Assessing potential manifesto commitments on higher education funding in Wales

Analysis for the Higher Education Policy Institute, February 2026

Foreword/Rhagair

The last two decades have seen all four parts of the UK move further away from one another when it comes to funding undergraduate students, thanks to devolution.

Now, on the cusp of an election in Wales that could – but is not guaranteed to – eject Labour from power in Cardiff for the first time since the Senedd was established in 1999, it seems that process of differentiation may continue.

Until recently, people often asked whether the current Welsh funding settlement for higher education should be copied in other parts of the UK but, today, that settlement is being questioned from many sides even in Wales itself.

So HEPI asked London Economics to evaluate the consequences of the emerging post-election options facing Welsh policymakers, higher education institutions and students / graduates.

While some political parties are still reluctant to set out their stall when it comes to higher education, Plaid Cymru in particular have developed a proposed new path. This is designed to encourage more Welsh students to stay in Wales – or, to put it another way, to discourage people from Wales from enrolling in higher education elsewhere.

It also seems likely that the new kids on the block, Reform UK, might seek to offer a somewhat different path from the recent Labour-led administrations in Wales, at least if their past (rather vague) policy pronouncements still hold.

There are limitations to the modelling that can be done, given the continuing silence of some political parties in Wales – a silence which is also evident in Scotland, thereby constraining our original desire to produce a companion piece for the second most populous part of the UK to accompany this work on Wales.

Moreover, as the pages that follow remind us, there are tricky trade-offs to be made, given existing budget settlements, the wider fiscal position and the precise nature of the devolution settlement.

In the end, perhaps Wales will maintain something like the *status quo* for student loans in years to come, but the odds a bookie is likely to offer on that have become progressively worse.

Ultimately, what happens will – as it should – depend on the decisions individual voters in Wales make in the privacy of the polling booth on 7 May 2026 and on the clarity of the overall result afterwards.

Nick Hillman OBE, Director of HEPI

Introduction and overview

LE London Economics

Introduction and context

- **London Economics were commissioned by the Higher Education Policy Institute (HEPI) to assess the resource flows and cost implications associated with the Welsh higher education (HE) funding system**. In particular, we analyse the impact on the Exchequer, students/graduates, and higher education institutions (HEIs) of the **potential policy positions of Welsh political parties ahead of the 2026 Senedd elections**.
- Note that the major parties' official manifestos for the Senedd elections have not been launched yet. Instead, the analysis is based entirely on other recent policy papers published by the different parties (where possible and applicable), to provide an indication of their *potential* future manifesto pledges on HE funding.
- We model the following **three scenarios**:
  - The **current Welsh HE funding system applicable to the 2025-26 cohort of student entrants** (i.e. the '**Baseline**' funding system). In lieu of published information on Welsh Labour's plans for HE funding, we assume that they are proposing no changes to the current system, i.e. that **Welsh Labour** would stick to the current system[1];
  - A reduction in maintenance grants provided to Welsh domiciled undergraduate students studying elsewhere in the UK, as covered by **Cymru** in their New Economic Plan in April 2025; and,
  - The removal of nominal loan interest rates and an extension of the loan repayment period to 45 years, as set out by **Reform UK** in their manifesto for the 2024 UK General Election.[2]

Current system (Welsh labour)

Welsh Labour / Llafur Cymru

Scenario 1 (Plaid Cymru)

Plaid Cymru Party of Wales

Scenario 2 (Reform UK)

REFORM UK

[1] Note that, while the UK Government's November 2025 Budget (here) announced a 3-year Plan 2 repayment threshold freeze, the Welsh Government recently announced that it will *not* follow suit (see here), i.e. it will *not* adopt the freeze. This is reflected throughout the analysis here (and see here for our recent analysis of what the impact of the Plan 2 freeze would have been in Wales).

[2] Due to a lack of published information on Reform's proposals specifically for Wales, we have modelled their latest public position (to our knowledge) on higher education funding in the UK more broadly.

Overview of the analysis

- We focus on the **2025-26 cohort of first-year Welsh domiciled undergraduate students studying at higher education institutions (HEIs) anywhere in the UK or at further education (FE) colleges in Wales**[1]. The analysis includes 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 2025-26**, as well as the estimated costs **if the above-described alternative systems (i.e. the different parties' potential policy positions) had been implemented for this cohort**.
- The modelling assesses a range of **key metrics**, including:
  - Core student loan outcomes, such as the **Resource Accounting and Budgeting (RAB) charge** (i.e. the proportion of the total loan balance written off[3]), **student loan debt on graduation**, and expected **lifetime loan repayments** (by gender, lifetime income decile, mode, level of study, and location of study);
  - The **total Exchequer cost** of the system associated with the cohort, including the cost of student support for Welsh domiciled undergraduate students (studying anywhere in the UK) and the associated Teaching Grant funding paid to HEIs across the UK (where applicable) and FE colleges in Wales; and
  - **HE provider funding**, in terms of tuition fee income and Teaching Grant funding received by UK HEIs and Welsh FE colleges (minus the costs of any access bursaries provided to students).

[1] The underlying student numbers are based on data published by the Higher Education Statistics Agency (HESA) for the 2023-24 academic year; i.e. in the absence of more recent data (at the time that the analysis was undertaken), we assume the same size and characteristics for the 2025-26 cohort as for the 2023-24 cohort. Based on the coverage of this data, the analysis includes students enrolled at publicly funded higher education institutions and alternative providers located anywhere in the UK, as well as at FE colleges in Wales (only, but not at FE colleges elsewhere in the UK). Please see Annex I 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. We also exclude full-time students studying specific nursing, midwifery, allied health professional, or healthcare sciences courses in Wales that are funded by the separate NHS Wales Bursary Scheme (for students who commit to subsequently work in Wales for a specified minimum period). Note that the NHS Wales Bursary Scheme does *not* apply to *part-time* students in these subjects, so these students are included in our analysis (as they are instead covered by the general student support package provided by Student Finance Wales and the Student Loans Company (SLC).)

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

Funding scenarios

In addition to the **Baseline** (current funding system – assumed to be the system under **Welsh Labour**), we model **two alternative scenarios**:

BASELINE: CURRENT SYSTEM (Welsh Labour)

Current fees and funding arrangements for Welsh domiciled students who start undergraduate qualifications in 2025-26:

- **Tuition fees of £9,535 per full-time student**[1, 2], backed by **fee loans**.
- **Combination of means-tested maintenance loans and grants for full-time students of up to a total of £12,345 for students living away from home outside of London** ('LAFHOL'), and **up to £4,553 for part-time students** (irrespective of living circumstances).
- **Repayment threshold of £28,470**. **Real interest rates** of **3%** during study, **0-3%** for earnings between £28,470 and £51,245, and **3%** for earnings of £51,245 or more. Repayment period of **30 years**[3].

SCENARIO 1: LOWER MAINTENANCE SUPPORT FOR WELSH STUDENTS IN RUK (Plaid Cymru)

No change for Welsh students studying in Wales. For **Welsh students studying in *RUK***:

- **Replacement of non-means tested minimum 'base' maintenance grant with higher maintenance loan** (for both FT and PT students).
- **Maximum maintenance grant of £7,100 (£2,500)** for full-time (part-time) LAFHOL students with **household income of less than £18,370 (£25,000). No maintenance grant** for students with **household income greater than £29,200.**
- **Total maintenance funding (loans + grants) remains unchanged** for both full-time and part-time students.

SCENARIO 2: LONGER REPAYMENT PERIOD AND ABOLITION OF LOAN INTEREST (Reform UK)

Removal of loan interest rates and extension of repayment period:

- **0% (nominal) loan interest rate** during study and post-graduation.
- **Extension of loan repayment period to 45 years** (from current 30 years).

[1] The Welsh Government has announced an increase in tuition fees linked to RPIX inflation in 2026-27, but states that fees in subsequent years will be considered in the next Senedd team (see here). We assume that fees will continue to increase with RPIX inflation in future years, mirroring the change in fees for England (see here). [2] Fees and fee loans for part-time students studying in *RUK* 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, so that the fees and fee loans for part-time students studying in RUK stand at **£4,768** in 2025-26. In contrast, Welsh domiciled part-time students studying in *Wales* are only eligible for a maximum fee loan of **£2,625** (irrespective of their study intensity and of the actual fee charged). While there is no official tuition fee cap imposed by the Welsh Government, we assume that, in practice, their fees are moderated by the level of fee loan available. Hence, we assume a fee for part-time students studying in Wales of **£2,625** (i.e. equivalent to the fee loan). The Welsh Government announced that this cap will increase to **£2,875** from 2026-27 (see here), which we assume is a one-off increase. [3] In addition to the write-off of loans at the end of the 30-year repayment period, the Welsh system includes a special partial maintenance loan cancellation scheme, where **£1,500** of full-time students' maintenance loan debt is cancelled when they make their first repayment. For more information, again see Annex I.

Current funding system (Baseline)

Welsh Labour

LE London Economics

Baseline: Fees and fee support for Welsh students in Wales

- Under the current system, the fees for **full-time Welsh domiciled students studying in Wales** stand at **£9,535**, supported by (non-means-tested) fee loans as well as access bursaries provided by universities themselves[1].
- Welsh **part-time** students studying in Wales are eligible for a maximum (non-means-tested) fee loan of **£2,625** (irrespective of their study intensity and of the fee charged). While there is no official fee cap for part-time students, we assume that, in practice, their fees are moderated by the level of fee loan available. Hence, we assume that the fees and fee loans for Welsh domiciled part-time students studying in Wales stand at **£2,625**.

