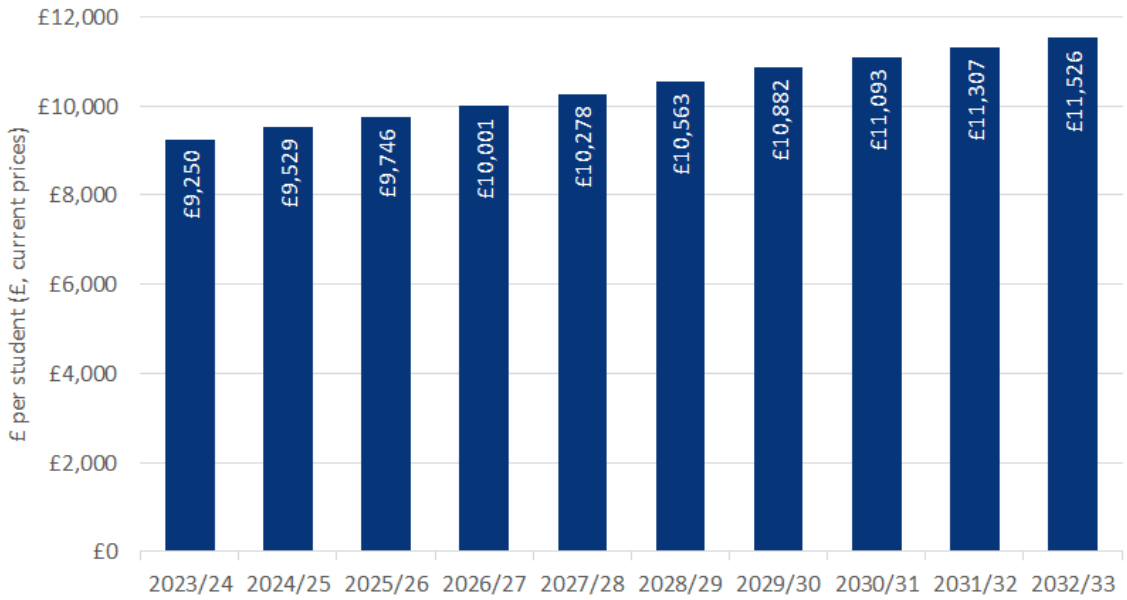
# Scenario 2: Fees

**Fees per student per year for English domiciled full-time students studying in England by academic year**

## Baseline (England)




## Scenario 2: Jo Johnson




- Scenario 2 does *not* involve any change in the English fees and funding system in the *current* (2023-24) academic year; instead, the proposals **focus solely on the growth in tuition fees chargeable by English providers from 2024-25 onwards** (i.e. the second year of study and onwards for the cohort of interest). Fees in England would be uplifted with forecast RPI inflation in each year going forward, with the size of the uplift depending on institutions' 2023 TEF results. English HE providers with an overall TEF rating of Gold or Silver would be able to increase their fees by 100% of RPI, and providers with a Bronze rating would be able to increase their fees by 50% of RPI. In contrast, providers with no TEF submission would continue to have their fees frozen in each subsequent academic year (i.e. they would not be eligible for any RPI uplift).
- Combining HESA data on first-year English domiciled undergraduate students enrolled at each English HE provider (here) with provider-level ratings from the 2023 TEF (here), this implies a **weighted average fee uplift of 97% of RPI each year for the relevant student cohort**[1]. In turn, combining this with Office for Budget Responsibility (OBR) RPI forecasts[2], we estimate that average fees per full-time student in the cohort studying in England would increase to **£9,529** in 2024-25, **£9,746** in 2025-26, and **£10,001** in 2026-27 (with part-time fees again set on a pro-rata basis).

[1] This high proportional uplift is driven by the fact that the vast majority of English domiciled undergraduate students studying in England are enrolled at providers with a Gold or Silver TEF rating, with only small numbers of students studying at providers that received a Bronze rating or that did not provide a submission to the 2023 TEF.

[2] See here for the most recent medium-term forecasts, and here for long-term forecasts published by the Office for Budget Responsibility.

# Scenario 2: Total costs for cohort

Scenario 2: Jo Johnson

| Resource flows (£/£m/%) | Baseline | Scenario 2 | Difference |
|---|---|---|---|
| **Net Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance loans | (£326m) | (£347m) | (£21m) |
| Cost of tuition fee loans | (£423m) | (£461m) | (£38m) |
| Cost of Teaching Grants | (£1,257m) | (£1,257m) | - |
| **Total** | **(£2,006m)** | **(£2,064m)** | **(£59m)** |
| **RAB charge (%)** | **4.1%** | **4.3%** | **+0.2 pp** |
| **Net HEP income (UK HEIs)** | | | |
| Gross fee income | £11,302m | £11,582m | £279m |
| Teaching Grant income | £1,257m | £1,257m | - |
| Cost of bursary provision | (£108m) | (£116m) | (£8m) |
| **Total** | **£12,451m** | **£12,722m** | **£271m** |
| **Students/Graduates (FT first degree students from England studying in England)** | | | |
| **Average debt on graduation** | **£50,500** | **£51,300** | **£800** |
| **Average lifetime repayments (M/F)** | **£53,800/£42,100** | **£54,600/£42,600** | **£800/£500** |

- **Scenario 2 would result in a small increase in the Exchequer cost of the English funding system of £59m per cohort (3%)** – all associated with English domiciled students studying in England only (while fees for students studying in RUK would be unaffected). The increase is driven by a small increase in the cost of fee loan write-offs (**£21m**) and maintenance loan write-offs (**£38m**), with a marginal increase in the RAB charge (by **0.2 percentage points**, to **4.3%**).
- **English HEIs[1] would benefit from an additional £271m in net income per cohort**. This includes an additional **£279m** in gross fee income (driven by the increase in fees from 2024-25 onwards), partially offset against a **£8m** increase in the cost of providing access bursaries to students (as we assume that bursaries would rise from 2024-25 onwards, alongside fees).
- The average debt on graduation (again per full-time first degree student studying in England) would increase by **£800** (to **£51,300**). Average lifetime repayments would also rise marginally, by **£800** for male graduates and by **£500** for female graduates.

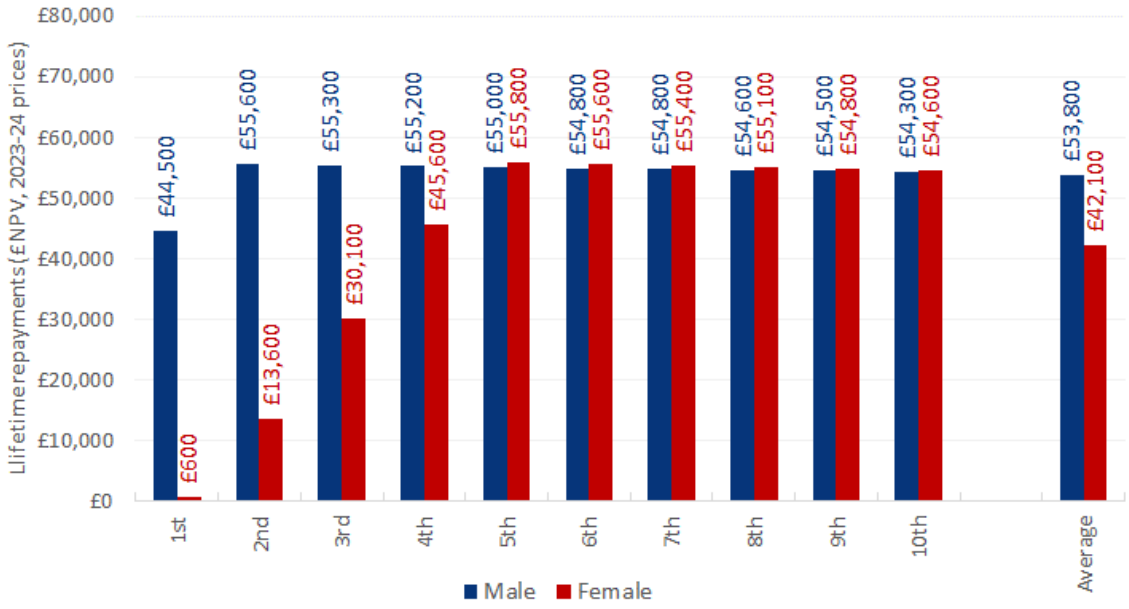
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

[1] Again, note that RUK HEIs would be unaffected, as the changes to fee uprating over time would only apply to English domiciled students studying in England.

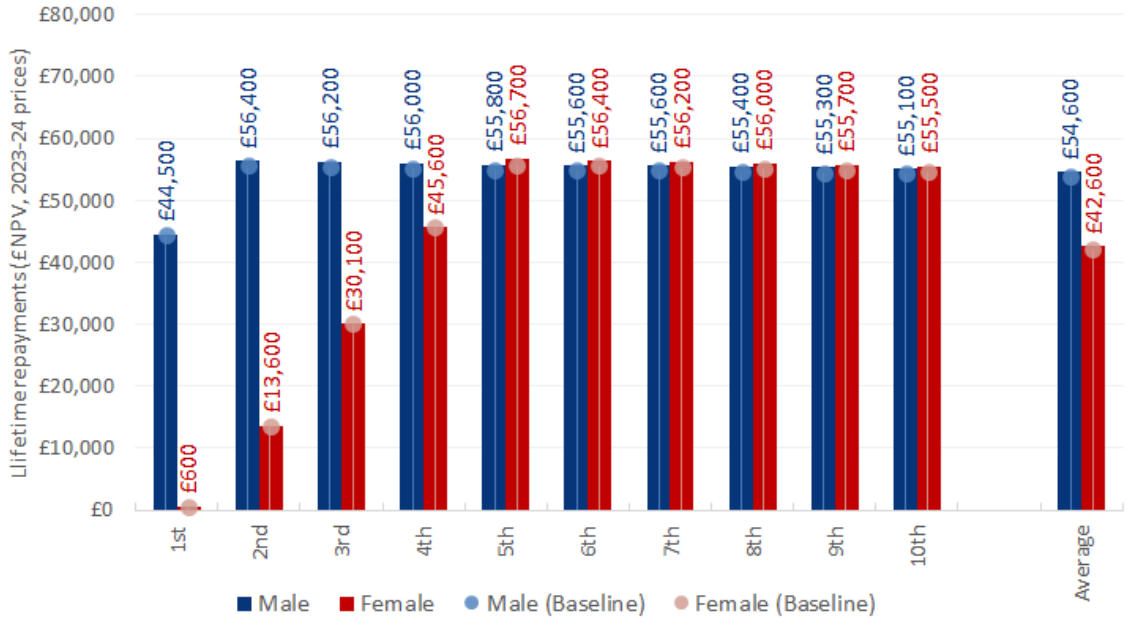
# Scenario 2: Graduate loan repayments

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

**Baseline (England)**




**Scenario 2: Jo Johnson**




- **Under Scenario 2, middle- and high-income graduates would make slightly *higher* lifetime loan repayments** than under the current system.
- **In contrast, graduates at the bottom off the income distribution (1st decile for men, and 1st to 4th decile for women) would be *unaffected* by the higher loan balance**, as these graduates would already be expected to never fully pay off their loan by the end of the repayment period. As a result, these graduates' repayments are not impacted by the increase in fees over time.

# Scenario 3: James Purnell

(Stepped repayment system)

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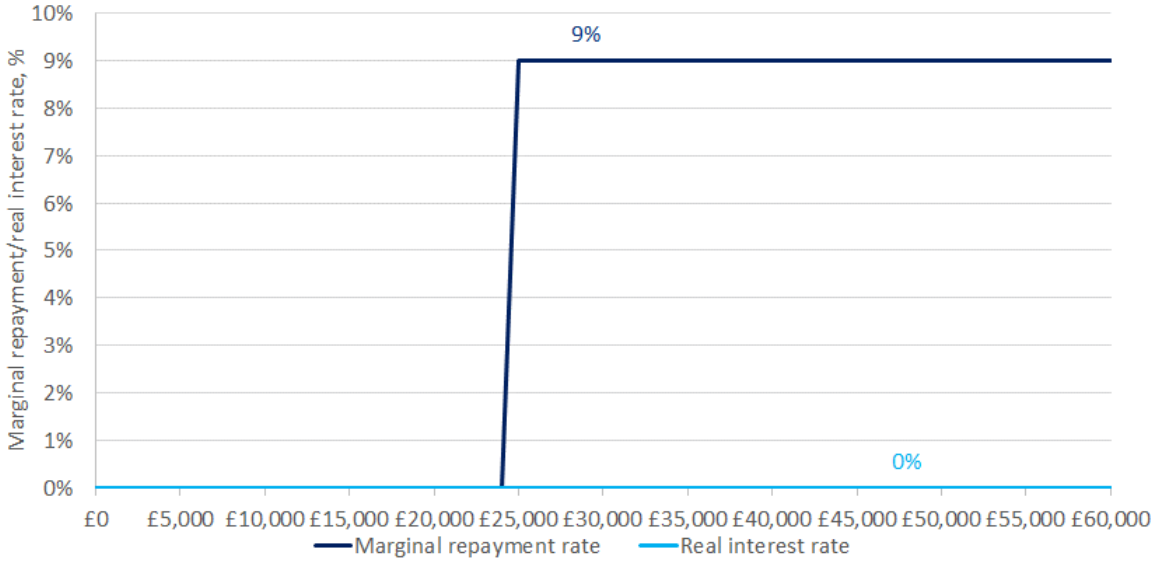
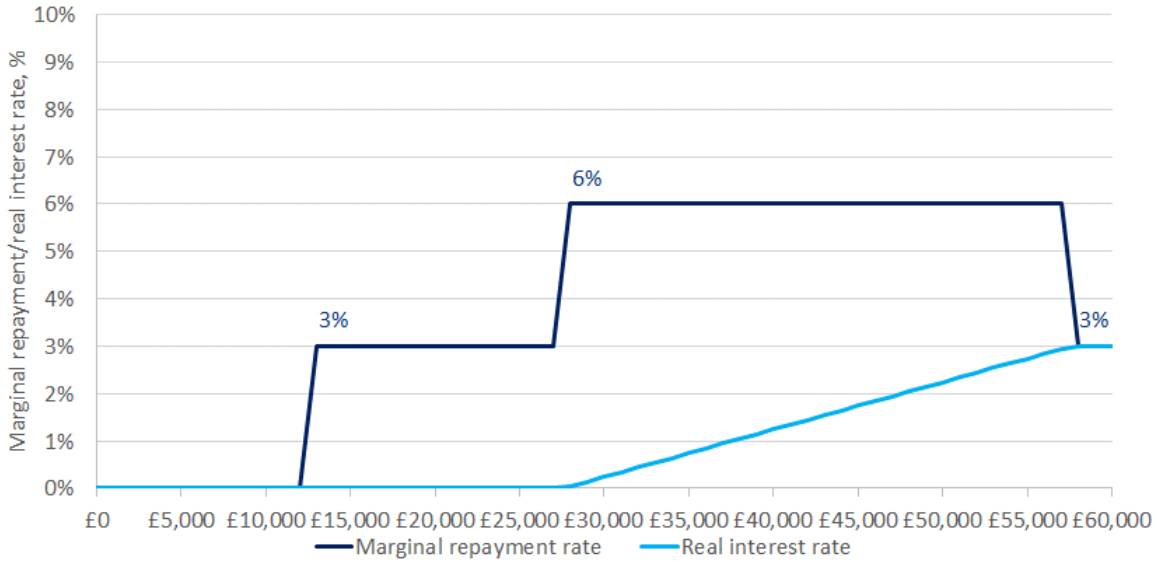
# Scenario 3: Repayment and interest rates

**Loan repayment and real interest rates by graduate income**

**Baseline (England)**




**Scenario 3: James Purnell**




- Similar to Scenario 1, James Purnell's proposals (Scenario 3) would also involve the introduction of a stepped repayment system – but with different parameters and without the wide range of other changes proposed as part of Scenario 1 above.
- Specifically, Scenario 3 would introduce a **stepped repayment system** where graduates repay **3%** on earnings **between £12,570 and £27,570**; **6%** on earnings **between £27,571 and £57,570**; and **3%** on earnings of **£57,571 or more**.
- The **loan repayment period would stand at 30 years**.
- **Real interest rates would be (re-)introduced** at **3%** during study, **0%-3%** for post-graduation earnings **between £27,571 and £57,570**, and **3%** for earnings **above £57,570**.
- The **earnings thresholds for repayment and interest would be uplifted with average earnings growth** instead of RPI (i.e. as under Scenario 1, the 'fiscal drag' would be removed).