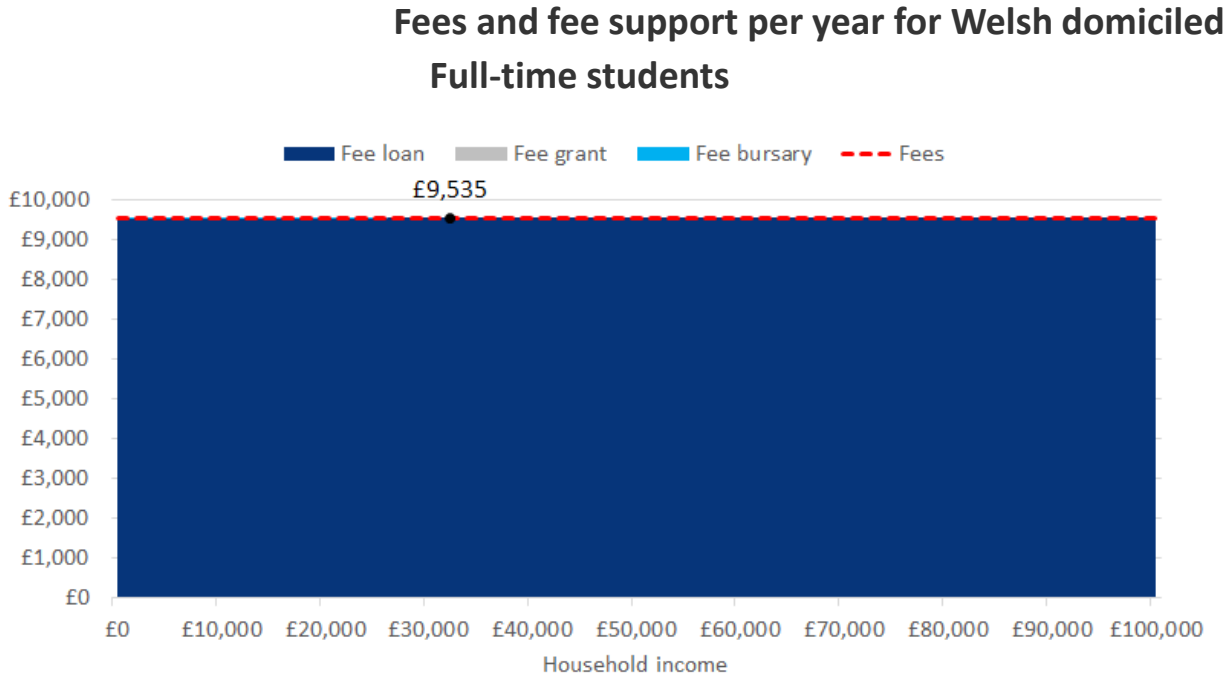
Fees and fee support per year for Welsh domiciled students studying in Wales, by household income

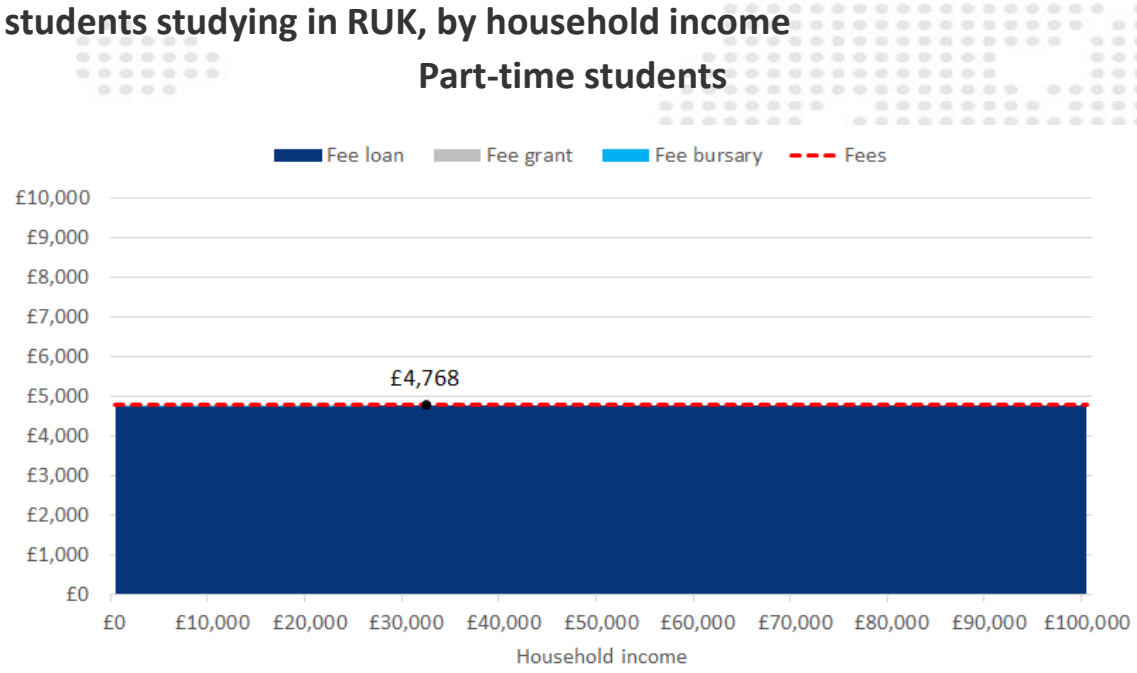
Note: The figures relate to fees and fee support in 2025-26. We assume that full-time fees (and associated fee loans) in both Wales and RUK will increase to **£9,790** from 2026-27, as recently announced by the Welsh Government (see here). The Welsh Government has not yet announced whether tuition fees will continue to rise from 2027-28 onwards, but we assume that its current position is for fees to continue to increase with RPIX inflation in future years, mirroring the policy in England (see here). As fees and fee loans for part-time students studying in *RUK* are set on a pro-rata basis, we assume a corresponding increase in relation to part-time fees in RUK in 2026-27 (to approximately **£4,895**) and in future years. Fees for part-time students studying in *Wales* are assumed to increase to **£2,875** from 2026-27 (as announced by the Welsh Government (see here)) but are assumed to remain 'frozen' after this point over the cohort's remaining study duration. Also see Annex I for more information on our methodology. [1] Fee waivers and non-fee bursaries were derived from Welsh higher education providers' fee and access plans (for 2020-21) and HESA data on the number of students studying in Wales (here, again for 2020-21 for consistency). The use of 2020-21 data in this instance is because Welsh providers' *more recent* fee and access plans do not include the required detailed bursary information. We assume that these bursaries are only available to students with a household income of £25,000 or less. The resulting fee bursaries are very small (approximately **£30** per eligible full-time student per year and **£15** per eligible part-time student), so that they are not displayed in the figures here. For simplicity, we assume that the same bursaries also apply to Welsh domiciled students studying in England, Scotland, and Northern Ireland (again, also see Annex I for more information on our assumptions).

Baseline: Fees and fee support for Welsh students in RUK

- The current (2025-26) fees for **full-time Welsh domiciled students studying in RUK** are equivalent to those in Wales, standing at **£9,535**. Again, these fees are supported by (non-means-tested) fee loans as well as access bursaries[1].
- Welsh domiciled **part-time** students studying in RUK are eligible for a maximum (non-means-tested) fee loan of **£4,768** (on a pro-rata basis, based on a full-time fee of **£9,535** and a study intensity of 50%), again supported by fee loans of the same amount.

Fees and fee support per year for Welsh domiciled students studying in RUK, by household income





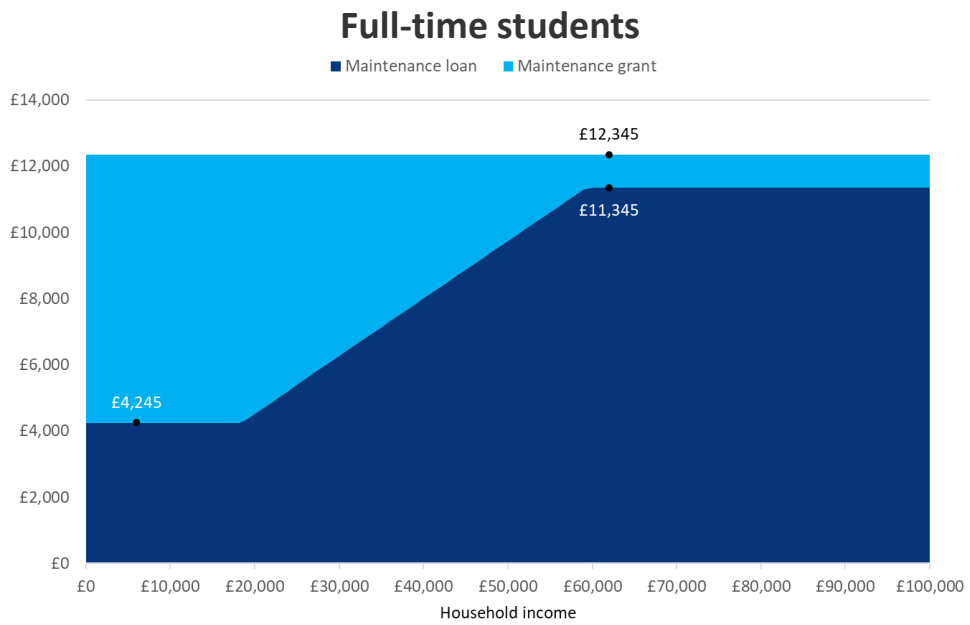
Note: The figures relate to fees and fee support in 2025-26. Again, we assume that full-time fees (and associated fee loans) in both Wales and RUK increase to **£9,790** from 2026-27 and continue to increase with inflation in future years. We assume corresponding increases in relation to part-time fees in RUK (to approximately **£4,895** in 2027-28). Fees for part-time students studying in *Wales* are assumed to increase to **£2,875** from 2026-27 (as announced by the Welsh Government (see here)), but are assumed to remain 'frozen' after this increase over the cohort's remaining study duration. Also see Annex I for more information.

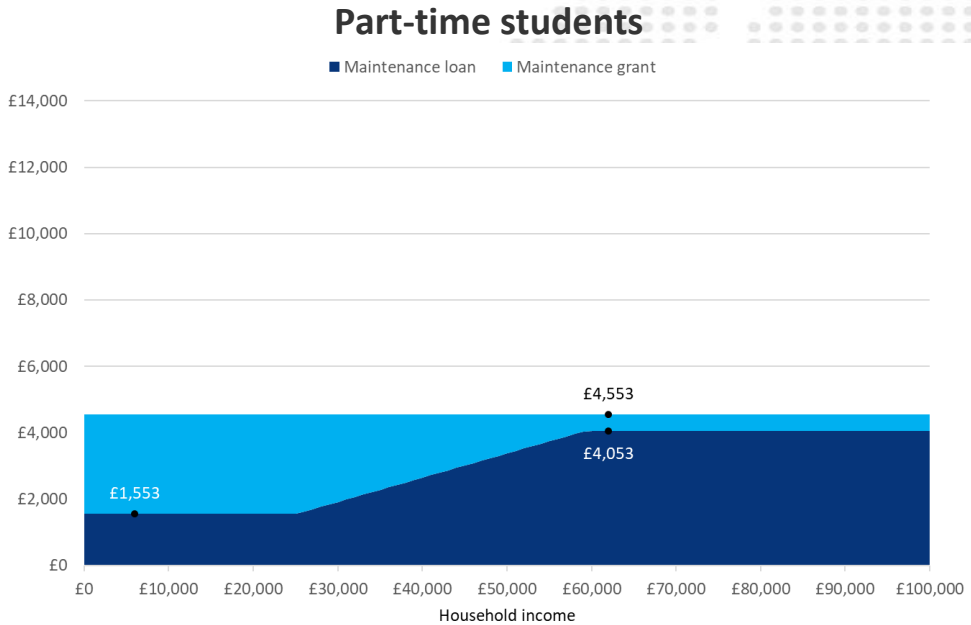
[1] Again, the estimated fee bursaries here are very small (approximately **£30** per eligible full-time student per year and **£15** per eligible part-time student), so that they are not displayed in the figures here.