# Scenario 3: Total costs for cohort

Scenario 3: James Purnell

| Resource flows (£/£m/%) | Baseline | Scenario 3 | Difference |
|---|---|---|---|
| **Net Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance loans | (£326m) | £37m | £363m |
| Cost of tuition fee loans | (£423m) | £55m | £478m |
| Cost of Teaching Grants | (£1,257m) | (£1,257m) | - |
| **Total** | **(£2,006m)** | **(£1,165m)** | **£841m** |
| **RAB charge (%)** | **4.1%** | **-0.5%** | **-4.6 pp** |
| **Net HEP income (UK HEIs)** | | | |
| Gross fee income | £11,302m | £11,302m | - |
| Teaching Grant income | £1,257m | £1,257m | - |
| Cost of bursary provision | (£108m) | (£108m) | - |
| **Total** | **£12,451m** | **£12,451m** | **-** |
| **Students/Graduates (FT first degree students from England studying in England)** | | | |
| **Average debt on graduation** | **£50,500** | **£52,100** | **£1,600** |
| **Average lifetime repayments (M/F)** | **£53,800/£42,100** | **£63,800/£38,900** | **£10,000/(£3,200)** |

- While Scenarios 1 and 2 would result in an increase in the Exchequer cost associated with the English funding system, Scenario 3 would instead generate **large Exchequer cost *savings* of approximately £841 million per cohort** (**42%**). In other words, the stepped repayment system here would free up **£841 million** of Exchequer resource per cohort for potential re-investment into other parts of the system (such as maintenance support or the unit of resource available to higher education providers (e.g. through Teaching Grant funding)). The savings are driven by an increase in total fee and maintenance loan repayments made by graduates[1] (increasing by **£478m** and **£363m** per cohort, respectively).
- The RAB charge would decline by **4.6 percentage points**, to **-0.5%**. Hence, as under Scenario 1, the loan system would generate a **net surplus** for the Exchequer, though to a much smaller extent than the changes proposed under Scenario 1.
- **HEIs would be unaffected** by the changes.
- The average debt on graduation (per full-time first degree student studying in England) would increase by **£1,600** (to **£52,100**), driven by the (re-)introduction of real interest rates during study. Average lifetime repayments would *increase* by **£10,000** for male graduates but *decline* by **£3,200** for female graduates.

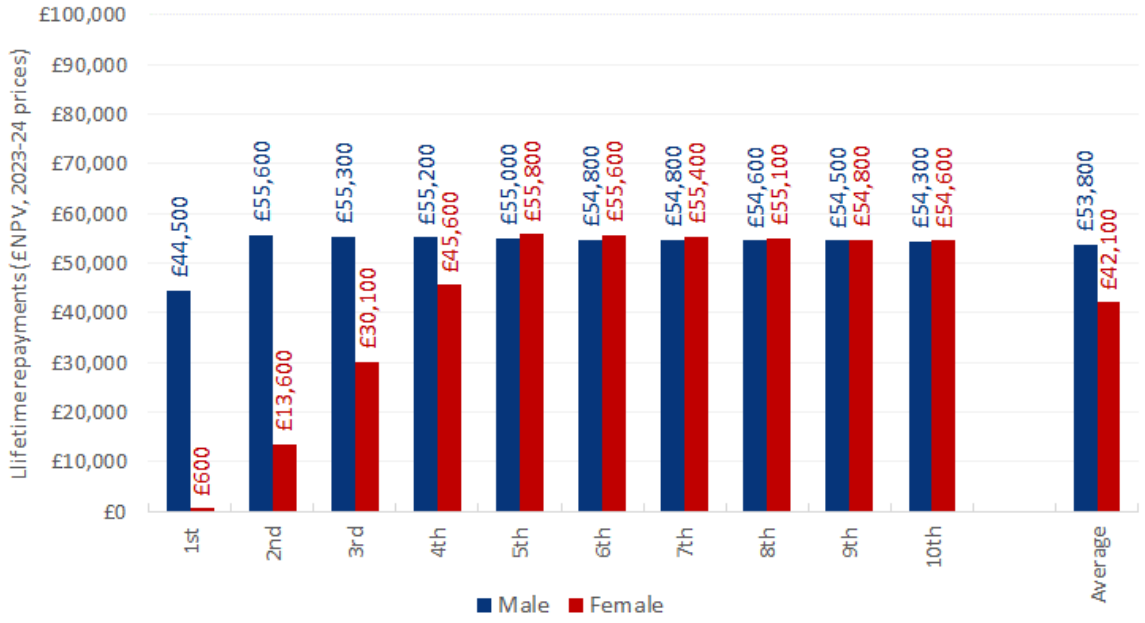
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

[1] As shown on the next slide, there would be different impacts on expected loan repayments for graduates on different parts of the income distribution.

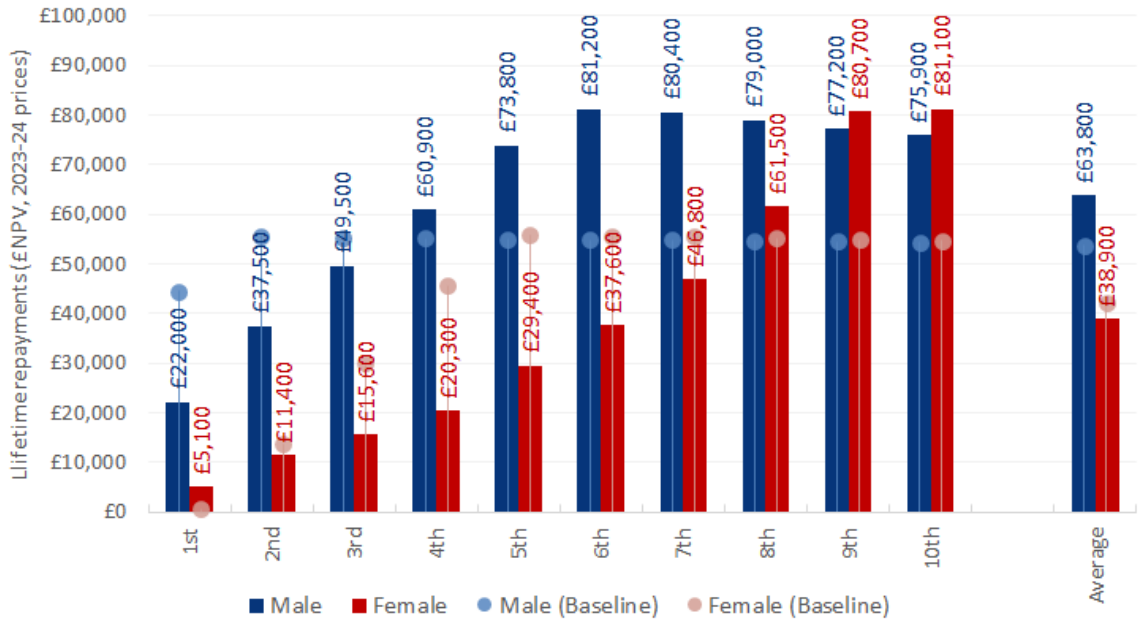
# Scenario 3: Graduate loan repayments

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

## Baseline (England)




## Scenario 3: James Purnell




- The combined changes under **Scenario 3** would make the repayment profile **more progressive**. The stepped repayments and real interest rates would keep high-income graduates (**4th to 10th** lifetime decile for men, and **8th to 10th** decile for women) in the repayment system for longer, thus resulting in an *increase* in their total lifetime repayments. In contrast, graduates at the lower end of the earnings distribution would repay *less* – so that the repayments of the highest-earning graduates would subsidise low- to middle- income graduates (in contrast to the DfE's response to Augar).
- Note that, while the above-discussed Scenario 1 *also* involves a stepped repayment system, the *additional* removal of fee loans under that scenario results in very different impacts on graduates' loan repayments compared to Scenario 3 here.

# Scenario 4: Johnny Rich

(Free fees under the introduction of an Employer Levy)

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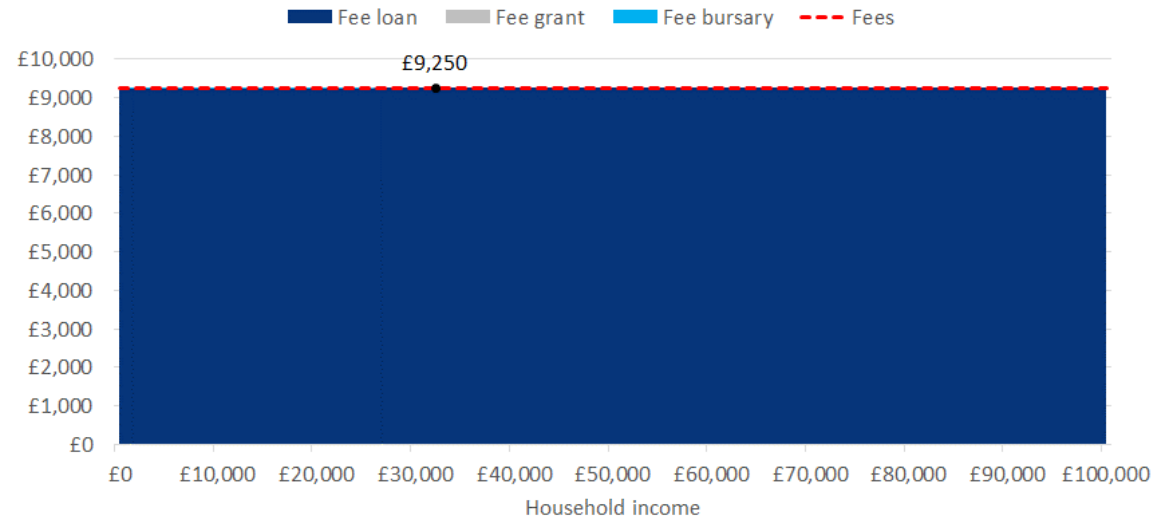
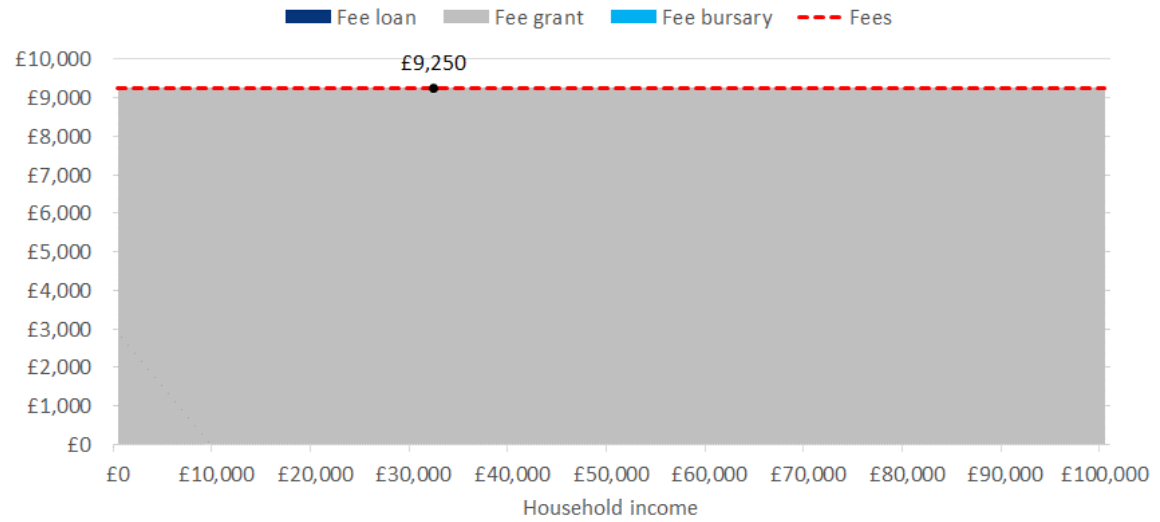
# Scenario 4: Fees and fee support

**Fees and fee support per year for English domiciled full-time students (studying anywhere in the UK), by household income**

**Baseline (England)**




**Scenario 4: Johnny Rich**




- Like Scenario 1, **Scenario 4 (based on Johnny Rich's proposals) would also effectively abolish fees for English domiciled students studying anywhere in the UK** by replacing the current fee loan of £9,250 (per full-time student) with a fee grant[1]. However, in contrast to Scenario 1, under Scenario 4, fees (and associated fee grants) would remain frozen over time (as under the current system).
- Against the cost of the free fees system, Scenario 4 **introduces an Employer Levy for higher education**, where we modelled a Levy of **3% on earnings above the £25,000 loan repayment threshold** for students/graduates in the relevant student cohort (i.e. English domiciled undergraduate students entering HE from 2023-24 onwards)[2].

Note: The figures relate to fees and fee support in 2023-24, and we assume that these figures remain 'frozen' over the cohort's entire study duration under Scenario 4.

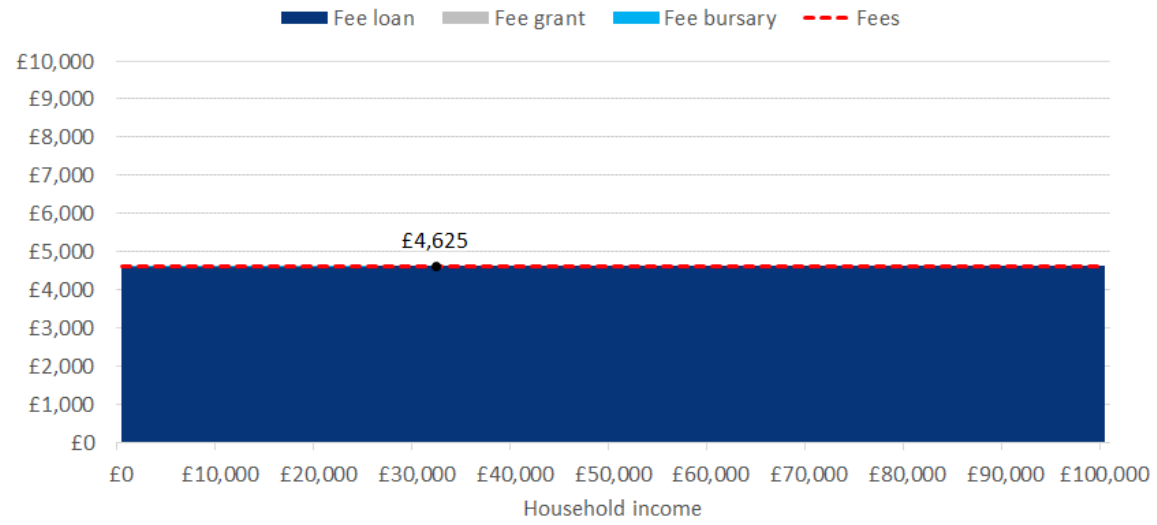
[1] As under Scenario 1, we assume that HEIs would no longer be required to provide access bursaries to students. Note again that the current average levels of fee bursaries are very small, so that they are not displayed in the Baseline figure here.

[2] To assess the impact of the Employer Levy on the Exchequer, the analysis estimates the expected Employer Levy contributions as a proportion of the loan outlay associated with the 2023-24 cohort. We then apply the resulting proportions to the total loan outlay for the cohort (in NPV terms in 2023-24 prices), to estimate the potential *future* Employer Levy contributions associated with these students (in today's money terms).