Baseline: Maintenance support

- **Full-time students** living away from home outside of London (LAFHOL) are currently eligible for total maintenance support of **£12,345** per year ***irrespective of household income***, making this system the **most generous full-time maintenance support package offered across the UK**. This total includes a maximum grant of **£8,100** and a loan of **£4,245** for household income of **up to £18,370**, with the grant declining to a minimum 'base grant' of **£1,000** and the loan increasing to **£11,345** for household income of **more than £59,200**[1].
- **Part-time students** are covered by a lower maintenance support package compared to full-time students. Part-time students are eligible for total maintenance support of **£4,553**, irrespective of household income but *also* irrespective of students' living circumstances. This total includes a maximum grant of **£3,000** and a loan of **£1,553** for household income of **up to £25,000**, with the grant decreasing to **£500** and the loan increasing to **£4,053** for household income of **more than £59,200**[2].

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





Note: The figures relate to maintenance support in 2025-26. We assume that maintenance loans increase in each subsequent year of study for the cohort of interest (with OBR CPI inflation forecasts). We assume that maintenance grants also increase with CPI inflation in 2026-27, as announced by the Welsh Government (see here), but assume that they remain constant after this increase.

[1] Students living away from home in London (LAFHIL) are instead eligible for total maintenance support of **£15,415**, and students living at home (LAH) are eligible for **£10,480**. [2] The funding rates for part-time students are based on a maximum maintenance grant of **£6,000** per FTE student and a maximum loan of **£8,105** per FTE student (net of the **£1,000** minimum maintenance grant). We assume a study intensity of 50%, thus arriving at a maximum and minimum maintenance grant of **£3,000** and **£500**, respectively, and a maximum and minimum loan of **£4,053** and **£1,553**, respectively.

Baseline: Total costs for cohort

Current funding system

Resource flows (£/£m/%)	Students in Wales	Students in RUK	Total
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	(£164m)	(£91m)	**(£255m)**
Cost of maintenance loans	(£23m)	(£15m)	**(£38m)**
Cost of tuition fee loans	(£27m)	(£16m)	**(£43m)**
Cost of Teaching Grants	(£31m)	(£24m)	**(£55m)**
Total	**(£246m)**	**(£145m)**	**(£391m)**
RAB charge (%)			**8.9%**
Net HEP income (UK HEIs and Welsh FE colleges)			
Gross fee income	£356m	£224m	**£580m**
Teaching Grant income	£31m	£24m	**£55m**
Cost of bursary provision	(£10m)	(£4m)	**(£14m)**
Total	**£378m**	**£243m**	**£621m**
Students/Graduates (FT first degree students)			
Average debt on graduation	**£55,100**	**£57,500**	
Average lifetime repayments (M/F)	**£65,600/£39,000**	**£68,100/£39,900**	

Note: All monetary values have been discounted to net present values and are presented in constant 2025-26 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- Under the current Welsh funding system in 2025-26, the **Exchequer** contributes approximately **£246m** for Welsh domiciled students studying in Wales, and **£145m** for Welsh domiciled students studying in RUK - i.e. a combined total of **£391m**.
- Most of this total cost is associated with the relatively generous maintenance grants provided to students (**£255m**), including **£164m** for students studying in Wales, and **£91m** for students studying in RUK. There is also **£55m** in Teaching Grants paid to HE providers (including **£31m** for Welsh HEIs and FE colleges (allocated by Medr) and **£24m** for English HEIs (from the Office for Students))[1].
- The estimated average RAB charge associated with the cohort is **8.9%**, resulting in maintenance loan and fee loan write-off costs of **£38m** and **£43m** per cohort, respectively[2].
- HE providers receive **£621m** in net income per cohort, including **£580m** in **fees** and the above **£55m** in **Teaching Grants**. Against this income, HEPs contribute an estimated **£14m** per cohort in **bursaries**.
- The average debt on graduation per full-time first degree student in the cohort studying in Wales was estimated at **£55,100**, with average lifetime repayments of **£65,600** and **£39,000** for male and female graduates, respectively. The corresponding debt on graduation and lifetime repayments for students studying in RUK are slightly higher, driven by the fact that a proportion of these students study and live in London (therefore receiving higher maintenance loans (and grants)), while a proportion of students studying in Wales live at home with their parents (therefore receiving lower maintenance loans (and grants)).
- The **balance of contribution** between the Exchequer and the individual stands at **63%:37%**.

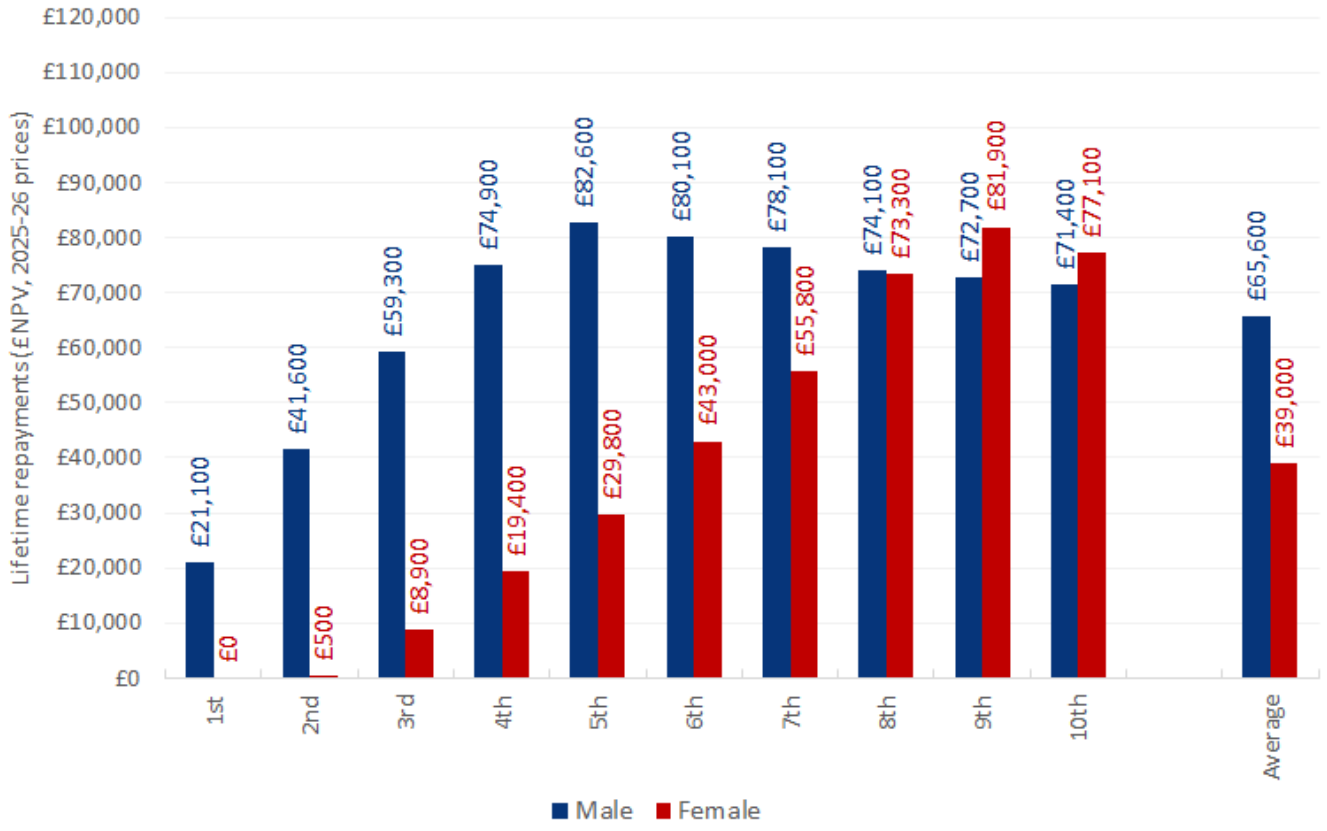
[1] Welsh domiciled students studying in Scotland or Northern Ireland typically do not attract any Teaching Grant funding, since these students are charged much higher tuition fees as compared to 'home' students studying in Scotland or Northern Ireland (so that the Teaching Grants paid to Scottish and Northern Irish HEIs generally apply to 'home' domiciled students only).

[2] Note that our RAB charge estimates here are expected to be *lower* than the official RAB charge estimates for Wales produced by the Department for Education/the Welsh Government. This is predominantly because our analysis is based on *higher* graduate earnings estimates (based on a combination of Labour Force Survey and British Cohort Study data) than the graduate earnings forecasts that the official DfE/Welsh Government model is based on. The DfE/Welsh Government model instead relies on microdata on student loan borrowers from the Student Loans Company (which are not publicly accessible), combined with Longitudinal Educational Outcomes data, which provide more pessimistic graduate earnings forecasts.

Baseline: Graduate loan repayments - Welsh students in Wales

Current funding system

Total loan repayments by Welsh domiciled students who complete FT first degrees in Wales (NPV in 2025-26 prices), by lifetime earnings decile and gender



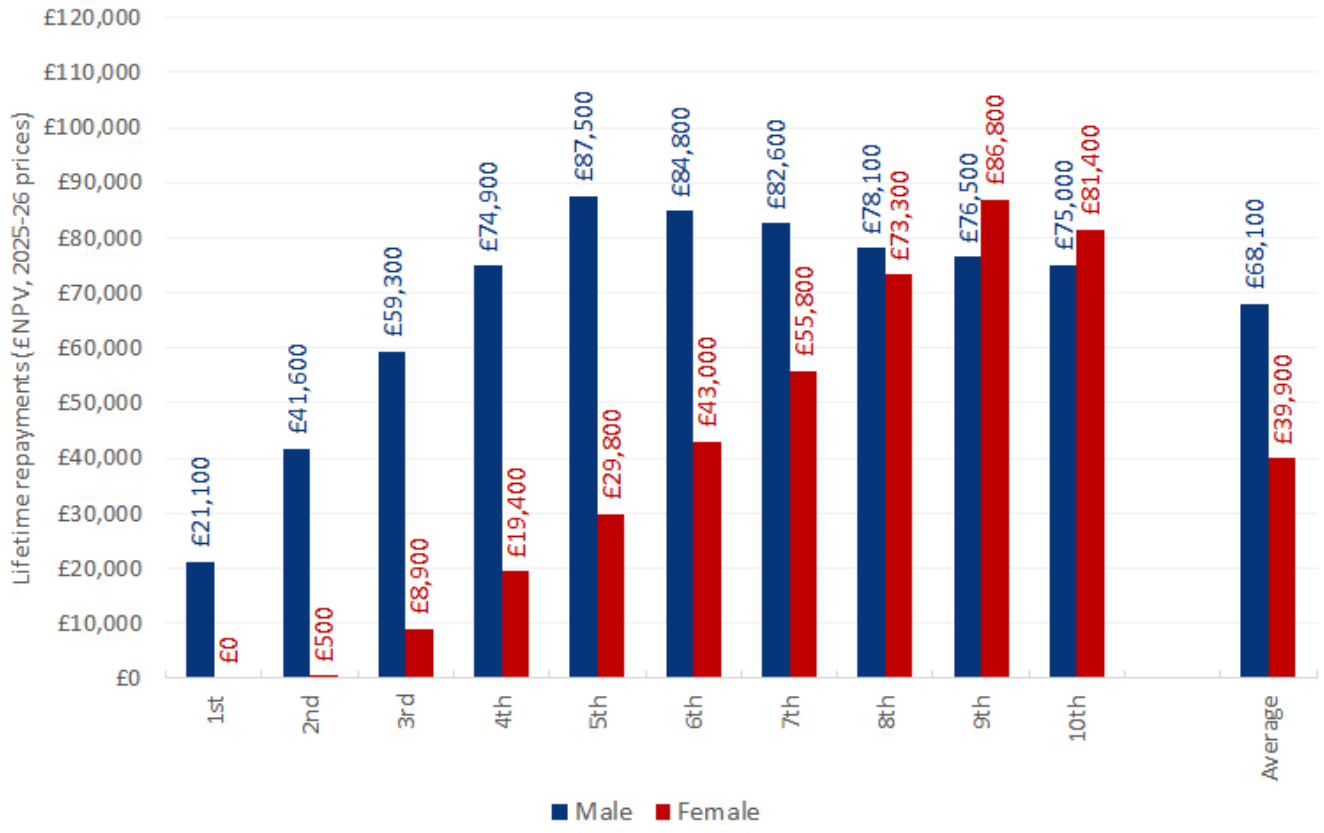
- **The Welsh loan system is locally regressive towards the upper end of the graduate earnings distribution. High-earning graduates make *lower* loan repayments than middle-income graduates.**
- For **Welsh domiciled students studying in Wales**, the average repayments made by **male graduates** stand at **£65,600** (in real NPV terms, for full-time first degree students), but repayments vary considerably with earnings. Male graduates on the 1st lifetime earnings decile repay only approximately **£21,100**. Moving up the income distribution, repayments then increase to **£82,600** for male graduates on the 5th decile and decline to **£71,400** on the 10th decile.
- The average lifetime repayments made by **female graduates** stand at **£39,000**. Female graduates in the bottom lifetime earnings decile are not expected to make any loan repayments over the 30-year repayment period. While female graduates on the 5th decile repay an estimated **£29,800**, this increases to **£77,100** on the 10th decile.

Note: All values have been discounted to net present values, are presented in constant 2025-26 prices, and have been rounded to the nearest £100.

Baseline: Graduate loan repayments - Welsh students in RUK

Current funding system

Total loan repayments by Welsh domiciled students who complete FT first degrees in RUK (NPV in 2025-26 prices), by lifetime earnings decile and gender



- Lifetime repayments for **Welsh domiciled students studying in RUK** tend to be *slightly* higher than the corresponding estimates for students studying in Wales. This is due to the larger average maintenance loan received by students studying in RUK, since a proportion of these students study in London (therefore receiving more generous maintenance support), while we assume that *none* of these students live at home with their parents (with students living at home receiving the lowest maintenance loans (and grants)).[1]
- For Welsh students studying in RUK (again focusing on full-time first degree students), the average repayments by **male graduates** stand at **£68,100**, while the corresponding estimates for **female graduates** stand at **£39,900**. Again, repayments vary considerably across the earnings distribution.

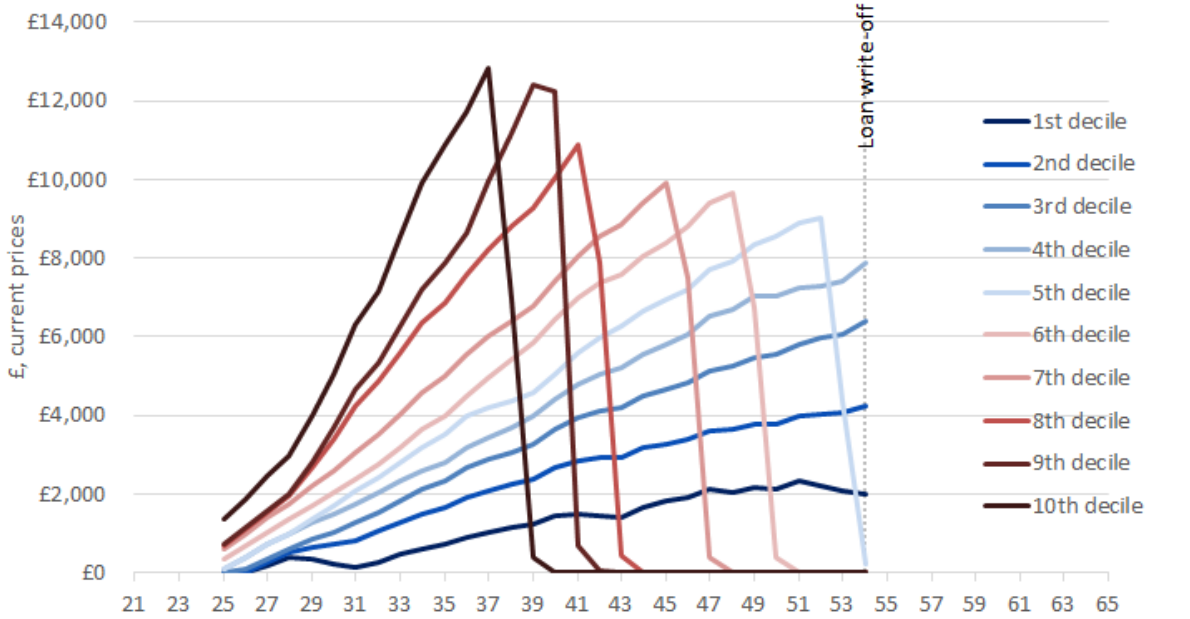
Note: All values have been discounted to net present values, are presented in constant 2025-26 prices, and have been rounded to the nearest £100.

[1] The maximum maintenance loan (net of the **£1,000** minimum maintenance grant) for Welsh domiciled full-time students living away from home in London (LAFHIL) in 2025-26 is **£14,415**, whereas the equivalent figure for students living at home (LAH) students stands at **£9,480**. We assume that any Welsh LAFHIL students are all studying in *RUK*, and that any Welsh LAH students are studying in *Wales*; this results in a higher estimated average maintenance loan for students studying in RUK (ca. **£8,720** in 2025-26 (before adjusting for take-up)) as compared to students studying in Wales (ca. **£7,960**). More information is provided in Annex I.

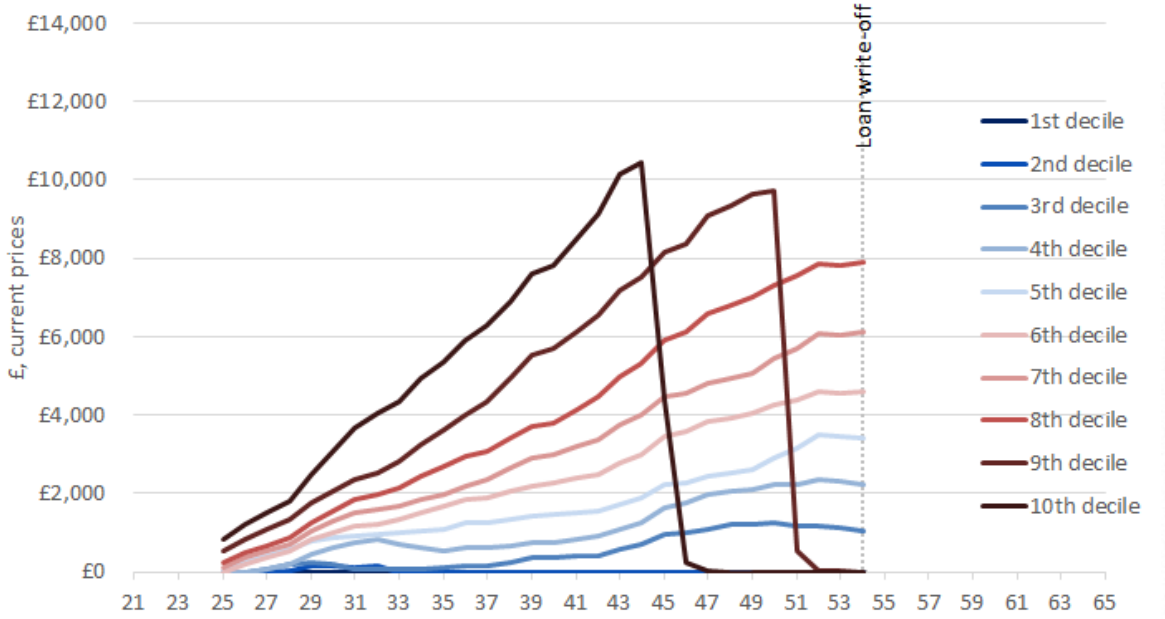
Baseline: Loan repayment profiles - Welsh students in Wales