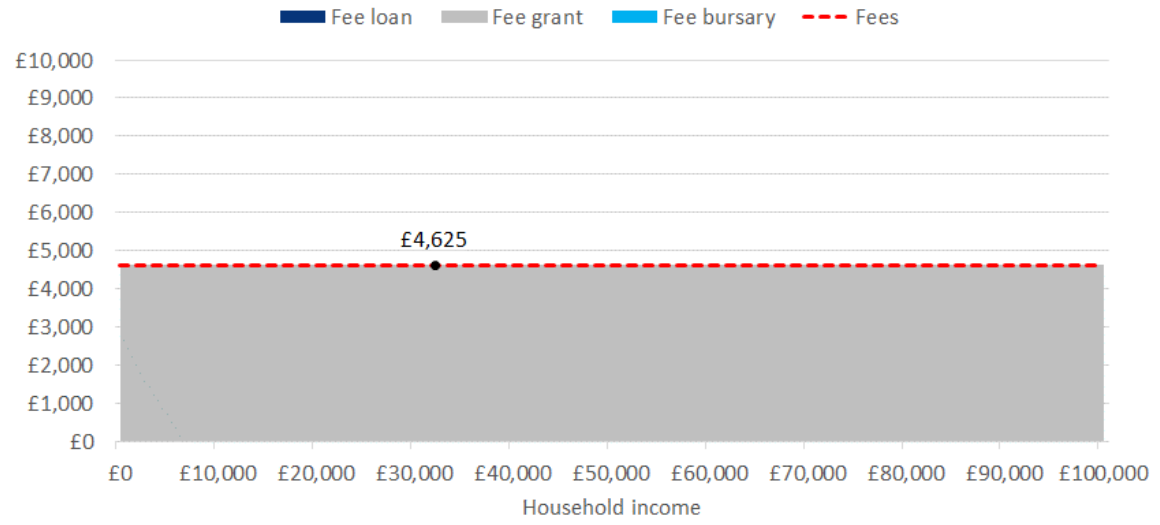
# Scenario 4: Fees and fee support

**Fees and fee support per year for English domiciled part-time students (studying anywhere in the UK), by household income**

## Baseline (England)




## Scenario 4: Johnny Rich




- Similarly, for **part-time students**, **Scenario 4** would replace the current fee loan of £4,625 with a fee grant of the same amount - again applicable to English students studying anywhere in the UK[1], and also including the above-described Employer Levy.

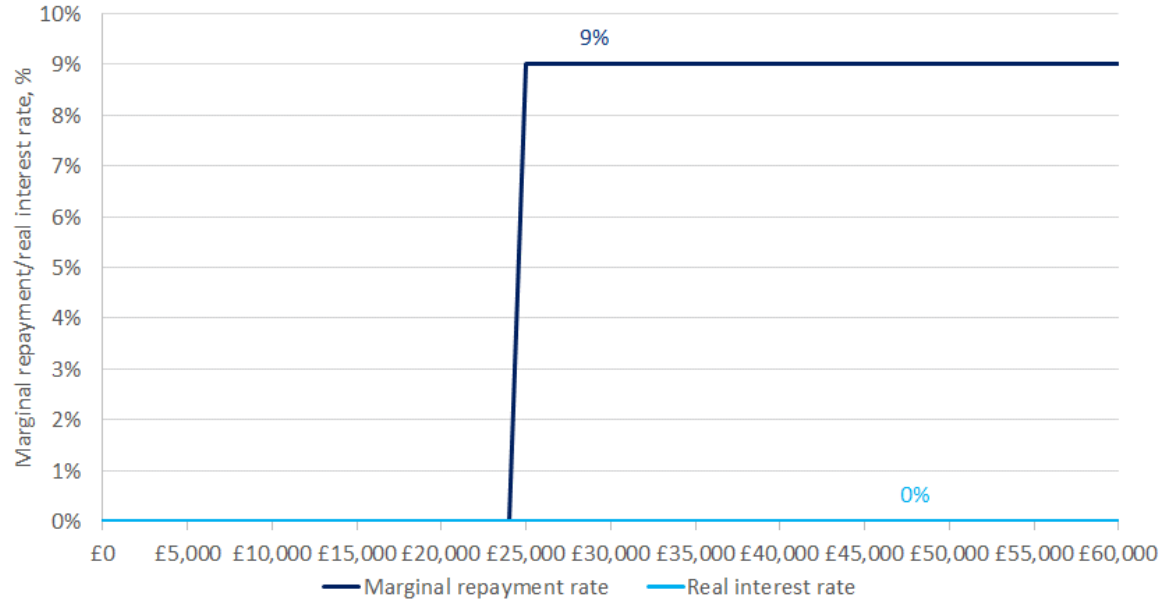
Note: The figures relate to fees and fee support in 2023-24, and we assume that these figures remain 'frozen' over the cohort's entire study duration under Scenario 4.

[1] And we again assume that HEIs would no longer provide access bursaries. As for full-time students, the current average levels of fee bursaries for part-time students are too small to be displayed in the Baseline figure here.

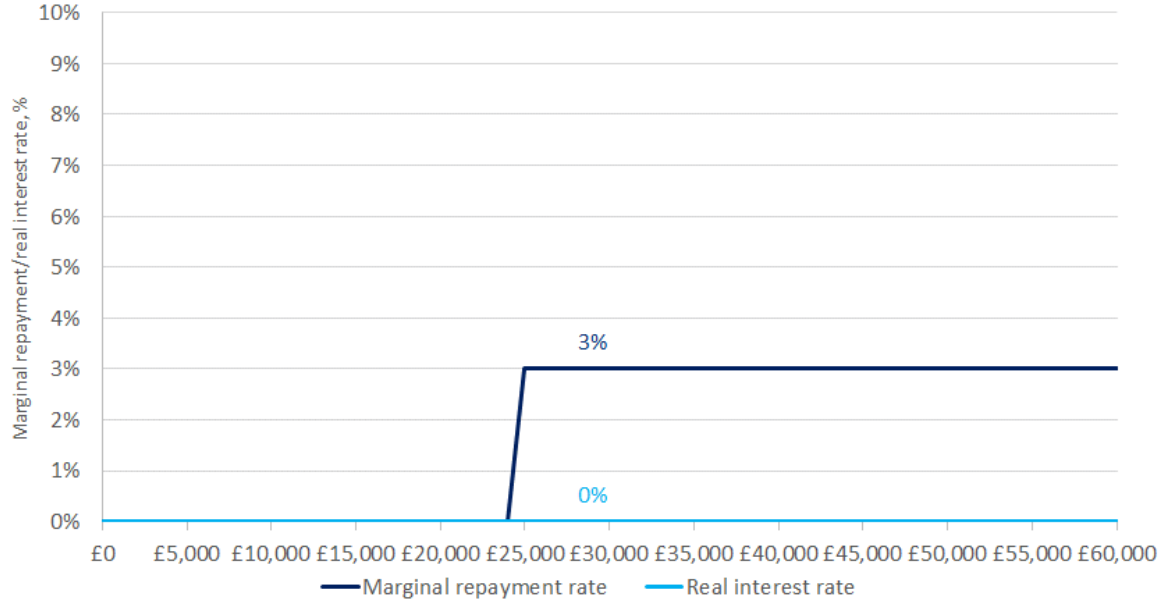
# Scenario 4: Repayment and interest rates

**Loan repayment and real interest rates by graduate income**

**Baseline (England)**




**Scenario 4: Johnny Rich**




- Scenario 4 also includes a **reduction in the graduate loan repayment rate to 3% of earnings above the repayment threshold**. The threshold would remain unchanged at **£25,000** in 2023-24 (as under the current system) and continue to be uprated with RPI going forward (from 2027-28 onwards). There would be no other changes to the repayment system.

# Scenario 4: Total costs for cohort

Scenario 4: Johnny Rich

| Resource flows (£/£m/%) | Baseline | Scenario 4 | Difference |
|---|---|---|---|
| **Net Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance loans | (£326m) | (£635m) | (£308m) |
| Cost of tuition fee grants | - | (£11,302m) | (£11,302m) |
| Cost of tuition fee loans | (£423m) | - | £423m |
| Cost of Teaching Grants | (£1,257m) | (£1,257m) | - |
| Employer Levy contributions | - | £19,221m | £19,221m |
| **Total** | **(£2,006m)** | **£6,027m** | **£8,033m** |
| | | | |
| **RAB charge (%)** | **4.1%** | **8.0%** | **+3.9 pp** |
| | | | |
| **Net HEP income (UK HEIs)** | | | |
| Gross fee income | £11,302m | £11,302m | - |
| Teaching Grant income | £1,257m | £1,257m | - |
| Cost of bursary provision | (£108m) | - | £108m |
| **Total** | **£12,451m** | **£12,559m** | **£108m** |
| | | | |
| **Students/Graduates (FT first degree students from England studying in England)** | | | |
| **Average debt on graduation** | **£50,500** | **£22,000** | **(£28,500)** |
| **Average lifetime repayments (M/F)** | **£53,800/£42,100** | **£23,100/£17,300** | **(£30,700)/(£24,800)** |

- **The introduction of the Employer Levy under Scenario 4 would result in very substantial Exchequer cost savings of approximately £8.03bn per cohort** compared to the current system. Overall, **the system would generate a large net surplus (of £6.03bn per cohort)**, as the expected future Exchequer revenues from the Employer Levy would far exceed the costs of fee grant, maintenance loan, and Teaching Grant provision.
- Compared to the current system, the introduction of fee grants would cost an additional **£11.30bn**[1] per cohort, and maintenance loan write-offs would increase by **£308m** (due to the lower loan repayment rate). Against these higher costs, the Employer Levy would generate revenues of **£19.22bn** per cohort[2], and the Exchequer would save **£423m** from the removal of fee loans and the associated write-offs.
- In terms of the RAB charge, the negative impact of the lower loan outlay from the removal of fee loans is outweighed by the positive effect of the lower repayment rate – so that, overall, the RAB charge *increases* by **3.9 percentage points** (to **8.0%**).
- **HEIs** would benefit from the assumed removal of access bursaries (**£108m**). Importantly, note that the analysis here assumes that there would be *no* funding gap for institutions in terms of fee income, but that the Exchequer would pay the upfront costs of fees to HEIs (through fee grants) and then accrue the post-graduation Employer Levy contributions. Johnny Rich's proposal instead suggests that Employer Levy contributions would be passed on to the HEI where the graduate studied, with HEIs 'borrowing' fees from the Exchequer in the meantime (until the Levy contributions start to be paid); our analysis does *not* include the impact of any potential institutional borrowing scheme on HEIs or the Exchequer.

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.

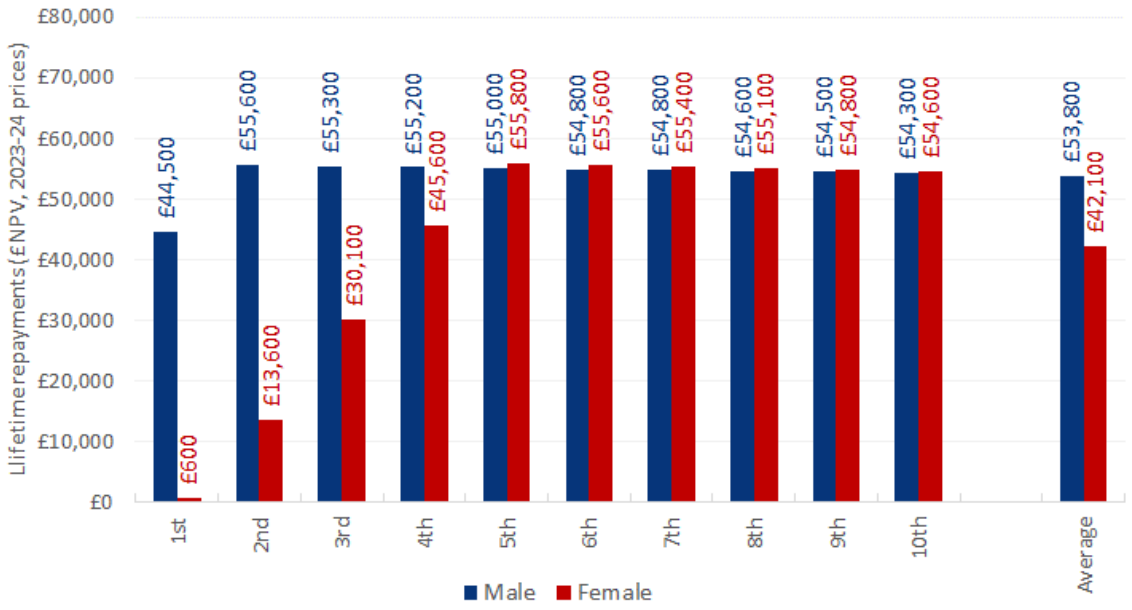
[1] Note that this is lower than the cost of fee grant provision under Scenario 1, since Scenario 1 assumes that fees would increase with RPI over time, while fees would continue to remain frozen under Scenario 4 here.

[2] Similar to the graduate loan repayment system under this scenario, the Employer Levy would be paid at 3% of employees' earnings over the £25,000 earnings threshold. However, a core difference between the loan repayment system and the Employer Levy is that loan repayments are only made until the outstanding loan balance is fully paid off (or until the end of the repayment period, whichever comes first), while the Employer Levy would continue to be paid over graduates' entire post-graduation working lives. As a result, the Employer Levy contributions generated by this system would be much larger than graduate loan repayments.

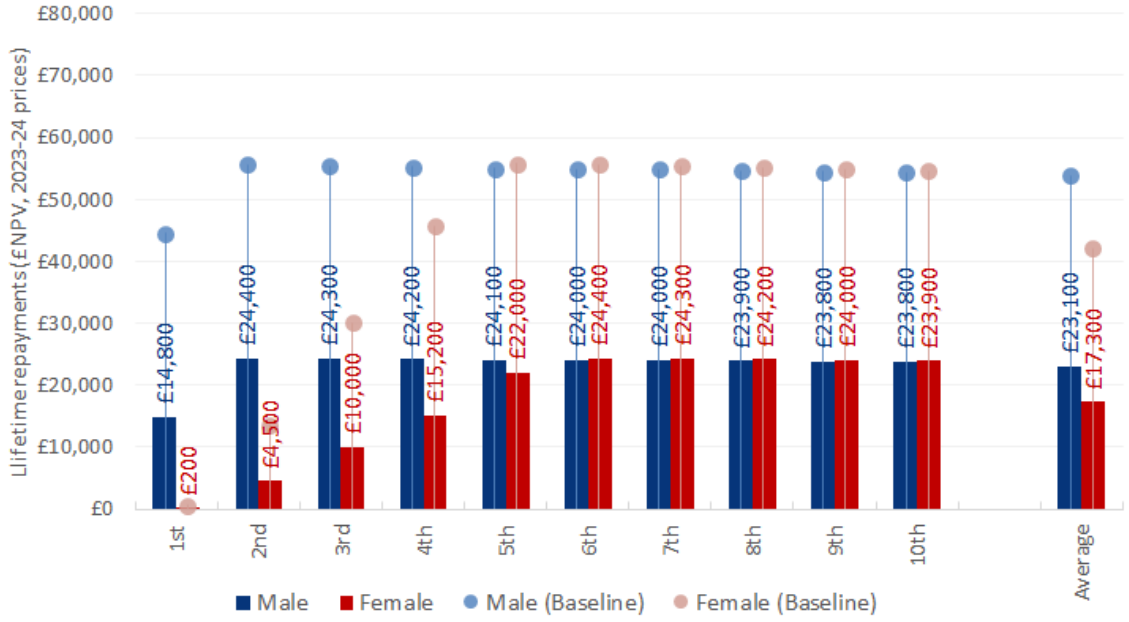
# Scenario 4: Graduate loan repayments

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

## Baseline (England)




## Scenario 4: Johnny Rich




- **Under Scenario 4, graduates across the entire earnings distribution would make *lower* lifetime loan repayments than under the current system**, driven predominantly by the much lower loan balance resulting from the removal of fee loans, but also the reduction in the repayment rate. Average lifetime repayments would decline by **£30,700** for male graduates, and by **£24,800** for female graduates.

# 3. MODELLING POLICY PROPOSALS FOR SCOTLAND

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# Current Scottish funding system (Baseline)

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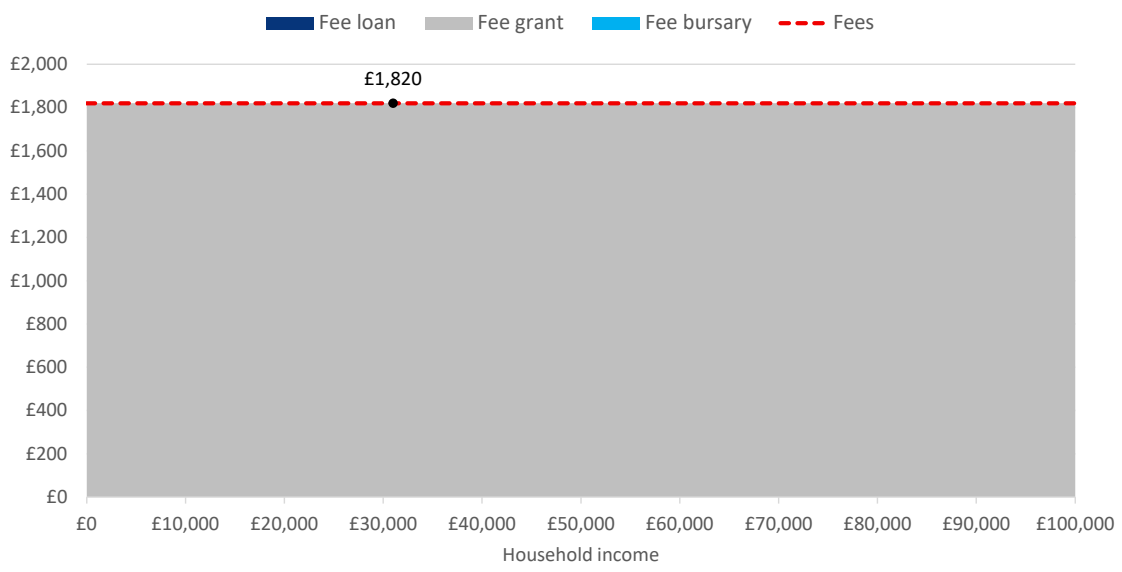
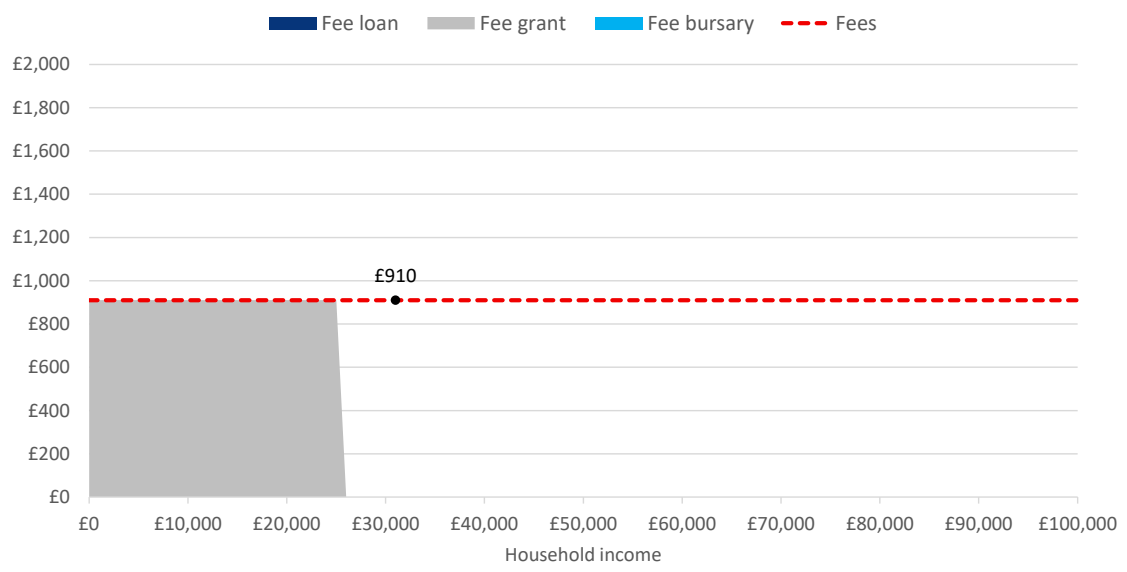
# Baseline (current system): Fees and fee support



- Under the **current system**, the fees for **full-time** 'home' students studying in Scotland stand at **£1,820** for first degree students (**£1,285** for sub-degree qualifications), supported by **non-means-tested fee grants** - i.e. effectively a 'free fees' system[1].
- **Part-time** fees are the same as full-time fees, calculated on a pro-rata basis. We again assume a study intensity of 50% for part-time students, resulting in fees of **£910** for first degrees. These fees are supported through **means-tested fee grants** (available to students with household income of **£25,000 or less**).

**Fees and fee support per year for Scottish domiciled first degree students studying in Scotland, by household income**




Note: The figures relate to fees and fee support in 2023-24, and we assume that these figures remain 'frozen' over the cohort's entire study duration (i.e. in academic year 2024-25 and beyond). For more information on our underlying methodology and assumptions for the analysis of the Scottish HE funding system, please refer to Annex II.

[1] Given this free fees system, we assume that there are no access bursaries provided to Scottish domiciled students studying at Scottish HEIs and colleges (but we assume non-zero bursaries for Scottish students studying elsewhere in the UK, due to the much larger tuition fees charged to these students).

# Baseline (current system): Total costs for cohort

Baseline system (Scotland)

| Resource flows (£/£m/%) | Baseline |
|---|---|
| **Net Exchequer cost (adjusted for RAB)** | |
| Cost of maintenance grants | (£76m) |
| Cost of maintenance loans | (£147m) |
| Cost of tuition fee grants | (£247m) |
| Cost of tuition fee loans | (£12m) |
| Cost of Teaching Grants | (£884m) |
| **Total Exchequer cost** | **(£1,366m)** |
| **RAB charge (%)** | **20.6%** |
| **Net HEP income (UK HEIs and Scottish colleges)** | |
| Gross fee income | £326m |
| Teaching Grant income | £884m |
| Cost of bursary provision | (£1m) |
| **Total** | **£1,210m** |
| **Students/Graduates (FT first degree students from Scotland studying in Scotland)** | |
| **Average debt on graduation** | **£32,600** |
| **Average lifetime repayments (M/F)** | **£33,200/£22,000** |

- Under the current Baseline funding system for Scotland in 2023-24, the **public purse** contributes approximately **£1.37bn** per cohort of Scottish domiciled students (**£1.36bn** from the Scottish public purse and **£4m** from HE funding bodies in the rest of the UK[1]).
- The relatively low fees for students studying in Scotland imply that most of the Exchequer cost of the system relates to **Teaching Grants**, which cost **£884m** per cohort (including **£880m** for Scottish HEIs and FE colleges (allocated by the Scottish Funding Council) and **£4m** for English and Welsh HEIs (allocated by the Office for Students and the Higher Education Funding Council for Wales, respectively)). **Fee grants and maintenance grants** cost **£247m** and **£76m**, respectively. **Maintenance loan write-offs** cost the public purse **£147m** per cohort, while **fee loan write-offs** (for Scottish domiciled students studying in RUK only) cost **£12m**. The RAB charge is estimated at **20.6%**.
- HE providers[2] receive approximately **£1.21bn** in net income per cohort, including **£326m** in **fees** and the above **£884m** in **Teaching Grants**. Against this income, HEIs (outside of Scotland) contribute **£1m** per cohort in **bursaries**.
- The average debt on graduation per student (for full-time first degree students from Scotland studying in Scotland) was estimated at **£32,600**, with average lifetime repayments of **£33,200** and **£22,000** 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.

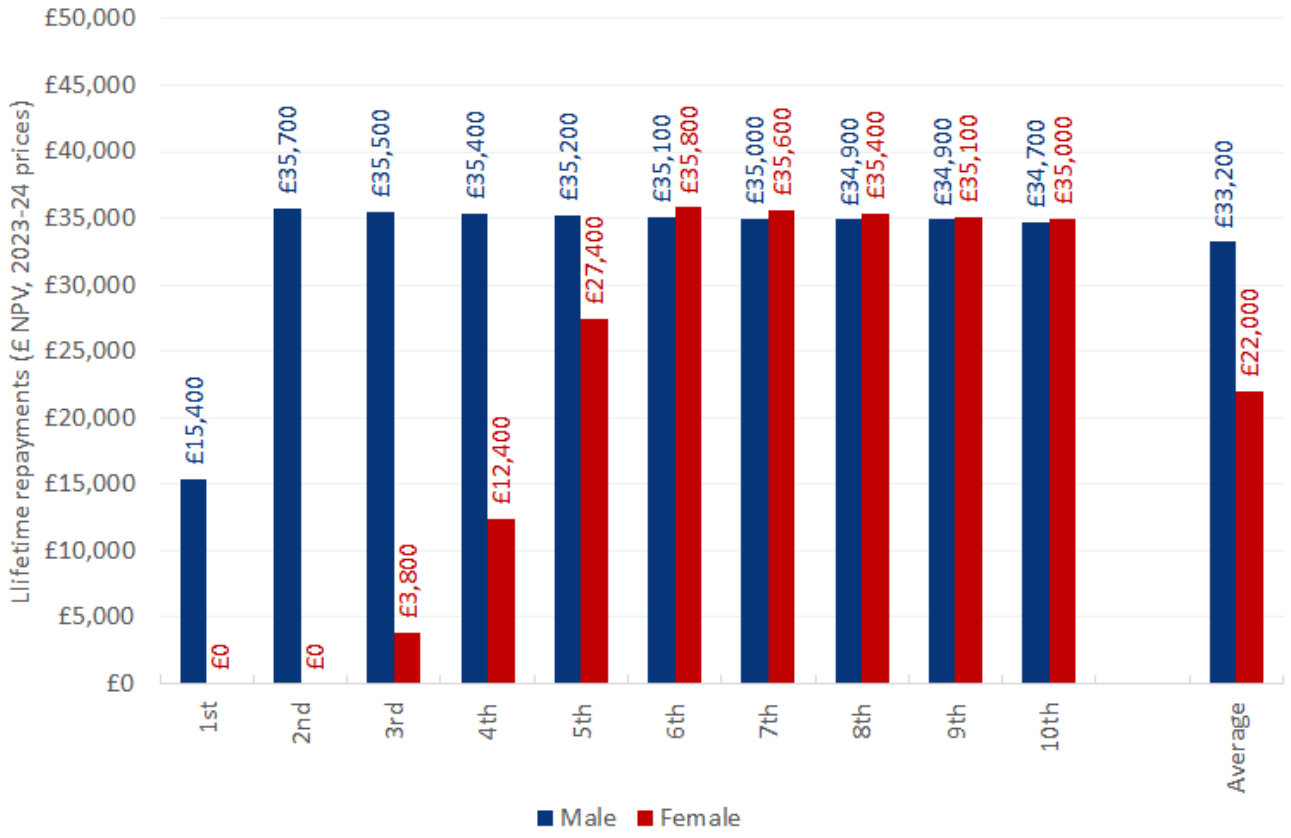
[1] This relates to Teaching Grants paid to English HEIs by the Office for Students, and to Welsh HEIs by the Higher Education Funding Council for Wales. Scottish domiciled students studying in Northern Ireland typically do not attract any Teaching Grant funding, since these students are charged much higher tuition fees as compared to 'home' students studying in Northern Ireland– so that the Teaching Grants paid to Northern Irish HEIs generally apply to 'home' domiciled students only.

[2] Again, note that, in addition to HEIs anywhere in the UK, this also includes Scottish FE colleges.

# Baseline (current system): Graduate loan repayments

Baseline system (Scotland)

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




- The average repayments made by **male graduates** stand at **£33,200** (for Scottish domiciled full-time first degree students studying in Scotland). Similar to the current English system, male graduates on the 2nd to 10th lifetime earnings deciles all repay approximately the same amount (in real NPV terms), standing at **£34,700-£35,700**.
- The average lifetime repayments made by **female graduates** stand at **£22,000**. Female graduates in the bottom two lifetime earnings deciles are not expected to make any loan repayments over the 30-year repayment period. In contrast, female graduates on the 6th to 10th earnings decile are all expected to repay approximately **£35,000-£35,800**.

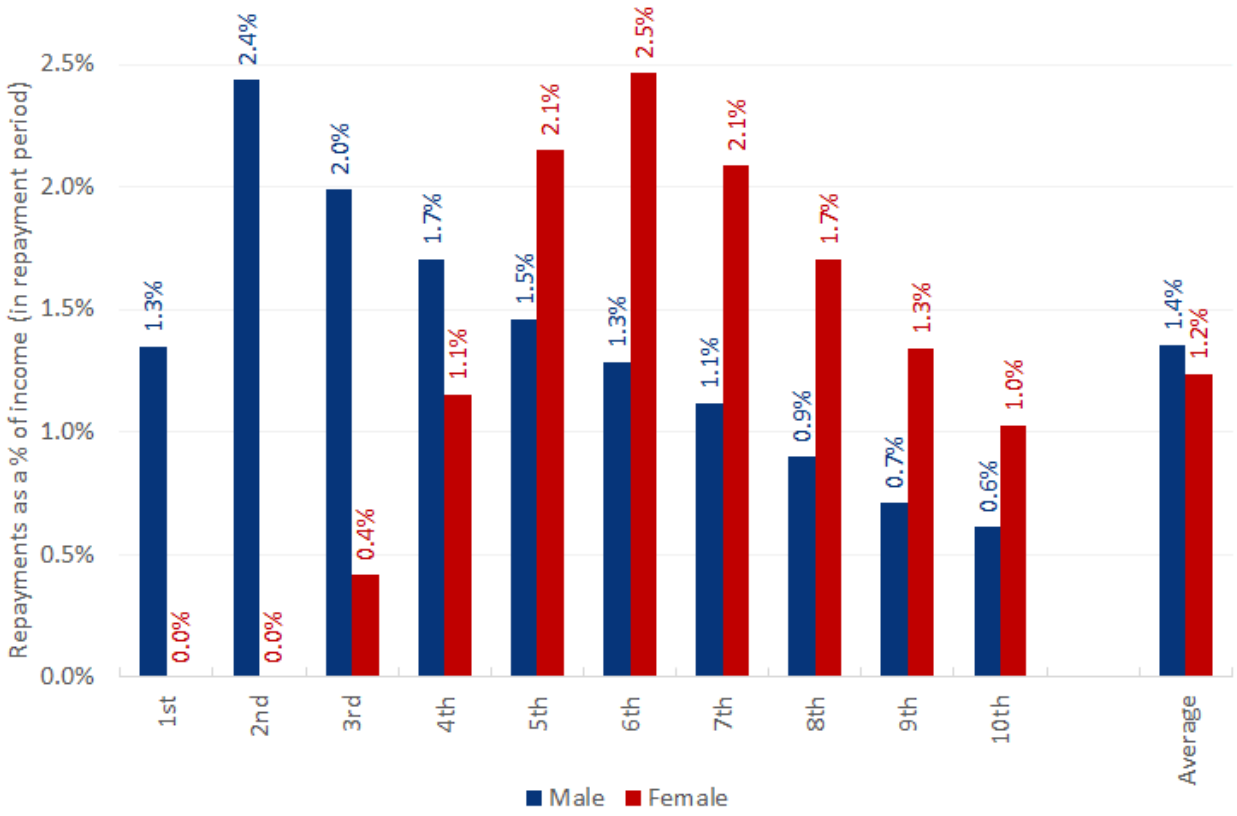


Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

# Baseline (current system): Loan repayment progressivity

Baseline system (Scotland)

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




- **The current Scottish loan repayment system is locally regressive, especially towards the upper end of the earnings distribution**.
- Reflecting lifetime loan repayments, male graduates on the 2nd decile contribute the highest proportion (**2.4%**) of their post- graduation income in loan repayments (over the 30-year repayment period). For higher deciles, the proportion of earnings contributed as loan repayments is significantly lower, standing at only **0.6%** on the **10th decile**.
- Again, female graduates in the bottom 4 deciles make no or relatively low repayments, while women on the **6th decile** contribute **2.5%** of their post-graduation earnings in repayments. This again decreases for successive earnings deciles – declining to **1.0%** for female graduates on the **10th decile**.

Note: Figures relate to repayments as a % of income throughout the repayment period (calculated based on cash terms (not discounted), for both income and repayments).