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

Current funding system: Male graduates



Current funding system: Female graduates

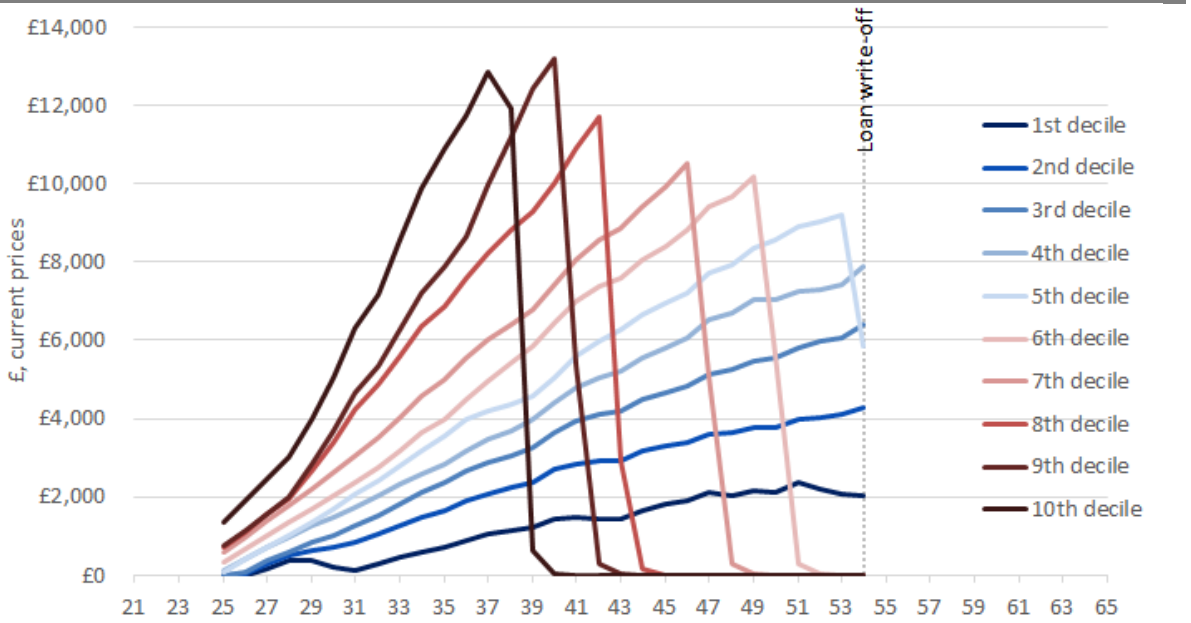


- For Welsh students studying in Wales, **male graduates on the 5th decile** and **female graduates on the 9th decile** make the largest total repayments, as these graduates are liable to make repayments for most of the 30-year repayment period and *just about* repay their full loan before the end of the period.
- In contrast, **graduates with lower levels of income** (1st to 4th decile for men, and 2nd to 8th decile for women) typically also make repayments for most of the 30 years, but without ever repaying the full loan (as their annual repayments are too low to allow them to fully repay by the end of the 30-year period). **Graduates with higher levels of income** (6th to 10th decile for men, and 10th decile for women) instead make higher *annual* repayments, and so are able to fully repay their loan well before the end of the 30 years (and the higher their income, the earlier they tend to pay off their loan).

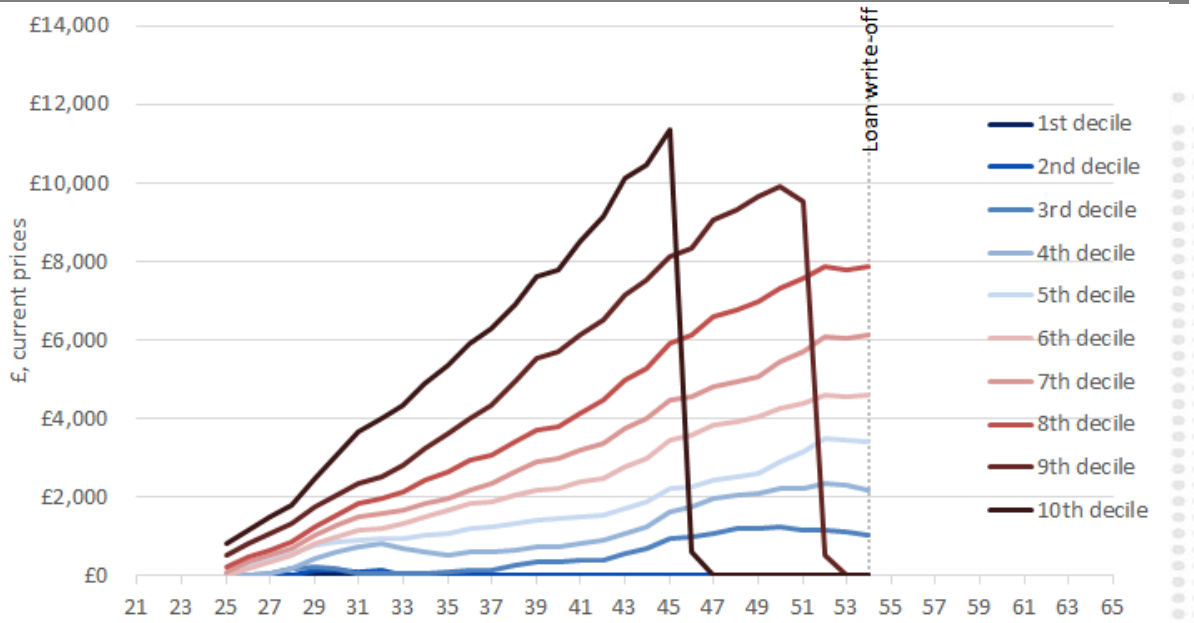
Baseline: Loan repayment profiles - Welsh students in RUK

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

Current funding system: Male graduates



Current funding system: Female graduates



- **Similar repayment profiles apply to Welsh domiciled students studying in RUK.**
- However, those (high-earning) graduates that are expected to be able to fully repay their loan do so ***slightly*** **later (i.e. make larger total repayments) than corresponding graduates who studied in Wales**. Again, this is due to the larger maintenance loan outlay for students/graduates who studied in RUK (on average).

Scenario 1: Reduce maintenance support for Welsh students in RUK

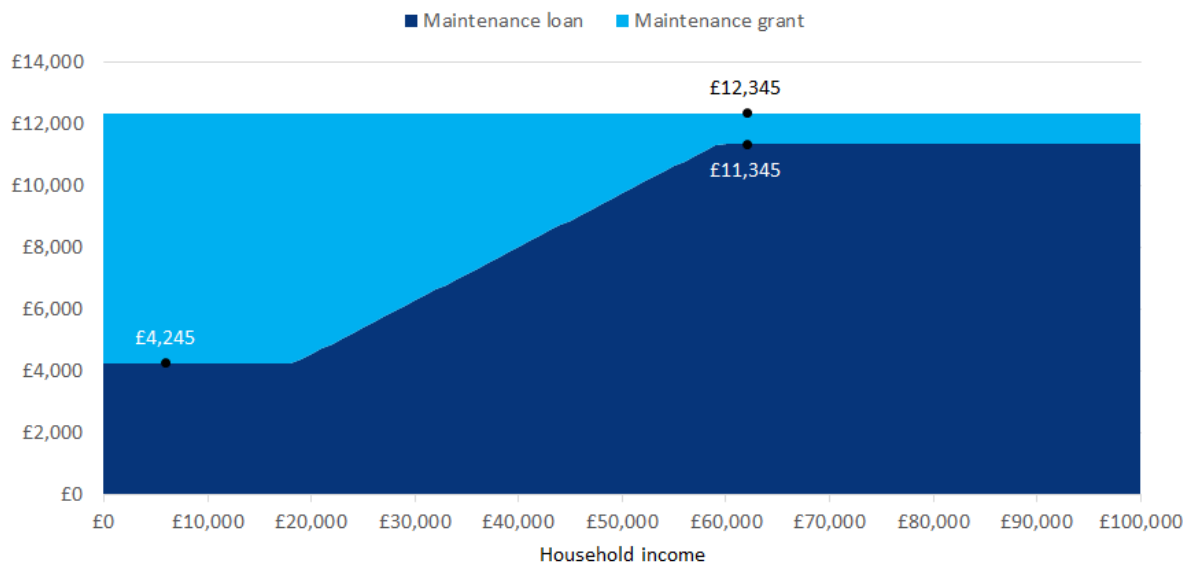
Plaid Cymru

LE London Economics

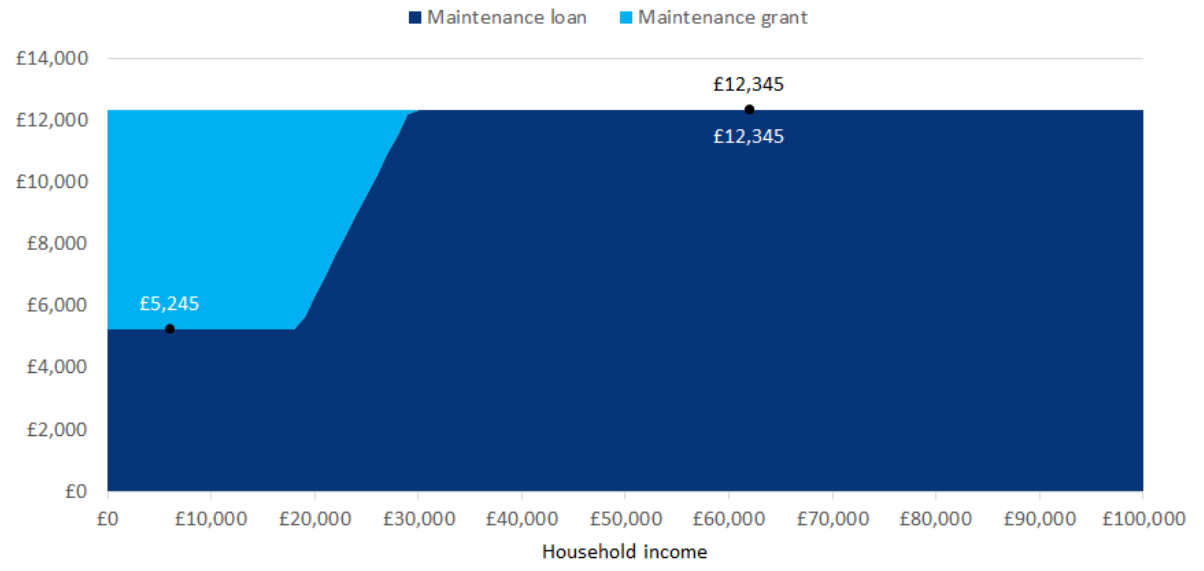
Scenario 1: Maintenance support for full-time students

Maintenance support per year for Welsh full-time LAFHOL students in RUK, by household income

Baseline



Scenario 1: Plaid Cymru



- **In the Baseline (2025-26 system)**, Welsh **full-time LAFHOL students** are eligible for total maintenance support of **£12,345** per year ***irrespective of their location of study***. This includes a maximum grant of **£8,100** and a loan of **£4,245** for household income of **up to £18,370**, with the grant declining to the 'base grant' of **£1,000** and the loan increasing to **£11,345** for household income of **more than £59,200**[1].
- **In Scenario 1, under our interpretation of Plaid Cymru's stated policy position** (outlined in their New Economic Plan in April 2025), **students studying in Wales see no change** to their maintenance support. However, **students studying in RUK** would see a **replacement of the £1,000 non-means tested 'base' grant with additional maintenance loan**, alongside a **reduction in the maximum household income threshold for maintenance grants**. They would still receive total maintenance support of **£12,345** (again for full-time LAFHOL students) irrespective of household income (unchanged). However, this would include a maximum grant of only **£7,100** and a loan of **£5,245** for household income of **up to £18,370**, with the grant tapering to **£0** and the loan increasing to **£12,345** for household income of **more than £29,200**.

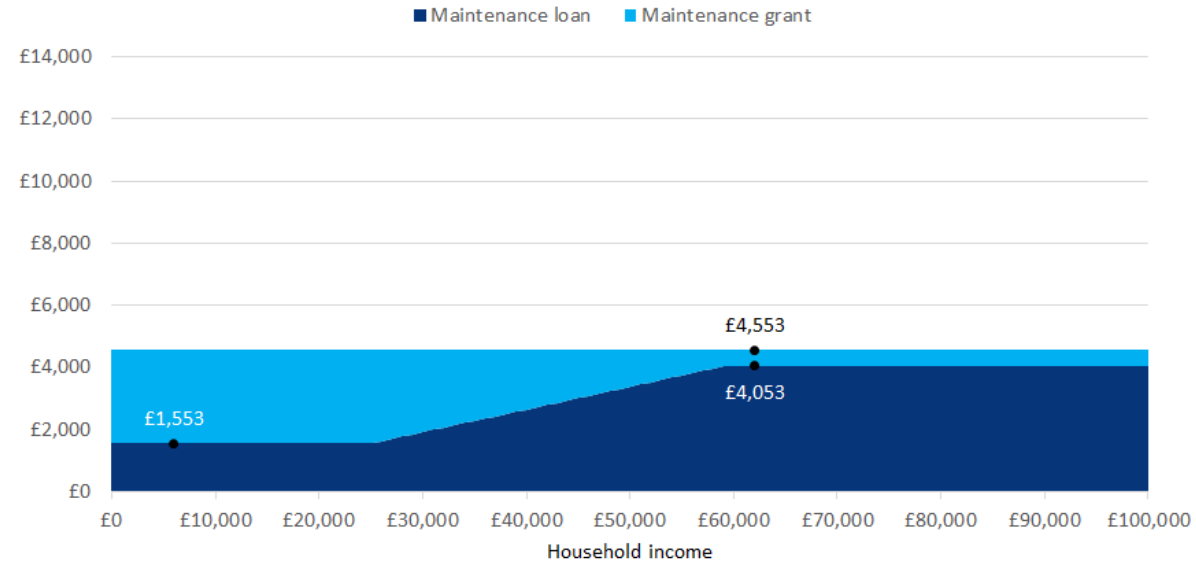
Note: The figures relate to maintenance support in 2025-26. We assume that maintenance loans increase (with OBR CPI inflation forecasts) in each subsequent year of study for the cohort of interest, and that maintenance grants increase with CPI inflation in 2026-27 but then remain constant over time.

[1] Again, also see the above slide for further information.

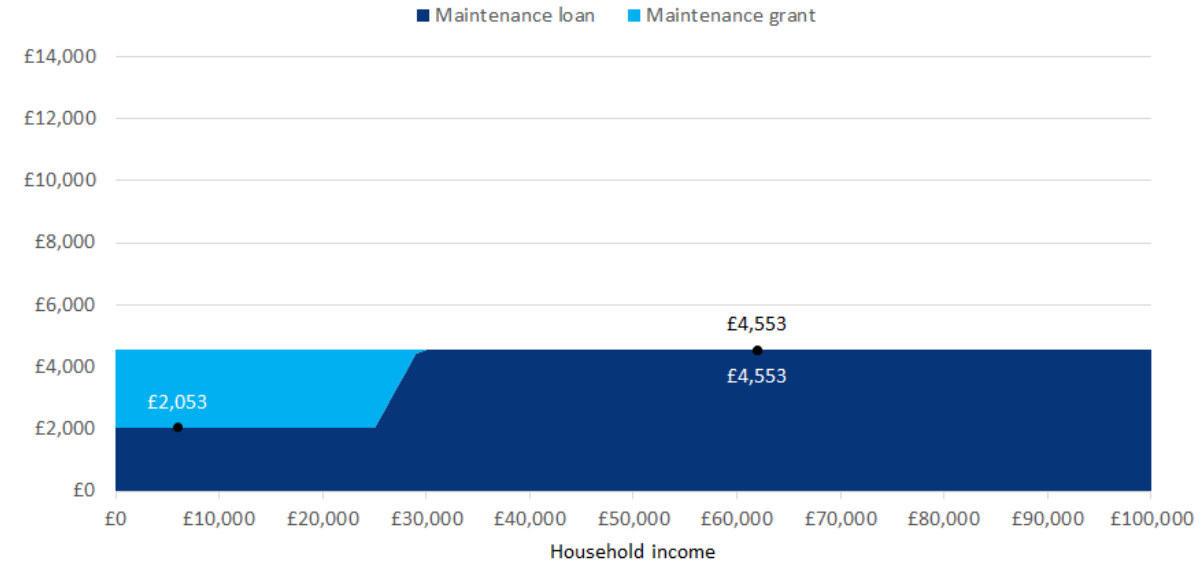
Scenario 1: Maintenance support for part-time students

Maintenance support per year for Welsh part-time students in RUK, by household income

Baseline



Scenario 1: Plaid Cymru



- **Part-time students** are currently eligible for total maintenance support of **£4,553**, again ***irrespective of their location of study***. This includes a maximum grant of **£3,000** and a loan of **£1,553** for household income of **up to £25,000**, with the grant decreasing to **£500** and the loan increasing to **£4,053** for household income of **more than £59,200**[1].
- **In Scenario 1, students studying in Wales** again see **no change** in their maintenance support.
- However, **students studying in RUK** would see a **replacement of the £500 non-means-tested maintenance grant with additional maintenance loan**, alongside a **reduction in the maximum household income threshold for maintenance grants**. They would still receive total support of **£4,553**, irrespective of household income (unchanged). However, this would include a maximum grant of only **£2,500** and a loan of **£2,053** for household income of **up to £25,000**, with the grant tapering to **£0** and the loan increasing to **£4,553** for household income of **more than £29,200** (same upper threshold as assumed for full-time students).

Note: The figures relate to maintenance support in 2025-26. We assume that maintenance loans increase (with OBR CPI inflation forecasts) in each subsequent year of study for the cohort of interest, and that maintenance grants increase with CPI inflation in 2026-27 but then remain constant over time.

[1] Again, also see the above slide for further information.

Scenario 1: Total costs for cohort

Scenario 1: Plaid Cymru

Resource flows (£/£m/%)	Baseline	Scenario 1	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	(£255m)	(£216m)	£39m
Cost of maintenance loans	(£38m)	(£46m)	(£8m)
Cost of tuition fee loans	(£43m)	(£48m)	(£5m)
Cost of Teaching Grants	(£55m)	(£55m)	-
Total	**(£391m)**	**(£365m)**	**£26m**
RAB charge (%)	**8.9%**	**9.9%**	**+1.0 pp**
Net HEP income (UK HEIs and Welsh FE colleges)			
Gross fee income	£580m	£580m	-
Teaching Grant income	£55m	£55m	-
Cost of bursary provision	(£14m)	(£14m)	-
Total	**£621m**	**£621m**	-
Students/Graduates (FT first degree students studying in RUK)			
Average debt on graduation	**£57,500**	**£62,800**	**+£5,300**
Average lifetime repayments (M/F)	**£68,100/£39,900**	**£73,100/£42,000**	**+£5,000/+£2,100**

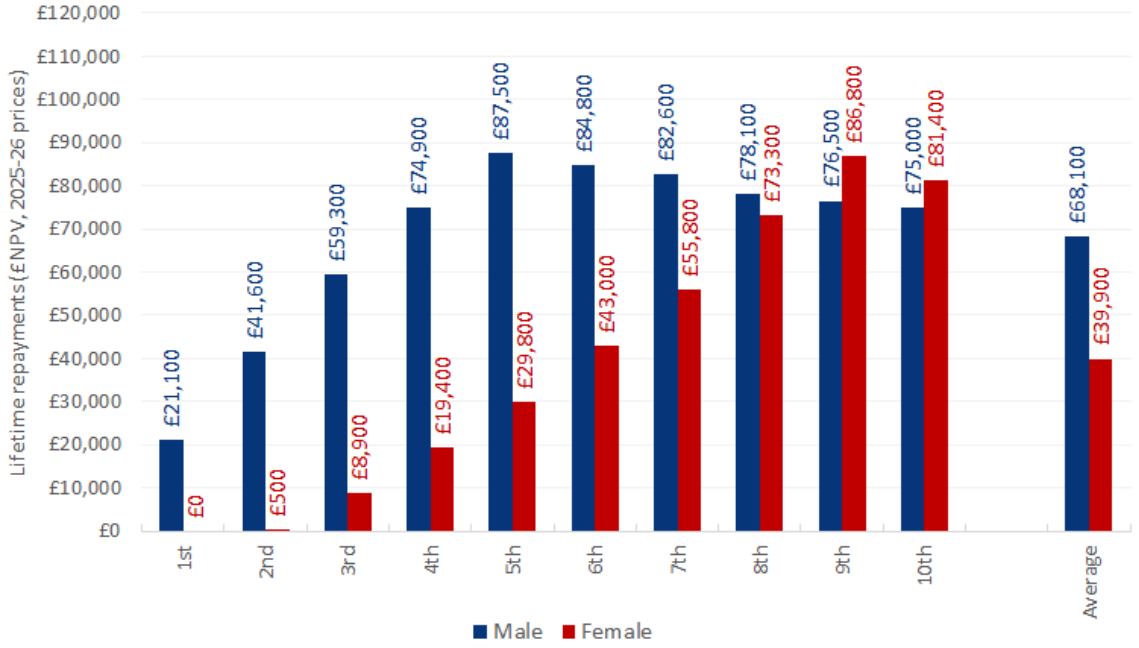
Note: All monetary values have been discounted to net present values and are presented in constant 2025-26 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- Under Plaid Cymru's potential policy position (Scenario 1), the total Exchequer cost per cohort declines to **£365m**, i.e. a **£26m** reduction compared to the Baseline.
- The Exchequer saves **£39m** from reduced maintenance grants for RUK students. Against these savings, the additional Exchequer cost from issuing higher maintenance loans to these students (to make up for the reduction in maintenance grants) is estimated at approximately **£13m**. Due to these higher maintenance loans, the estimated **RAB charge associated with the cohort increases marginally** (from **8.9%** to **9.9%**).
- **HE providers would be unaffected by the proposals**. Note that the modelling does not account for any potential student 'switching' behaviour resulting from the proposed policy changes; in other words, we assume that there would be no increase in the proportion of students studying in Wales (vs. RUK) due to the more generous maintenance grant support for those studying in Wales.
- The average debt on graduation and average lifetime repayments (per full-time first degree student) for students studying in ***Wales*** are **unchanged.** For Welsh students studying in ***RUK***, average debt on graduation would increase to **£62,800** (an increase of **£5,300**), due to the increase in maintenance loans. Therefore, lifetime repayments are estimated to increase to **£73,100** and **£42,000** for male and female graduates (i.e. an increase of **£5,000** and **£2,100**, respectively).
- The **balance of contribution** between the Exchequer and the individual would stand at **59%:41%** (compared to **63%:37%** under the Welsh Labour policy (i.e. the current funding system)).