# Scenario 5: Reform Scotland

(Removal of free fees for first degree students in Scotland)

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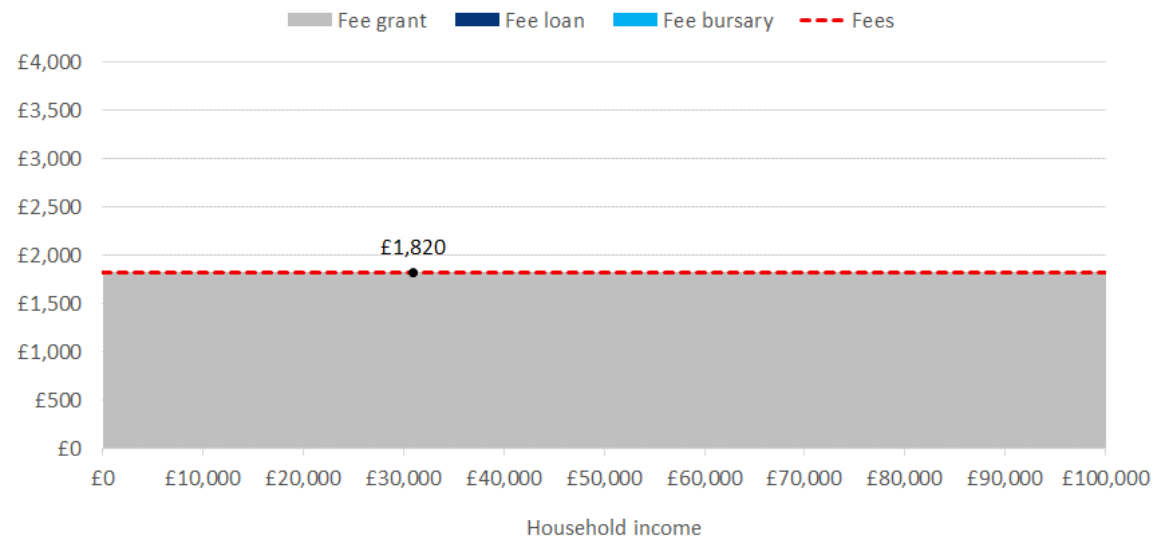
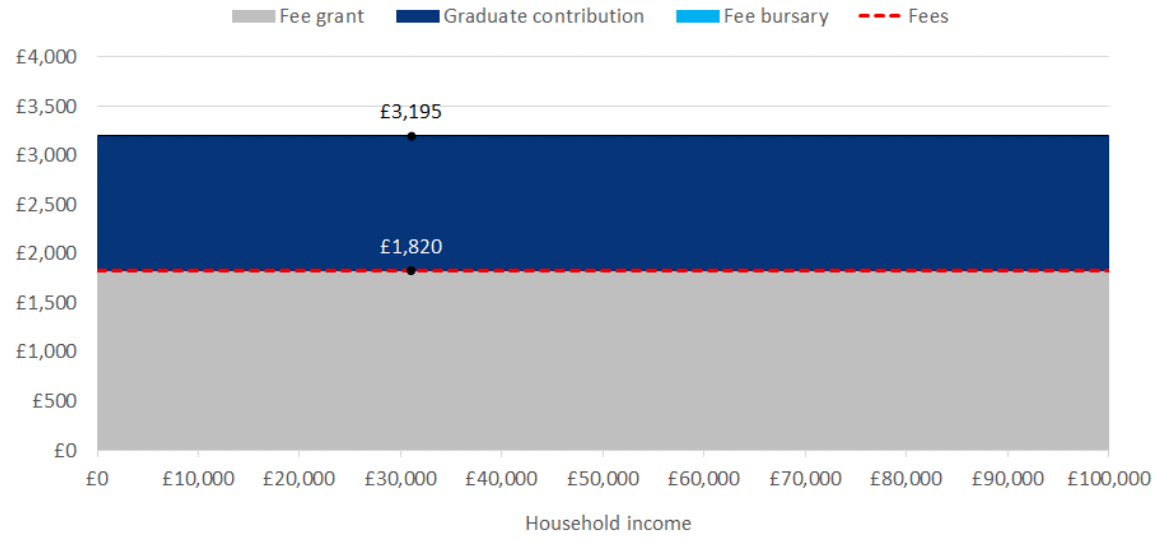
# Scenario 5: Fees and fee support

**Fees and fee support per year for Scottish domiciled full-time first degree students studying in Scotland, by household income**

**Baseline (Scotland)**




**Scenario 5: Reform Scotland**




- Based on the changes to the Scottish funding system discussed by Reform Scotland, **Scenario 5 would involve the introduction of a non-zero tuition fee model in Scotland, for first degree students studying in Scotland only** (and *no* changes to fees or fee support for sub-degree students in Scotland or students studying in RUK (at any level)).
- Fees per **full-time** first degree student studying in Scotland would continue to stand at **£1,820** per year, supported by the current **full fee grant**. In addition, this scenario would include the introduction of a **graduate contribution of £1,375 per year of study** (i.e. a total graduate contribution of **£5,500**, based on a study duration of 4 years). In other words, students would continue to be supported by the current fee grant but would make contributions towards the costs of their study post-graduation. Throughout our modelling, the graduate contribution here is treated as an effective tuition fee loan (of **£1,375** per student per annum) that is taken out during study and repaid post-graduation (based on the same repayment terms that apply to maintenance loans in Scotland (and fee loans, for Scottish domiciled students studying in RUK) under the current Scottish funding system).

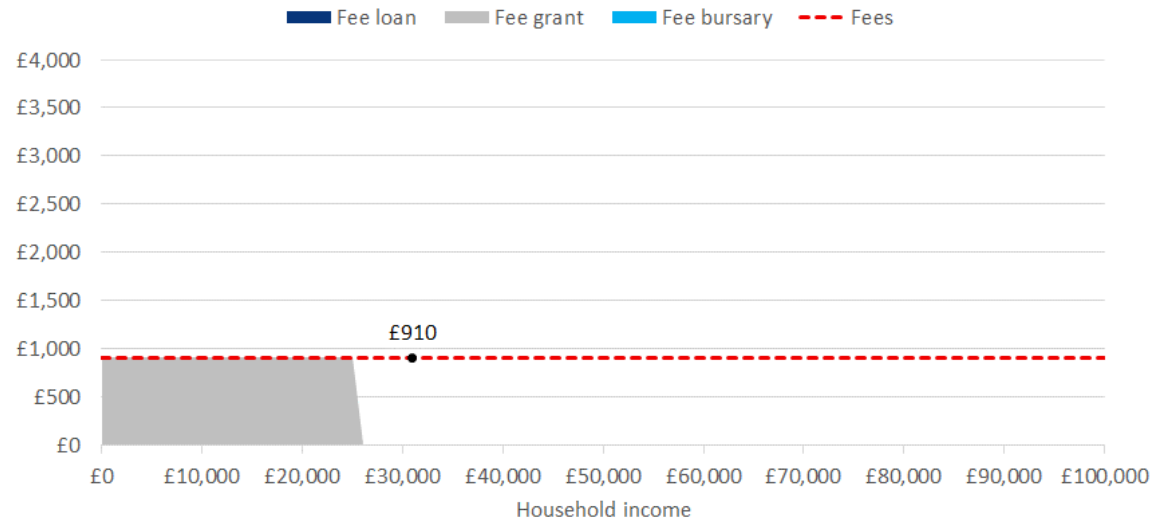


Note: The figures relate to fees and fee support in 2023-24, and we again assume that these figures remain 'frozen' over the cohort's entire study duration (i.e. in academic year 2024-25 and beyond).

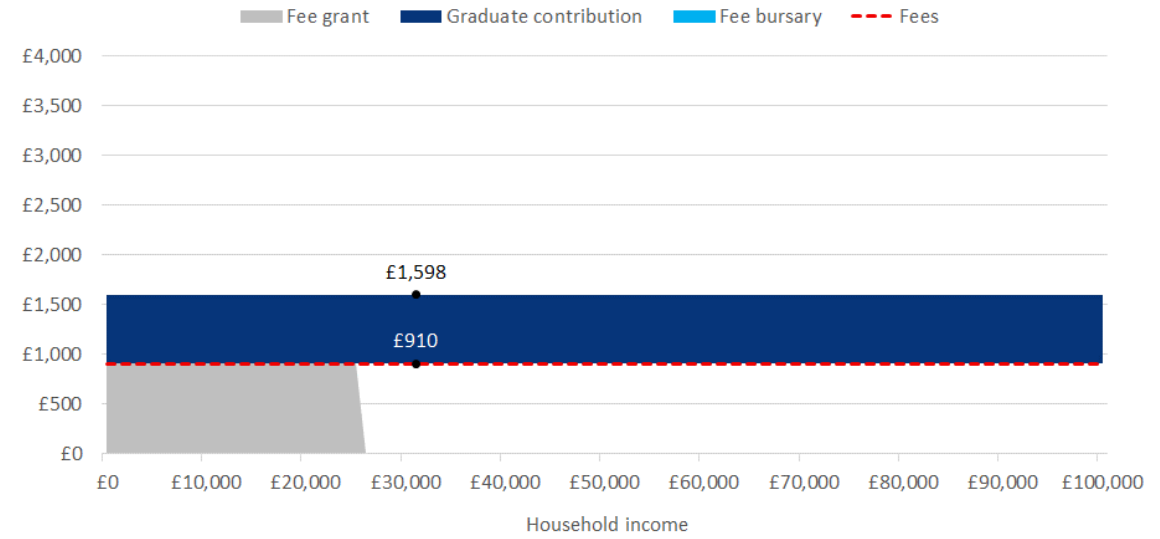
# Scenario 5: Fees and fee support

**Fees and fee support per year for Scottish domiciled part-time first degree students studying in Scotland, by household income**

**Baseline (Scotland)**




**Scenario 5: Reform Scotland**




- For **part-time students**, as under the current system, Scenario 5 would involve tuition fees of **£910** per first degree student per year, again supported by **means-tested fee grants** (available to students with household income of **£25,000 or less**). In addition, part-time students would be required to make a **graduate contribution of £688 per year of study** (i.e. again a total graduate contribution of **£5,500** over the entire period of study). Again, throughout our modelling, this graduate contribution is treated as an effective tuition fee loan (of **£688** per student per annum) that is taken out during study, and there would be *no* changes to fees or fee support for sub-degree students in Scotland or students studying in RUK (at any level).



Note: The figures relate to fees and fee support in 2023-24, and we again assume that these figures remain 'frozen' over the cohort's entire study duration (i.e. in academic year 2024-25 and beyond).

# Scenario 5: Total costs for cohort

Scenario 5: Reform Scotland

| Resource flows (£/£m/%) | Baseline | Scenario 5 | Difference |
|---|---|---|---|
| **Net Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance grants | (£76m) | (£76m) | - |
| Cost of maintenance loans | (£147m) | (£147m) | - |
| Cost of tuition fee grants (S in S*) | (£247m) | (£247m) | - |
| Cost of tuition fee loans (S in RUK) | (£12m) | (£12m) | - |
| Cost of graduate contributions (S in S) | - | (£29m) | (£29m) |
| Cost of Teaching Grants | (£884m) | (£884m) | - |
| **Total** | **(£1,366m)** | **(£1,395m)** | **(£29m)** |
| **RAB charge (%)** | **20.6%** | **20.6%** | **-** |
| **Net HEP income (UK HEIs and Scottish colleges)** | | | |
| Gross fee income | £326m | £326m | - |
| Graduate contributions | - | £154m | £154m |
| Teaching Grant income | £884m | £884m | - |
| Cost of bursary provision | (£1m) | (£1m) | - |
| **Total** | **£1,210m** | **£1,364m** | **£154m** |
| **Students/Graduates (FT first degree students from Scotland studying in Scotland)** | | | |
| **Average debt on graduation** | **£32,600** | **£32,600** | **-** |
| **Average lifetime repayments (M/F)** | **£33,200/£22,000** | **£33,200/£22,000** | **-** |

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.
* 'S in S' refers to Scottish domiciled students studying in Scotland. 'S in RUK' refers to Scottish domiciled students studying elsewhere in the UK.

- Compared to the current Scottish funding system, **Scenario 5 would result in a small (2%) increase in the Exchequer cost of the system, by £29m per cohort** – all related to the graduate contribution. Specifically, this cost captures the fact that some graduates are expected to *not* ever pay the full graduate contribution (e.g. in instances where their earnings are below the earnings threshold above which this contribution would have to start being paid [2]). Here, we assume that the Exchequer would incur the cost of these unpaid/outstanding graduate contributions (similar to the Exchequer cost associated with any maintenance and fee loans under the current system).
- **HEIs would benefit from an additional £154m in net income per cohort**[2] (again, for first degree students studying in Scotland only, while there would be no changes for any other students in the cohort).

[1] Again, note that the graduate contribution here is modelled as an effective fee loan, based on the same repayment terms that currently apply to maintenance (and fee) loans under the Scottish system (e.g. we assume that graduate contributions would be paid at a rate of **9%** on earnings above the current loan repayment threshold of **£27,660**).
[2] As outlined above, in our modelling, the graduate contribution is treated as an effective increase in fees (of **£1,375** per student per annum), backed by tuition fee loans – i.e. similar to a fee loan system, we assume that the Exchequer would cover the cost of the 'loan outlay' during study, and subsequently incur the revenues associated with graduates' 'repayments' (in terms of their graduate contribution payments).

# 4. COMPARISON ACROSS SCENARIOS

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# Comparison across scenarios for *England*

**Negative values = "worse off"**
**Positive values = "better off"**

| Resource flows (£m/%) | Baseline (Current system) | Scenario 1 (Chloe Field) | | Scenario 2 (Jo Johnson) | | Scenario 3 (James Purnell) | | Scenario 4 (Johnny Rich) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | Diff. to Baseline | Total | Diff. to Baseline | Total | Diff. to Baseline | Total | Diff. to Baseline |
| **'Net' Exchequer cost (adjusted for RAB)** | | | | | | | | | |
| Cost of maintenance grants | - | (£1,624m) | -£1,624m | - | - | - | - | - | - |
| Cost of maintenance loans | (£326m) | £2,010m | +£2,336m | (£347m) | -£21m | £37m | +£363m | (£635m) | -£308m |
| Cost of tuition fee grants | - | (£11,603m) | -£11,603m | - | - | - | - | (£11,302m) | -£11,302m |
| Cost of tuition fee loans | (£423m) | - | +£423m | (£461m) | -£38m | £55m | +£478m | - | +£423m |
| Cost of Teaching Grants | (£1,257m) | (£1,290m) | -£34m | (£1,257m) | - | (£1,257m) | - | (£1,257m) | - |
| Employer Levy contributions | - | - | - | - | - | - | - | £19,221m | +£19,221m |
| **Total** | **(£2,006m)** | **(£12,508m)** | **-£10,502m** | **(£2,064m)** | **-£59m** | **(£1,165m)** | **+£841m** | **£6,027m** | **+£8,033m** |
| **Net HEI income** | | | | | | | | | |
| Gross fee income | £11,302m | £11,603m | +£301m | £11,582m | +£279m | £11,302m | - | £11,302m | - |
| Teaching Grant income | £1,257m | £1,290m | +£34m | £1,257m | - | £1,257m | - | £1,257m | - |
| Cost of bursary provision | (£108m) | - | +£108m | (£116m) | -£8m | (£108m) | - | - | +£108m |
| **Total** | **£12,451m** | **£12,893m** | **+£443m** | **£12,722m** | **+£271m** | **£12,451m** | - | **£12,559m** | **+£108m** |
| **'Net' cost to students/graduates (adjusted for RAB)** | | | | | | | | | |
| Cost of gross fees | (£11,302m) | (£11,603m) | -£301m | (£11,582m) | -£279m | (£11,302m) | - | (£11,302m) | - |
| Fee grant income | - | £11,603m | +£11,603m | - | - | - | - | £11,302m | +£11,302m |
| Fee loan income | £423m | - | -£423m | £461m | +£38m | (£55m) | -£478m | - | -£423m |
| Bursary income | £108m | - | -£108m | £116m | +£8m | £108m | - | - | -£108m |
| Maintenance grant income | - | £1,624m | +£1,624m | - | - | - | - | - | - |
| Maintenance loan income | £326m | (£2,010m) | -£2,336m | £347m | +£21m | (£37m) | -£363m | £635m | +£308m |
| **Total** | **(£10,445m)** | **(£386m)** | **+£10,060m** | **(£10,658m)** | **-£212m** | **(£11,286m)** | **-£841m** | **£635m** | **+£11,080m** |

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 scenarios for *ScotlandA*

**Negative values = "worse off"**
**Positive values = "better off"**

| Resource flows (£m/%) | Baseline (Current system) | Scenario 5 (Reform Scotland) | |
|---|---|---|---|
| | | Total | Diff. to Baseline |
| **'Net' Exchequer cost (adjusted for RAB)** | | | |
| Cost of maintenance grants | (£76m) | (£76m) | - |
| Cost of maintenance loans | (£147m) | (£147m) | - |
| Cost of tuition fee grants | (£247m) | (£247m) | - |
| Cost of tuition fee loans | (£12m) | (£12m) | - |
| Cost of graduate contributions | - | (£29m) | -£29m |
| Cost of Teaching Grants | (£884m) | (£884m) | - |
| **Total** | **(£1,366m)** | **(£1,395m)** | **-£29m** |
| **Net HEI income** | | | |
| Gross fee income | £326m | £326m | - |
| Graduate contributions | - | £154m | +£154m |
| Teaching Grant income | £884m | £884m | - |
| Cost of bursary provision | (£1m) | (£1m) | - |
| **Total** | **£1,210m** | **£1,364m** | **+£154m** |
| **'Net' cost to students/graduates (adjusted for RAB)** | | | |
| Cost of gross fees | (£326m) | (£326m) | - |
| Graduate contributions | - | (£125m) | -£125m |
| Fee grant income | £247m | £247m | - |
| Fee loan income | £12m | £12m | - |
| Bursary income | £1m | £1m | - |
| Maintenance grant income | £76m | £76m | - |
| Maintenance loan income | £147m | £147m | - |
| **Total** | **£156m** | **£32m** | **-£125m** |

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.

# Authors

Dr Gavan Conlon, Partner
gconlon@londecon.co.uk

Maike Halterbeck, Divisional Director
mhalterbeck@londecon.co.uk

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LE London Economics

Somerset House, New Wing, Strand
London, WC2R 1LA, United Kingdom
info@londoneconomics.co.uk
londoneconomics.co.uk
@LE_Education
+44 (0)20 3701 7700

# ANNEX I
# Methodology and assumptions for the analysis of the English HE funding system

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# Assumptions and methodology



- The analysis of the English HE funding system considers the total number of full-time and part-time **English-domiciled first-year students starting undergraduate qualifications at any higher education institution in the UK in the 2023-24 academic year**. We use information 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). Hence, the analysis assumes that there are **515,790 first-year undergraduate English domiciled students in the relevant cohort of interest** (see next slide)[1].
- Part-time students are assumed to study at **50%** full-time equivalence (FTE)[2].
- The underlying analysis of loan repayment outcomes is undertaken separately by gender. Based on HESA information on English domiciled qualification completers (who graduated from institutions anywhere in the UK in 2021-22) by gender and qualification level (here), we assume the following **gender split**:

| Qualification level | Full-time | | Part-time | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Other undergraduate | 48% | 52% | 36% | 64% |
| HNC/HND | 50% | 50% | 85% | 16% |
| Foundation Degree | 26% | 74% | 35% | 65% |
| First degree | 41% | 59% | 44% | 56% |

- We assume the following **average age at enrolment** (based on HESA information[3]) and **average duration of qualification attainment** (by qualification level and study mode):

| | Age at enrolment | | Study duration | |
|---|---|---|---|---|
| Qualification level | 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 |

- Based on data published by the Office for Students (here), we assume an annual continuation rate of **90.5%** for full-time first degree students and **78.2%** for part-time first degree students. At sub-degree level, the assumptions stand at **81.3%** for full-time students and **83.1%** for part-time students. These percentages capture the proportion of students that were continuing in the study of a HE qualification (or had gained a qualification) approximately 1 year after they started their course (for full-time students who entered between 2017-18 and 2020-21) or 2 years after their started their course (for part-time students who entered between 2016-17 and 2019-20 - where we have assumed a constant drop-out rate each year to get to an assumed *annual* continuation rate). The continuation rate data covers UK domiciled students studying at HEIs and further education colleges located in England only.

[1] The analysis includes students studying at higher education institutions only (including alternative providers), but generally excludes students at further education colleges (except colleges based in Wales, which are included in the relevant HESA data - but there are only very few English domiciled students studying at these institutions, so the number is negligible). We further exclude students studying for institutional credits only (i.e. no formal qualifications), as these students are typically not eligible for public funding.

[2] 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).

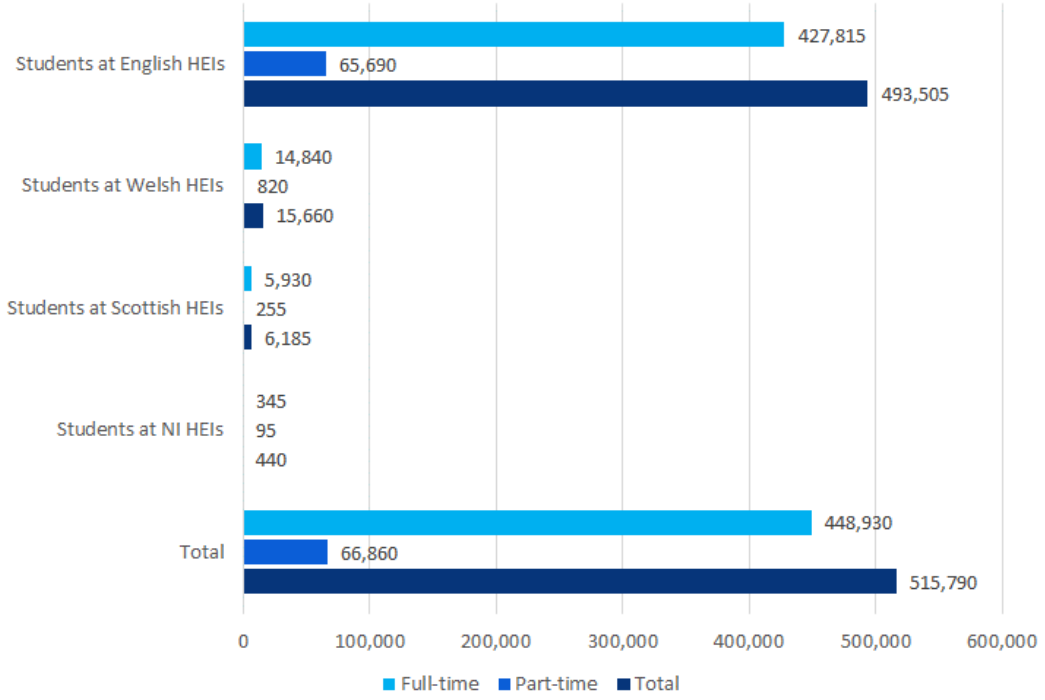
[3] The assumptions in relation to the age at enrolment are based on data provided to us by HESA on the average age at enrolment among all UK domiciled first-year students starting HE qualifications anywhere in the UK in 2021-22 (separately by study level and mode).

# Assumptions and methodology

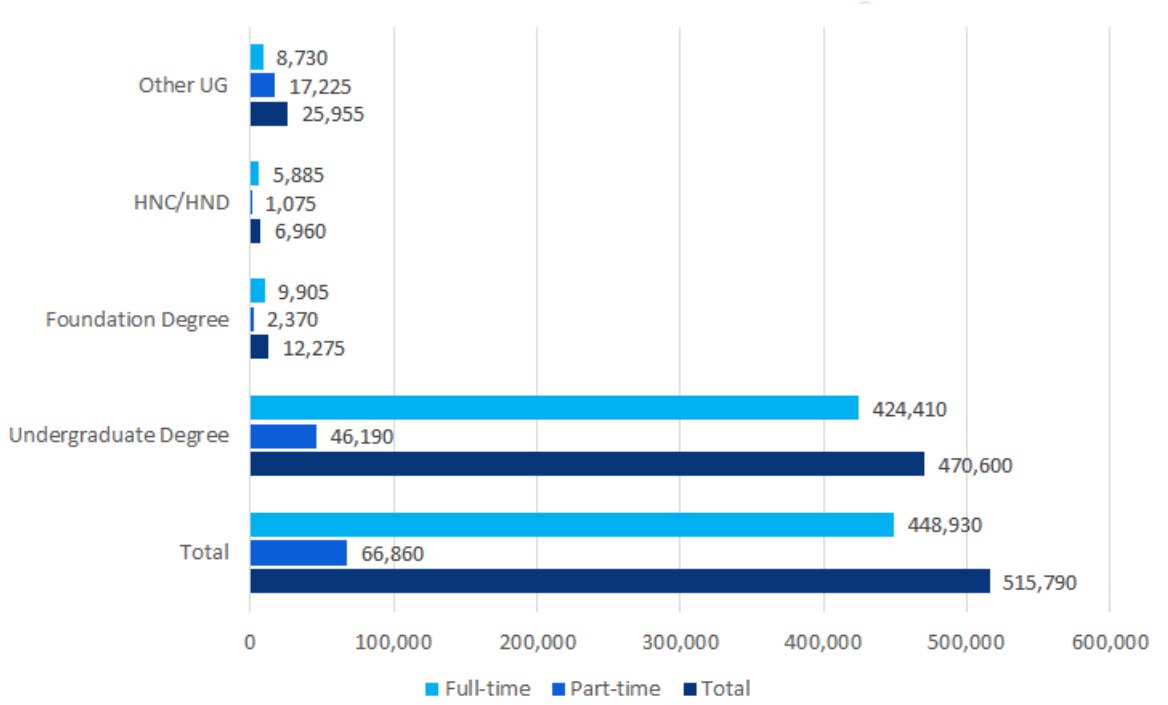


- The analysis is based on a total of **515,790 first-year undergraduate English-domiciled students studying anywhere in the UK:**

### By 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, 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. The analysis generally includes students studying at higher education institutions only (excluding further education colleges, apart from a very small number of students studying at Welsh further education colleges), and excludes students studying for institutional credits at undergraduate level (i.e. students who are not studying for a qualification).
Source: London Economics' analysis based on data published by the Higher Education Statistics Agency (here)

# Assumptions and methodology

Fees, fee loans, and bursaries

- Under the **current English funding system (Baseline)**, the analysis assumes a **(gross) tuition fee charged** to English domiciled **full-time students studying anywhere in the UK** in 2023-24 of **£9,250**, and **£4,625** for part-time students (pro-rata, based on the corresponding full-time fee adjusted for part-time study intensity).
- The above fees constitute *gross* fees before the deduction of any fee waivers. In terms of these **fee waivers as well as other (non-fee) bursaries** provided to students, based on Office for Student data 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 for full-time students) 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 RUK institutions, we assume that these bursaries available in England also apply to English domiciled students studying in **Wales**, **Scotland**, and **Northern Ireland**.
- We deduct the resulting estimated fee bursary/waiver from the above average fees per student per year (though note again that the relatively low estimated fee bursary has a negligible impact on the assumed 'net' fee, as the resulting average fee bursary per student is very small).
- We assume that both full-time and part-time students cover the resulting average net fees by taking out a (non-means-tested) **tuition fee loan** of the same amount from the Student Loans Company. Based on SLC data on student support provided to English students in 2021-22, we assume a **fee loan take-up rate of 96% for full-time students**[1] (i.e. that 96% of all full-time students in the relevant student body avail of this fee loan), and **44% for part-time students**.
- In terms of growth in subsequent academic years, we assume that the resulting fees and fee loans will continue to **remain frozen** in every subsequent year of study for the cohort (i.e. 2024-25 onwards).
- In **Scenario 3 (James Purnell)**, we assume the **same levels of fees, bursaries, and public fee support as under the current system**. Our assumptions in relation to fees and fee support under **Scenarios 1 (Chloe Field), 2 (Jo Johnson), and 4 (Johnny Rich)** are outlined throughout the main slides above (e.g. see here and here).

[1] The full-time take-up rate was calculated by dividing the number of English 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 English 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.

# Assumptions and methodology

Maintenance loans

- In terms of **maintenance funding**, under the **current English funding system** (in 2023-24)[1]:
  - **Full-time students** living away from home outside of London (**LAFHOL**) are eligible for a maximum maintenance loan of **£9,978** (for household income **up to £25,000**), declining to a minimum of **£4,651** (for household income of **more than £62,343**). Students living away from home in London (**LAFHIL**) are eligible for a maximum loan of **£13,022** (for household income **up to £25,000**), declining to a minimum of **£6,485** (for household income of **more than £70,040**); and students living at home (**LAH**) are eligible for a maximum loan of **£8,400** (for household income **up to £25,000**), declining to a minimum of **£3,698** (for household income of more than **£58,291**).
  - **Part-time students** are eligible for the same maintenance loans as full-time students but on a pro-rata basis, and using the same household income thresholds (so that, based on the assumed 50% study intensity, we assume that LAFHOL part-time students are eligible for a maximum maintenance loan of **£4,989** (again for household income **up to £25,000**)).
- 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, **63%** of students) and living away from home in London (LAFHIL, **14%** of students)[2]. For part-time students, based on the same sources, we assume that **25%** live at home (LAH), **68%** live away from home outside of London (LAFHOL), and **7%** live away from home in London (LAFHIL).
- In terms of **maintenance loan take-up rates**, again based on SLC data on student support for English domiciled undergraduate students in 2021-22, we assume a **maintenance loan take-up rate of 94% for full-time students**, and **44% for part-time students**[3].
- Students' eligibility for maintenance loans is based on their **household income**:
  - As there is no comparable information on students' household income levels available for English domiciled students, we combine the above-described household income thresholds with separate information from the Student Loans Company (SLC, here) on the distribution of *Welsh* domiciled undergraduate students by household income. Specifically, our assumptions are based on the proportion of Welsh domiciled 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 maintenance grants in that year) – separately for full-time students and part-time students.
  - We then adjust the information 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 is based on Wales, we adjust the assumptions for differences in average household income between England and Wales. Specifically, we adjust the assumptions for the ratio of median gross weekly earnings in England vs. Wales, based on 2022 data from the Annual Survey of Hours and Earnings published by StatsWales (here; note that 2022 is the latest year for which this information is currently available).

[1] For more information on these current funding rates, see Student Loans Company (2023). 'Student finance: how you're assessed and paid 2023 to 2024' (here).
[2] The distribution of students across these different living conditions is based on information from the 2014-15 Student Income and Expenditure Survey for England (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 English domiciled full-time undergraduate students living in London vs. elsewhere in the UK, in 2021-22 (here). The 2014-15 Student Income and Expenditure Survey was the most recent iteration of the survey available at the time that the analysis was undertaken.
[2] The full-time take-up rate was calculated by dividing the number of English 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 English domiciled full-time undergraduate students studying at UK HEIs in 2021-22 (from HESA data, here). Part-time maintenance loans were only introduced for new students starting from 2018-19 onwards, so it was not sensible to undertake a similar calculation for these students here; therefore, we instead assume that the part-time maintenance loan take-up rate is the same as the above-discussed part-time fee loan take-up rate (44%).

# Assumptions and methodology

## Maintenance loans

- In terms of **growth over time**, under the **current system**, we assume that:
  - **Students' household income** increases with UK-wide nominal average earnings growth in each year;
  - **Maximum maintenance loans** grow with forecast RPIX inflation in each year; and
  - The **household income thresholds associated with maintenance loans** (which have remained almost unchanged since the abolition of (full-time) maintenance grants in 2016-17) remain constant in all years.
- In **Scenarios 2 (Jo Johnson), 3 (James Purnell), and 4 (Johnny Rich)**, we assume the **same maintenance support as under the current system**. Our assumptions in relation to maintenance funding under **Scenario 1 (Chloe Field)** are outlined throughout the main slides above (see here and here).