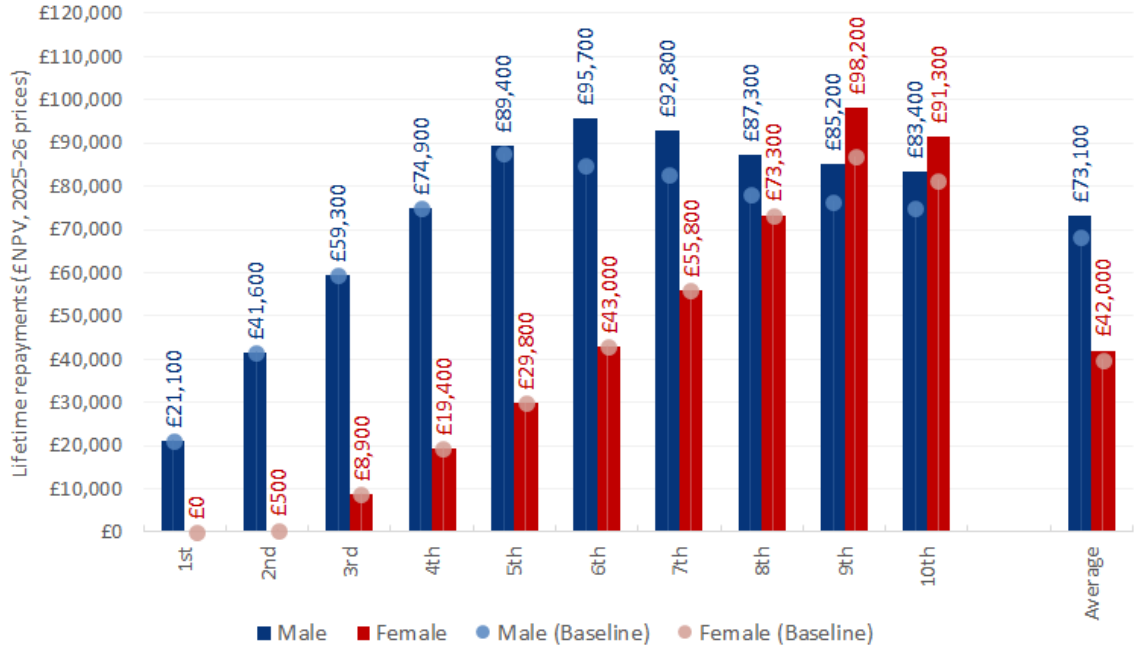
Scenario 1: Graduate loan repayments - Welsh students in RUK

Total loan repayments by Welsh domiciled students who complete FT first degrees in *RUK* (NPV in 2025-26 prices), by lifetime earnings decile and gender

Baseline



Scenario 1 (Plaid Cymru)



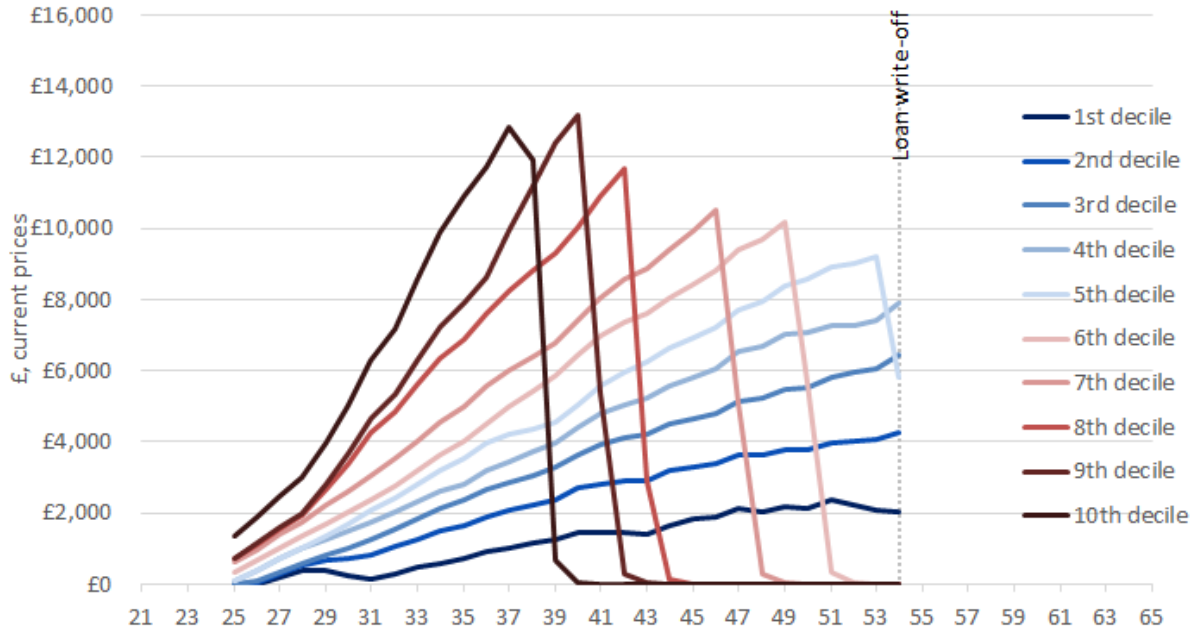
- For **Welsh students studying in *Wales***, loan repayments would be the same under Plaid Cymru's proposals (Scenario 1) as under the Baseline (current) funding system (therefore, this is not presented here).
- For **Welsh students studying in *RUK***, under Scenario 1, average lifetime repayments would increase to **£73,100** and **£42,000** for male and female graduates (an increase by **£5,000** and **£2,100**, respectively).
- Importantly, **low- to middle-income graduates** (1st to 4th decile for men, and 1st to 8th decile for women) would be **unaffected** by the proposals. This is because these graduates would already never fully pay off their loan, so that their repayments are *not* impacted by the higher maintenance loans. Only **high-income graduates** would be affected, and would be expected to typically repay between **£8,000** and **£11,000** more than under the current system.

Note: All values have been discounted to net present values, are presented in constant 2025-26 prices, and have been rounded to the nearest £100.

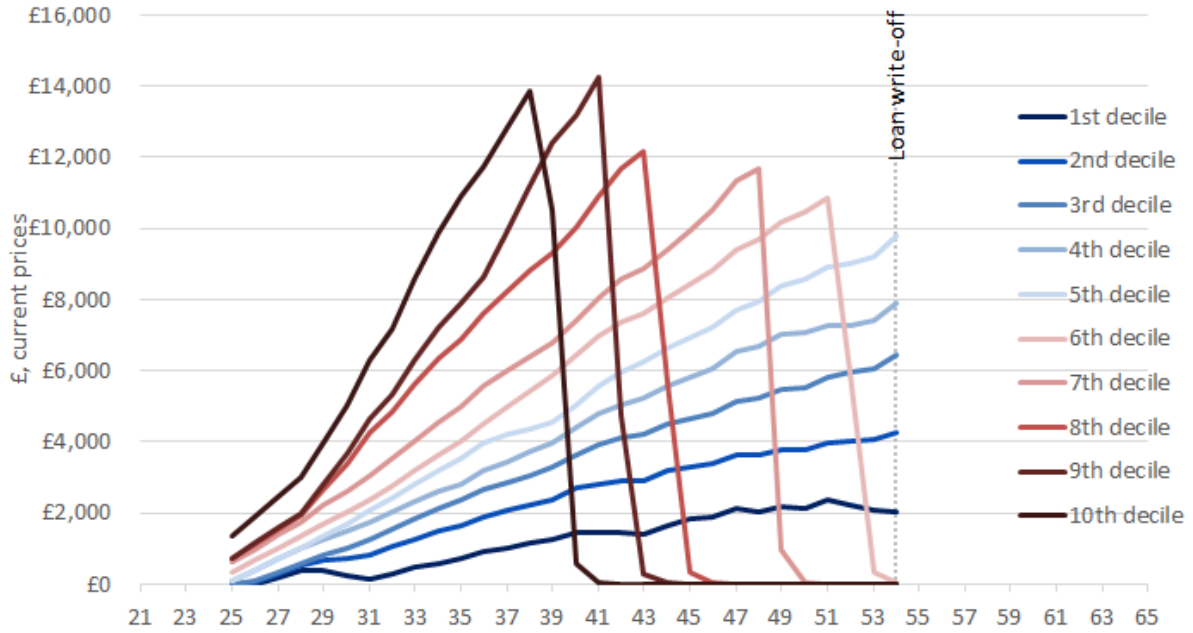
Scenario 1: Loan repayment profiles (men)

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

Baseline



Scenario 1 (Plaid Cymru)

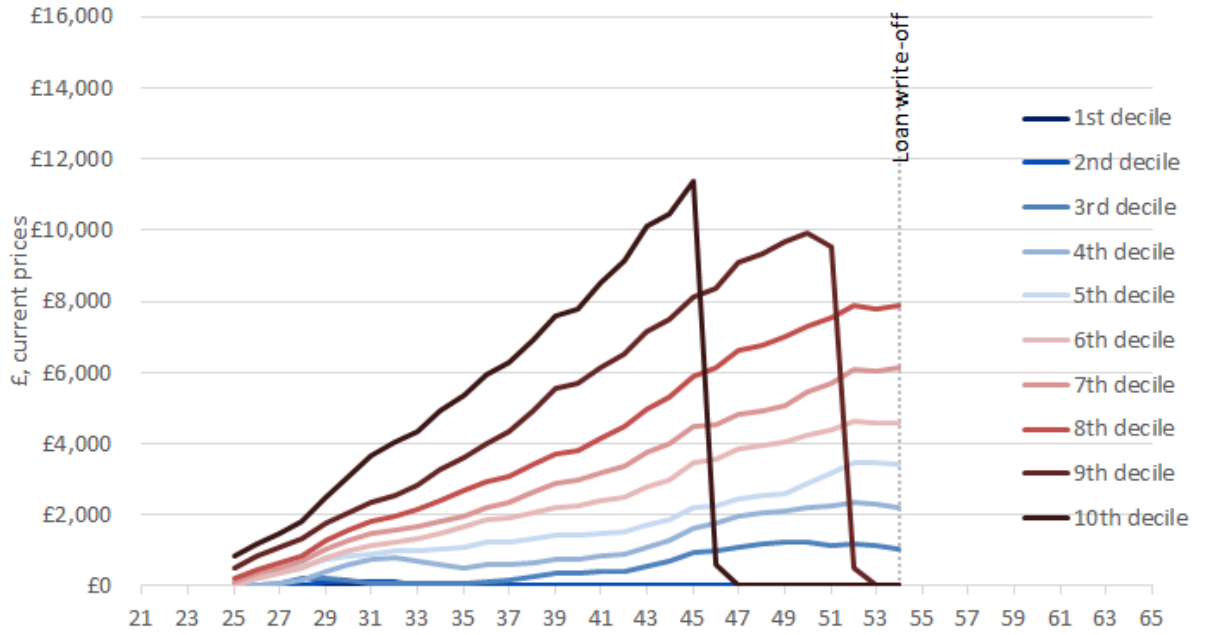


- Under Scenario 1, **high-earning graduates** (5th decile and above for male graduates) who studied in RUK **would make higher loan repayments**, as the higher loan outlay would imply that they fully repay their loans slightly later than under the current system.
- However, **low- and middle-income graduates** (1st to 4th decile for male graduates) who studied in RUK, who are currently *not* fully repaying their loans – and therefore make repayments for the entire loan repayment period - would be unaffected (i.e. make the same repayments as under the current system).