## 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.

## Loan repayment terms

- In terms of student loan repayment terms, based on the new Plan 5 loan repayment terms (here) introduced for English domiciled students starting undergraduate qualifications from 2023-24 onwards (as part of the DfE's response to the Augar Review), under the **current funding system**:
  - Student loans accumulate **0% real interest**; instead, outstanding loan balances are only indexed against **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 £25,000** per annum (with the earnings threshold frozen until 2026-27 inclusive, and uprated with RPI inflation thereafter (also see the next slide for more information)); and
  - All loans are written off **40 years** from the Statutory Repayment Due Date (SRDD).
- Under **Scenario 2 (Jo Johnson)**, we assume the same loan repayment terms as under the current system. Our assumptions with regards to repayment conditions under **Scenarios 1 (Chloe Field), 3 (James Purnell), and 4 (Johnny Rich)** are outlined throughout the main slides above (e.g. see here and here).

[1] Under the currently exceptionally high RPI inflation rates, where the (nominal) student loan interest rate is too high in comparison to the prevailing commercial market rate, the Government will temporarily cap the maximum loan interest rate. We assume that an interest cap of 7.5% (in nominal terms) applies in 2023-24 (based on the interest rate cap for Plan 5 loans as of 1st December 2023, here). This cap is applied to all scenarios modelled for England here.

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

# Assumptions and methodology

Inflation, growth & discount rates

- 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 ONS[2]. 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) .
- **Maximum maintenance loan levels** are uprated each year based on OBR RPIX *forecasts*. Specifically, again using the OBR's medium-term projections, we assume that maintenance loans increase with RPIX for the corresponding first quarter (January to March) of the next full calendar year (e.g. we use predicted RPIX for 2025 Q1 to forecast maintenance loan levels in academic year 2024-25).
- Under the new Plan 5 loan repayment terms (i.e. the current system), the **loan repayment threshold** is frozen until 2026-27 inclusive. In subsequent years, we assume that the loan repayment threshold will increase in April each year in line with RPI in the year to the *previous March* (e.g. we assume that the threshold in 2027-28 will increase in line March 2026 RPI, again using OBR RPI forecasts for Q1 2026 as a proxy in this case[3])[4].
- 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 above), 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 for 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 Annex III).

[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 5 interest rate is currently capped at **7.5%** (as of 1st December 2023).
[3] This is the same approach to forecasting the Plan 5 loan repayment threshold that is used by the Department for Education in its own student loan forecasts for England (see here (Table 6b)). This also mirrors the current policy approach to loan threshold uprating in Northern Ireland (under Plan 1 loan repayment terms) and Scotland (under Plan 4 loan repayment terms).
[4] Under Scenarios 1 (Chloe Field) and 3 (James Purnell), the loan repayment threshold is instead uprated with average earnings growth in every year from 2024-25 onwards; we again assume that the threshold is uplifted in line with growth in the year to the *previous March* in each instance.

# Assumptions and methodology



- As outlined above, the analysis focuses on **English domiciled students in the 2023-24 cohort studying at higher education institutions anywhere in the UK**. Therefore, the estimated level of Teaching Grant funding associated with the cohort includes teaching grants paid to **English HEIs** (by the Office for Students) and **Welsh HEIs** (by the Higher Education Funding Council for Wales).
- In contrast, English students studying in **Scotland** and **Northern Ireland** typically do not attract any teaching grant funding (from the Scottish Funding Council and the Department for the Economy Northern Ireland, respectively). This is because these students are charged much higher tuition fees as compared to 'home' students studying in Scotland and Northern Ireland, so that the teaching grant paid to HEIs by the respective HE funding bodies in these Home Nations generally applies to 'home' domiciled students only.
- The average Teaching Grant per student studying in **England** is derived by combining information on the high-cost subject funding rate per FTE student by subject band in 2023-24 with information on the distribution of students by subject band (both published by the Office for Students, here), as follows:

| Subject band | Funding per FTE, £ | % of FTE students |
|---|---|---|
| Band A | £11,290 | 2% |
| Band B | £1,694 | 21% |
| Band C1.1 | £282 | 10% |
| Band C1.2 | £126 | 11% |
| Band C2 | - | 18% |
| Band D | - | 37% |
| **Total** | **-** | **100%** |

- Combining this with the average 'other targeted allocations' funding per student in England (e.g. including premium funding to support successful student outcomes), the average total Teaching Grant per full-time student studying in **England** was estimated at approximately **£1,060** per year. Based on average study intensity, the corresponding average funding per part-time student was estimated at **£530**.
- To estimate the average level of Teaching Grant per student per year for students studying in **Wales**, we use HESA financial data (here) and student data (here) for the 2021-22 academic year (in the absence of more recent information). We divide the total Teaching Grant income received by institutions in Wales 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, as well as EU first-year students (since, from 2021-22 onwards, these students are typically no longer eligible for Teaching Grant funding due to the significant changes to funding rules for EU students post-Brexit)). 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** in other Home Nations (rounded to the nearest £10) :

| Study location | Full-time | Part-time |
|---|---|---|
| Wales | £490 | £240 |
| Scotland | - | - |
| Northern Ireland | - | - |

- 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).
- **For all alternative scenarios for England modelled here**, the Teaching Grant funding rates are assumed to be unchanged compared to the current system.

# Assumptions and methodology

Graduate earnings

- 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 qualifications[1]. For each type of qualification, the earnings were assessed separately by income decile (including the 1st to 9th income deciles and the 95th percentile[2]), 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 study[3]. 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 level[4]).

[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 s 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 data[2], 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 OBR forecasts of average nominal earnings growth per year (see this slide)).

[1] See this slide for more information on our assume ages 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).

# ANNEX II
# Methodology and assumptions for the analysis of the Scottish HE funding system

LE London Economics

# Assumptions and methodology

Student profile

- The analysis of the Scottish HE funding system considers **first-year undergraduate students from Scotland studying at HEIs anywhere in the UK and at FE colleges in Scotland, in the 2023-24 academic year**. For students studying at UK HEIs, we again use student data published by HESA (here) for 2021-22. For students studying at Scottish FE colleges, we use granular data provided to us by the SFC underlying its published student data for HE in FE for 2020-21 (here). In the absence of more recent information, we assume that the size and characteristics of the student cohort have **remained unchanged** between 2021-22 and 2023-24 (for Scottish students at UK HEIs) and between 2020-21 and 2023-24 (for Scottish students at Scottish FE colleges).
- We **exclude students studying for institutional credits only**, as these students are typically not eligible for public funding.
- We also **exclude Scottish domiciled *full-time* students studying paramedic, nursing, or midwifery subjects in Scotland**, as these students are covered by different funding arrangements with the Scottish Government's Health and Social Care Directorate[1]:
  - For Scottish domiciled first-year full-time undergraduate students at Scottish HEIs, out of a total of **36,135** students (across all subjects), we exclude **4,250** (**12%**) students studying paramedic, nursing, or midwifery subjects (estimated based on the proportion of all Scottish domiciled full-time undergraduate students (studying at HEIs anywhere in the UK) by subject[2], again based on published HESA data).
  - For Scottish domiciled first-year full-time undergraduate students at Scottish FE colleges, out of a total of **23,320** students (across all subjects), we exclude **1,310** (**6%**) students studying paramedic, nursing, or midwifery subjects[3].
- After these exclusions, in total, the analysis assumes that there are **74,450 students in the relevant cohort of first-year undergraduate Scottish domiciled students studying at HEIs throughout the UK or at FE colleges in Scotland** (see next slide).
- Based on the same HESA and SFC data, we assume the following distribution of students in the cohort by **qualification level** (separately by institution type):

| Qualification level | Students at UK HEIs | | Students at Scottish colleges | |
|---|---|---|---|---|
| | Full-time | Part-time | Full-time | Part-time |
| Other UG | 1.0% | 34.4% | 0.7% | 58.4% |
| HNC/HND | 5.2% | 4.2% | 96.6% | 39.7% |
| Foundation Degree | 0.1% | 0.4% | - | - |
| First degree | 93.8% | 61.0% | 2.7% | 1.9% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

- Again, part-time students are assumed to study at **50%** FTE.

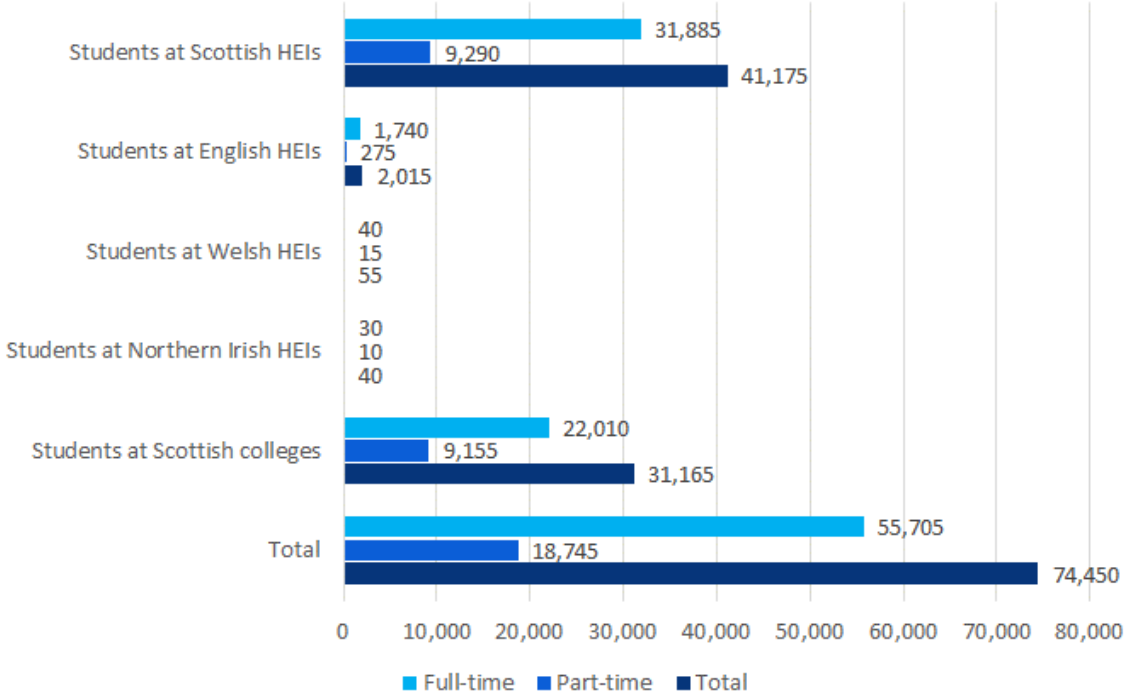
[1] These students are funded by the separate PNMSB scheme operated by SAAS. Note that this scheme does not apply to part-time students (who are instead funded by the general student support package provided by SAAS), so that part-time students in these subjects are *included* in our analysis.
[2] In other words, we implicitly assume the same subject distribution among Scottish domiciled students studying at Scottish HEIs and RUK HEIs.
[3] This was estimated based on the ratio of the overall proportion of first-year students at Scottish colleges vs. UK HEIs studying subjects allied to medicine (from published SFC data for 2021-22 (here)), multiplied by the above-mentioned proportion of Scottish domiciled first-year full-time undergraduate students at UK HEIs studying paramedic, nursing, or midwifery subjects in 2021-22. In other words, we implicitly assume the same granular subject distribution *within subjects allied to medicine* among Scottish domiciled first-year undergraduate students at Scottish colleges as for Scottish domiciled first-year undergraduate students studying at HEIs anywhere in the UK.

# Assumptions and methodology

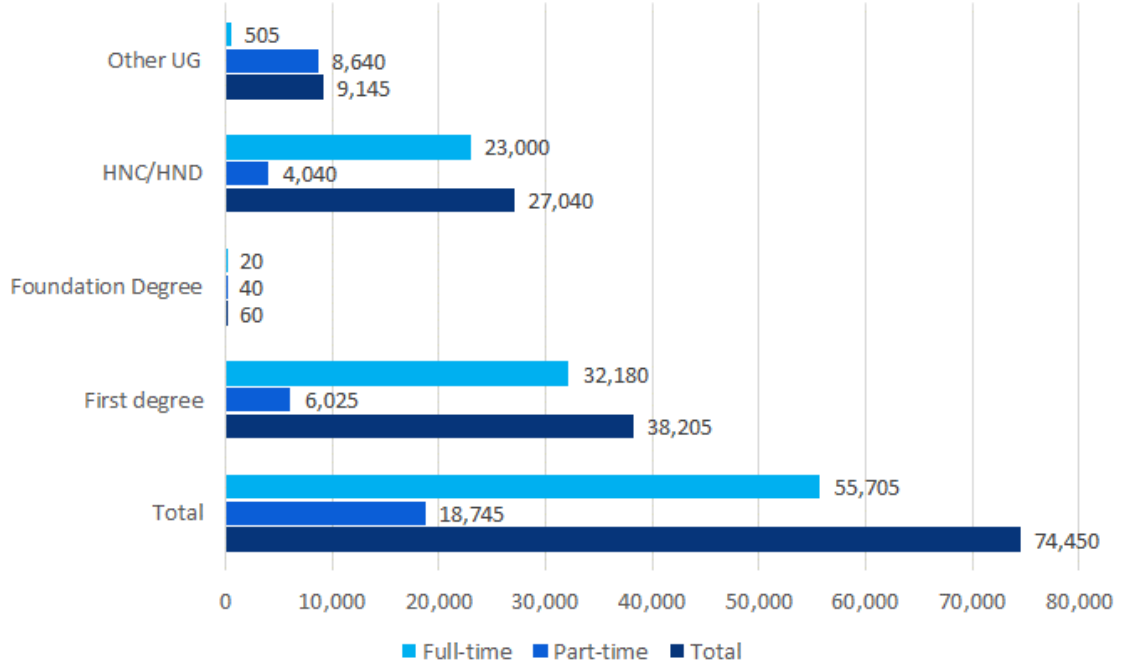
Student profile

- The analysis is based on a total of **74,450 first-year undergraduate Scottish domiciled students**, including **41,175 students studying at Scottish HEIs**, **2,110 students studying at RUK HEIs**, and **31,165 students at Scottish colleges:**

## By 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 (for students at HEIs) and the 2020-21 academic year (for students at Scottish colleges), and we assume the same size and characteristics for the 2023-24 cohort. The analysis excludes students studying for institutional undergraduate-level credits (i.e. students who are not studying for a qualification), and full-time Scottish domiciled students studying paramedics, nursing, or midwifery in Scotland.

Source: London Economics' analysis based on data published by HESA (here) and (unpublished) data provided to us by the SFC.

# Assumptions and methodology



- Again based on HESA data (here) and SFC data (here), we assume the following **annual continuation rates**:
  - **93.1%** for full-time students and **84.0%** for part-time students studying at **UK HEIs**. This is based on the proportion of students who entered higher education in 2019-20[1] (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); and
  - **62.5%** for full-time students and **75.8%** for part-time students studying at **Scottish colleges**. This is based on the proportion of HE students enrolled in Scottish FE colleges in 2021-22 who successfully completed their course in 2021-22 or completed the year (i.e. note that, in contrast to the above HESA data for UK HEIs, the information is *not* based on tracking a given cohort of starters in terms of their progression in successive academic years; rather, the SFC data provides a snapshot of 'success rates' in a single given academic year).

- The underlying analysis is undertaken separately by gender. Using HESA information on the gender split of Scottish domiciled qualification completers (who graduated from institutions anywhere in the UK in 2021-22 (here)), and SFC data on the gender split of students undertaking HE qualifications at Scottish colleges (here)[2], we assume the following **gender distribution**:

| Qualification level | Full-time | | Part-time | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Other undergraduate | 39% | 61% | 44% | 56% |
| HNC/HND | 29% | 71% | 52% | 48% |
| Foundation Degree | 50% | 50% | 71% | 29% |
| First degree | 40% | 60% | 38% | 62% |

- We assume the following **average age at enrolment** (again based on HESA information[3]) 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 | 4 | 8 |

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

[2] Note that the gender split here is based on students across all subjects of study, as an exclusion of paramedics, nursing, and midwifery students was not possible due to a lack of granularity in the underlying HESA and SFC data. Further note that, while the gender split from the HESA data was available separately by qualification level, the data for HE students at Scottish colleges was not broken down in this way. The combined gender distribution of students at HEIs and colleges here was calculated as a weighted average (weighted by the number of corresponding students in the cohort of interest studying at UK HEIs vs. Scottish colleges).

[3] As for the English model, the assumptions here in relation to the age at enrolment are again 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). In the absence of specific data for HE students at Scottish colleges, we assume that the same averages apply to students undertaking HE qualifications at Scottish colleges.

# Assumptions and methodology



- For the **current Scottish 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 Scottish domiciled students studying in RUK, and **£1,820/£1,285** for Scottish domiciled students undertaking first degrees/other undergraduate qualifications in Scotland. The corresponding gross fees charged to part-time students are assumed to be **£4,625** and **£910/£643**, 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 all of these fees will continue to **remain frozen** in every subsequent year of study for the cohort (i.e. 2024-25 onwards).
- We assume the following **fee waivers and access bursaries provided by HEIs and colleges:**
  - For **Scottish domiciled students studying in Scotland**, given that these students are currently eligible for full tuition fee grants (and means-tested fee grants in the case of part-time students), we assume that there are no fee waivers or other similar bursaries provided to 'home' students studying in Scotland (neither by Scottish HEIs nor Scottish FE colleges).
  - The (relatively small number of) **Scottish domiciled (full-time and part-time) students studying in RUK** pay much higher tuition fees than students studying Scotland. 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 per full-time student (and pro-rata for part-time students)) 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 Northern Irish institutions, we assume that these English bursaries also apply to Scottish domiciled students studying in Wales and Northern Ireland.

    We deduct the resulting estimated fee bursary/waiver from the maximum tuition fee loan available to Scottish domiciled full-time students studying in RUK (though the relatively low tuition fee bursary has a negligible impact on the assumed fee loan here; also note that Scottish domiciled part-time students studying in RUK are not currently eligible for any fee loans).

# Assumptions and methodology

## Fees, fee loans, fee grants, and bursaries

- In terms of **public fee support under the current Scottish funding system**:
  - We assume that all **full-time students** in the cohort **studying in Scotland** benefit from a non-means-tested fee grant to cover their entire tuition fee (i.e. **£1,820** for first degree students and **£1,285** for students undertaking other undergraduate qualifications).
  - **Part-time students studying in Scotland** are also eligible for tuition fee grants to cover their fees; however, these fee grants for part-time students are means-tested, and are only available to students with household income of **£25,000** or less (and we assume that this threshold remains constant in all subsequent years of study for the relevant cohort).
  - **Full-time students studying elsewhere in the UK** can instead access (non-means-tested) tuition fee loans of a maximum of **£9,250** to cover the cost of their tuition fees (and, as outlined above, we deduct the (small) estimated fee bursaries from this maximum). Based on SAAS data on student support for Scottish HE students in 2021-22, we assume a **take-up rate of 72%** (i.e. that 72% of all relevant students in the cohort avail of this fee loan)[1].
  - **Part-time students studying elsewhere in the UK** are currently typically not eligible for any public fee support from SAAS.
- Our assumptions with regards to fees and fee support under **Scenario 5 (Reform Scotland)** are outlined throughout the main slides above (e.g. see here), and we assume a **72%** loan take-up rate for the fee loans for (full-time and part-time) Scottish domiciled first degree students studying in Scotland modelled under this scenario (i.e. same as the above current fee loan take-up rate among full-time Scottish domiciled students studying elsewhere in the UK).

## Maintenance loans and grants

- In terms of **maintenance funding**, under the **current Scottish funding system**:
  - Based on 2023-24 funding levels for students under the Young Students' Bursary[2], **full-time students** are eligible for a combination of means-tested maintenance loans and grants (the latter are also referred to by SAAS as 'living cost bursaries'). The available **maintenance grant** under the YSB amounts to **£2,000** per student per year for students with household income of **£20,999 or less**; **£1,125** for students with household income of **£21,000-£23,999**; **£500** for students with household income of **£24,000-£33,999**; and **no maintenance grant** for students with household income of **£34,000 or more**. The available **maintenance loan** under the YSB stands at **£7,000** for students with household income of **£33,999** or less, declining to **£6,000** for students with household income of **£34,000** or more. Note that, in contrast to funding arrangements in other Home Nations (e.g. England), this maintenance funding for Scottish domiciled students does *not* depend on students' living circumstances (i.e. SAAS does not distinguish between LAFHOL, LAFHIL, and LAH students).
  - **Part-time students** are currently typically *not* eligible for any maintenance funding from SAAS.

[1] The take-up rate was calculated by dividing the number of Scottish domiciled full-time undergraduate students in RUK in receipt of these fee loans in 2021-22 (i.e. *funded* students, from SAAS data, here) by the *total* number of Scottish domiciled full-time undergraduate students studying at RUK HEIs in 2021-22 (from HESA data, here). Again, the use of 2021-22 data here is based on the fact that this constitutes the most recent academic year for which the required HESA student data are currently available.

[2] Note again that the YSB and the ISB provide the same combined total level of maintenance funding per student, but with a different composition of loan vs. grant funding (where the YSB provides a larger grant but lower loan than the ISB). The YSB is the main and larger maintenance grant scheme (accounting for approximately 73% of maintenance grant funding provided in 2022-23; see here); therefore, for simplicity, our analysis assumes that *all* students who are eligible for maintenance funding are covered by the YSB. The effect of this assumption is to marginally inflate the Exchequer costs of the Scottish HE funding system.

# Assumptions and methodology

Maintenance loans and grants

- In terms of maintenance funding **take-up rates** (applicable to **full-time students** only), for **maintenance grants**, we assume that *all* students take out the maximum available maintenance grant to which they are entitled. For **maintenance loans**, based on SAAS data on student support for Scottish HE students in 2021-22, we assume a **take-up rate of 66%** (i.e. that 66% of all relevant students in the cohort avail of a maintenance loan)[1].
- In terms of students' **household income:**
  - We base eligibility for means-tested maintenance loans and grants (and part-time fee grants) on the current household income eligibility thresholds applied by SAAS in 2023-24.
  - As there is no corresponding information on students' household income levels available for Scotland, we combine this with information from the Student Loans Company (SLC, here) on the distribution of *Welsh* domiciled students by household income. Specifically, our assumptions are based on the proportion of Welsh domiciled 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 maintenance grants in that year) – separately for full-time students and part-time students.
  - We adjust the information 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 is based on Wales, we adjust the assumptions for differences in average household income between Scotland and Wales. Specifically, we adjust the assumptions for the ratio of median gross weekly earnings in Scotland 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 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 OBR forecasts of UK average earnings growth; see further detail below);
  - **Maintenance loans** will increase by approximately **34%** in 2024-25 (here; from a maximum loan of **£7,000** to **£9,400**), but, after this increase, we assume that maintenance loans will remain constant in subsequent academic years. For **maintenance grants**, we assume that these remain constant in all years (as these grants have remained unchanged since 2019-20, and have again been announced to remain the same in 2024-25); and that
  - The **household income thresholds associated with maintenance loans and maintenance grants** (which have also remained unchanged since 2019-20) remain constant in all years.
- **Scenario 5 (Reform Scotland)** assumes the same maintenance support levels as the current (i.e. Baseline) Scottish funding system.

[1] This take-up rate is calculated by dividing the number of Scottish domiciled full-time undergraduate students in receipt of maintenance loans in 2021-22 (i.e. *funded* students, from SAAS data, here) by the *total* number of Scottish domiciled full-time undergraduate students studying at Scottish HEIs, Scottish colleges, or RUK HEIs in 2021-22 (for students at Scottish or RUK HEIs, from HESA data, here) or 2020-21 (for students at Scottish colleges, since the required granular SFC data was not available for 2021-22). The estimated take-up rate was adjusted to exclude full-time students studying paramedic, nursing, or midwifery subjects in Scotland from the denominator (as, again, these students are covered by different funding arrangements, and are therefore excluded from the analysis).

# Assumptions and methodology

## Loan repayment terms

- Under the **current funding system** (where Scottish domiciled students are subject to Repayment Plan 4 (here)):
  - Student loans accumulate **0% real interest**; instead, outstanding loan balances are only indexed against **RPI inflation** (i.e. adjusted with inflation each year), so that all graduates (irrespective of income) are charged the same interest rate[1].
  - Loans are repaid at a rate of **9%** of earnings in excess of **£27,660** per annum (threshold as of 6th April 2023; assumed to be uprated with RPI inflation in each subsequent year).
  - All loans are written off **30 years** from the Statutory Repayment Due Date (SRDD).
- Under **Scenario 5 (Reform Scotland)**, we assume the same loan repayment terms as under the current system (and, in addition, we also apply these loan repayment terms to model the expected level of graduate contributions made by graduates under this scenario).

## Calculating the RAB charge

- As for the analysis for England, we again use the following equation to calculate the RAB charge for the analysis for Scotland:

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

- 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] As for England, 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 in 2023-24 (based on the interest rate cap for Plan 4 loans as of 1st September 2023, see here and here). This cap is applied to all scenarios modelled for Scotland here.

# Assumptions and methodology



- As for the analysis for England, 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).
- As under the English system, the **loan interest rate** for Scotland 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 ONS[1]. 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 4 loan repayment terms, the **loan repayment threshold** is uprated 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).
- In relation to **discount rates for the estimation of aggregate financial flows across the cohort**, for the first 30 years, we again 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 the previous slide), as for the analysis for England, 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). **Again, note that 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)); for more information on this, again see Annex III.

[1] 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 above, given this exceptionally high level of inflation, the Plan 4 interest rate is currently capped at **6.25%** (as of 1st September 2023).

# Assumptions and methodology



- As outlined above, the analysis of the Scottish HE funding system focuses on **Scottish domiciled students in the 2023-24 cohort studying at higher education institutions anywhere in the UK or at FE colleges in Scotland**. Therefore, the estimated level of Teaching Grant funding associated with the cohort includes Teaching Grant funding paid to **Scottish HEIs and FE colleges** (by the Scottish Funding Council), **English HEIs** (by the Office for Students), and **Welsh HEIs** (by the Higher Education Funding Council for Wales). Again, note that Scottish domiciled students studying in Northern Ireland typically do not attract any Teaching Grant funding, as these students are charged much higher fees as compared to 'home' students studying in Northern Ireland, so that the Teaching Grants paid to Northern Irish HEIs generally apply to 'home' domiciled students only.
- The **average SFC Teaching Grant per student studying enrolled at Scottish HEIs** under the **current system** is derived by combining the SFC Teaching Subject Price (net of fees) paid to HEIs per FTE student by Subject Price Group (in 2023-24) with information on the distribution of funded places at HEIs (again in FTE terms) by Price Group (both published by the SFC, here), as follows:

| Price Group | Funding per FTE, £ | | % of FTE funded places |
|---|---|---|---|
| | Sub-degree | First degree | |
| 1 | £16,475 | £15,940 | 2% |
| 2 | £8,792 | £8,257 | 5% |
| 3 | £7,646 | £7,111 | 29% |
| 4 | £6,490 | £5,955 | 13% |
| 5 | £5,588 | £5,053 | 16% |
| 6 | £4,316 | £3,781 | 35% |
| **Total/average** | **£6,243** | **£5,708** | **100%** |

- In addition to this Main Teaching Grant funding for Scottish HEIs, we also include other targeted funding allocations (i.e. funding for small specialist institutions; widening access and retention; upskilling; the Disabled Students Premium; and funding contributions for pensions). Dividing the total funding allocated across these streams in 2023-24 by the number of SFC funded places in that year, we assume that the average funding for these other allocations stands at approximately **£340** per FTE per year[1]. Combining this with the Main Teaching Grant per student, the average total Teaching Grant per **full-time student** studying at Scottish HEIs per year was estimated at approximately **£6,050** per first degree student, and **£6,580** per sub-degree student (with the difference being driven by the relatively lower fees for sub-degree students). Based on an average 50% study intensity, the average funding per **part-time student** was estimated to be **£3,020** for first degrees, and **£3,290** for sub-degree qualifications.
- Teaching provision at **Scottish FE colleges** is funded under a different funding formula and using different associated Price Groups and (lower) funding rates as compared to Teaching Grant funding for Scottish HEIs[2]. To derive the average Teaching Grant per student per year at Scottish colleges, we divided the total teaching funding allocated to Scottish FE colleges in 2023-24 by the underlying 'credit threshold' (i.e. the number of credits funded), based on information published by the SFC (here). Assuming an average of 15 credits per HE FTE student per year[3], and again deducting the associated fee levels paid by the SFC, the average Teaching Grant per **full-time student** studying at Scottish FE colleges per year was estimated at **£3,220** per first degree student, and **£3,750** per sub-degree student. The average funding per **part-time student** was estimated to be **£1,610** for first degrees, and **£1,880** for sub-degree qualifications.

Note: All values here relate to 2023-24. Average funding per FTE across all Price Groups is calculated as a weighted average (weighted by the distribution of FTE funded places by Price Group).

[1] All numbers here are rounded to the nearest £10.

[2] For more information on the SFC Teaching Grant allocations for Scottish FE colleges (and associated Subject Price Groups), see the SFC's credit guidance for colleges for academic years 2023-24 (here).

[3] This reflects the SFC's credit guidance for colleges for academic year 2023-24 (here), stating that 'colleges should not exceed an overall average of 17 credits for FT FE students or 15 credits for FT HE students across the FT cohort'.

# Assumptions and methodology

## Teaching Grants

- To estimate the average Teaching Grants for **Scottish domiciled students studying elsewhere in the UK (i.e. England and Wales)**, we use HESA financial data (here) and student data (here) for the 2021-22 academic year (in the absence of more recent information). Specifically, we divide the total Teaching Grant income received by institutions in England or Wales by the associated total number of relevant students studying in England or Wales to whom these Teaching Grants typically apply (where we exclude any non-EU domiciled students and higher degree research students, as well as EU first-year students (since, from 2021-22 onwards, these students are typically no longer eligible for Teaching Grant funding due to the significant changes to funding rules for EU students post-Brexit)). 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** in other Home Nations (again rounded to the nearest £10) :

| Study location | Full-time | Part-time |
|---|---|---|
| England | £720 | £360 |
| Wales | £490 | £240 |
| Northern Ireland | - | - |

- We assume that these Teaching Grant funding rates (in Scotland or elsewhere in the UK) 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).
- Under **Scenario 5 (Reform Scotland)**, we assume the same teaching grants as under the current system.

## Graduate earnings and employment probabilities

- The forecasting of the student cohort's predicted (employment-adjusted) 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 for the analysis for Scotland uses the **same methodological approach as the analysis of the English HE funding system** (see this slide for more information).

# ANNEX III
# Key limitations and caveats

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# Assumptions and methodology

Key limitations and caveats

- Our modelling (for both England and Scotland) 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 relevant 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 (here and here), the official HM Treasury discount rates applied by the DfE to estimate the RAB charge and the long-run cost of student loans 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

Key limitations and caveats

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 2023[1], 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 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 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 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 here (for both England and Scotland).**

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 English funding system associated with the 2023-24 entry cohort would increase from **£2.01bn** to **£6.77bn** (**+£4.76bn**; 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: English system | Baseline: Scottish system |
|---|---|---|
| **Original estimates (discount rate of RPI-1.3%/RPI-0.2%)** | | |
| Cost of maintenance grants | - | (£76m) |
| Cost of maintenance loans | (£326m) | (£147m) |
| Cost of tuition fee grants | - | (£247m) |
| Cost of tuition fee loans | (£423m) | (£12m) |
| Cost of Teaching Grants | (£1,257m) | (£884m) |
| **Total** | **(£2,006m)** | **(£1,366m)** |
| **Revised estimates (discount rate of RPI+1.6%)** | | |
| Cost of maintenance grants | - | (£76m) |
| Cost of maintenance loans | (£2,379m) | (£308m) |
| Cost of tuition fee grants | - | (£247m) |
| Cost of tuition fee loans | (£3,134m) | (£20m) |
| Cost of Teaching Grants | (£1,257m) | (£884m) |
| **Total** | **(£6,770m)** | **(£1,535m)** |

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).