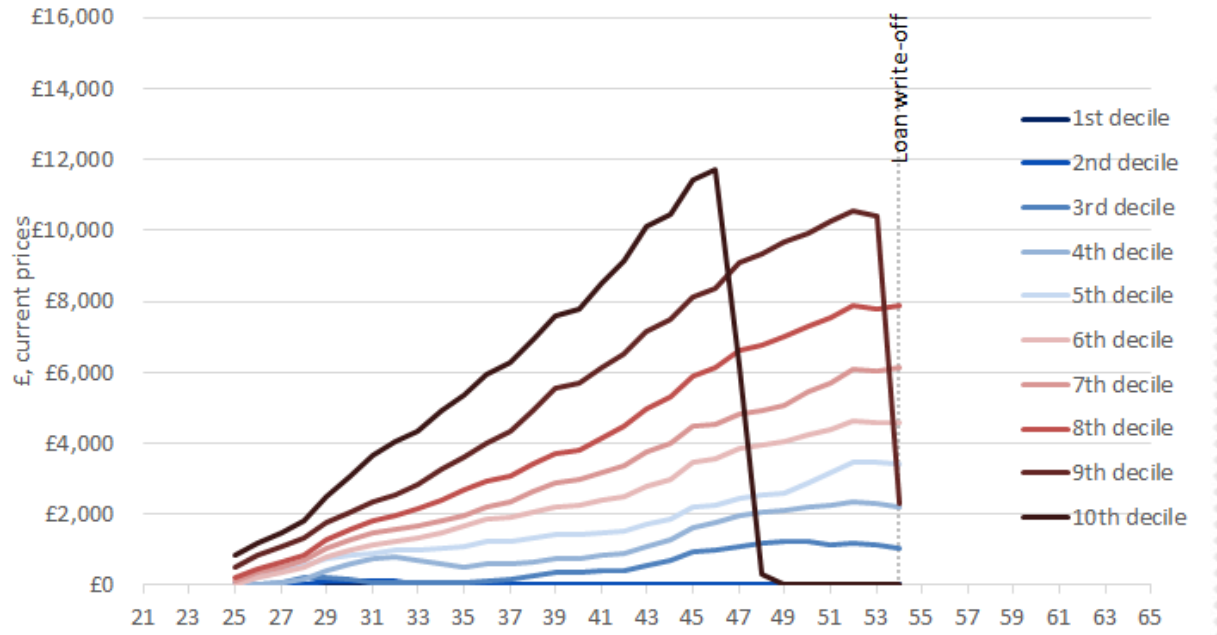
Scenario 1: Loan repayment profiles (women)

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

Baseline



Scenario 1 (Plaid Cymru)



- Under Scenario 1, **high-earning graduates** (9th and 10th decile for female graduates) who study in RUK **would make higher loan repayments**, as the higher loan outlay would imply that they fully repay their loans (or just about) slightly later than under the current system.
- However, **low- and middle-income graduates** (1st to 8th decile for female graduates) who study in RUK, who are currently *not* fully repaying their loans – and therefore make repayments for the entire loan repayment period - would be unaffected (i.e. make the same repayments as under the current system).

Scenario 2: Removal of loan interest rates and extension of repayment period

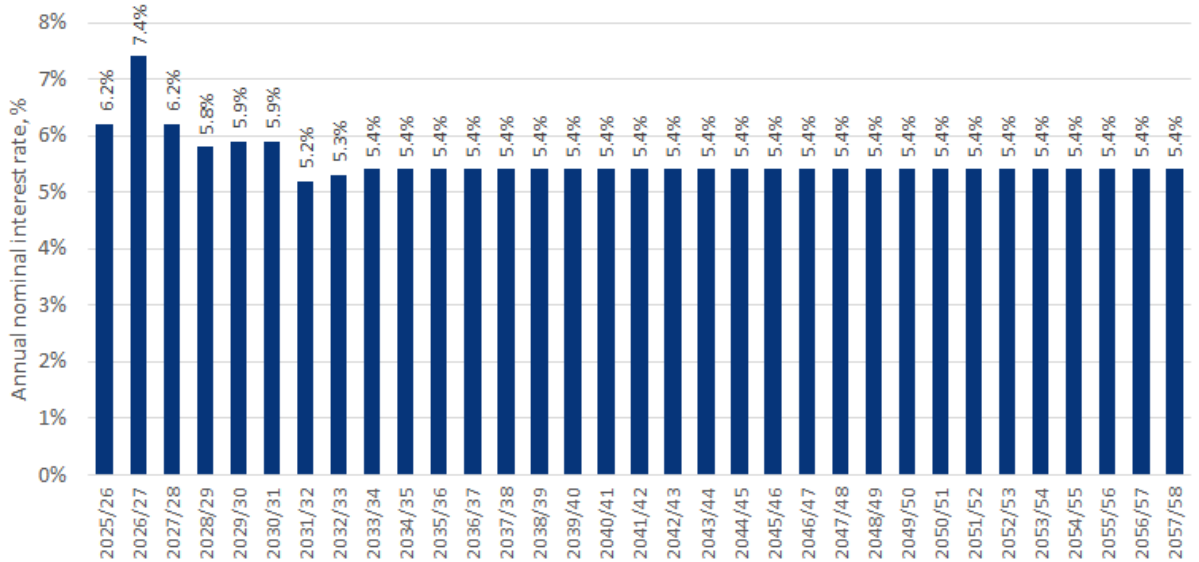
Reform UK

LE London Economics

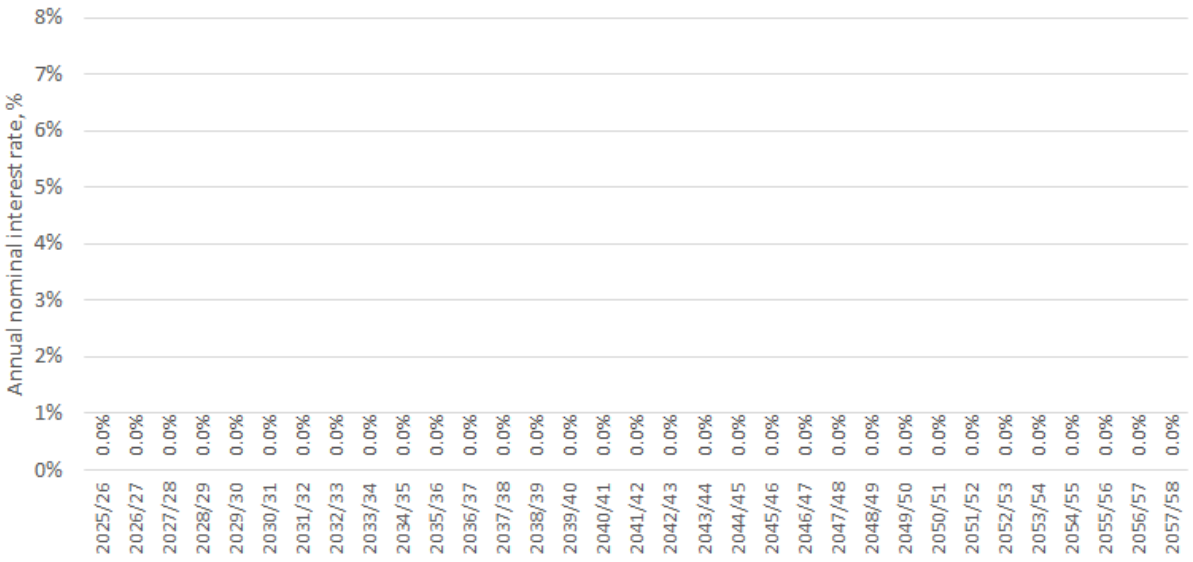
Scenario 2: Repayment terms

Maximum nominal loan interest rates by year for FT first degree students

Baseline



Scenario 2: Reform UK



- Reflecting **Reform UK's** 2024 General Election manifesto commitments, Scenario 2 assumes the same fees, fee support, and maintenance support as under the current system, but instead models **two core changes in loan repayment terms** for the cohort of interest. Specifically, we model an **extension of the loan repayment period from 30 to 45 years**, as well as the **full removal of loan interest rates**. Interest rates are currently equal to **RPI + 3%** during study, **RPI + 0-3%** for those with earnings between £28,470 and £51,245 post-graduation, and **RPI + 3%** for those with earnings of £51,245 or more.
- Regarding interest rates, under current loan repayment terms, the nominal maximum loan interest rate is assumed to decline from a peak of **7.4% in 2026-27** to a long-run rate of **5.4% (from 2033-34 onwards)**. The removal of loan interest rates essentially increases the loan subsidy provided by the Government to graduates (i.e. a *positive* impact on Exchequer costs).

Scenario 2: Total costs for cohort

Scenario 2: Reform UK

Resource flows (£/£m/%)	Baseline	Scenario 2	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	(£255m)	(£255m)	-
Cost of maintenance loans	(£38m)	(£190m)	(£152m)
Cost of tuition fee loans	(£43m)	(£214m)	(£170m)
Cost of Teaching Grants	(£55m)	(£55m)	-
Total	**(£391m)**	**(£714m)**	**(£322m)**
RAB charge (%)	**8.9%**	**44.2%**	**+35.3 pp**
Net HEP income (UK HEIs and Welsh FE colleges)			
Gross fee income	£580m	£580m	-
Teaching Grant income	£55m	£55m	-
Cost of bursary provision	(£14m)	(£14m)	-
Total	**£621m**	**£621m**	-
Students/Graduates (FT first degree students from Wales studying in RUK)			
Average debt on graduation	**£57,500**	**£52,800**	**(£4,700)**
Average lifetime repayments (M/F)	**£68,100/£39,900**	**£38,300/£25,600**	**(£29,800)/(£14,300)**

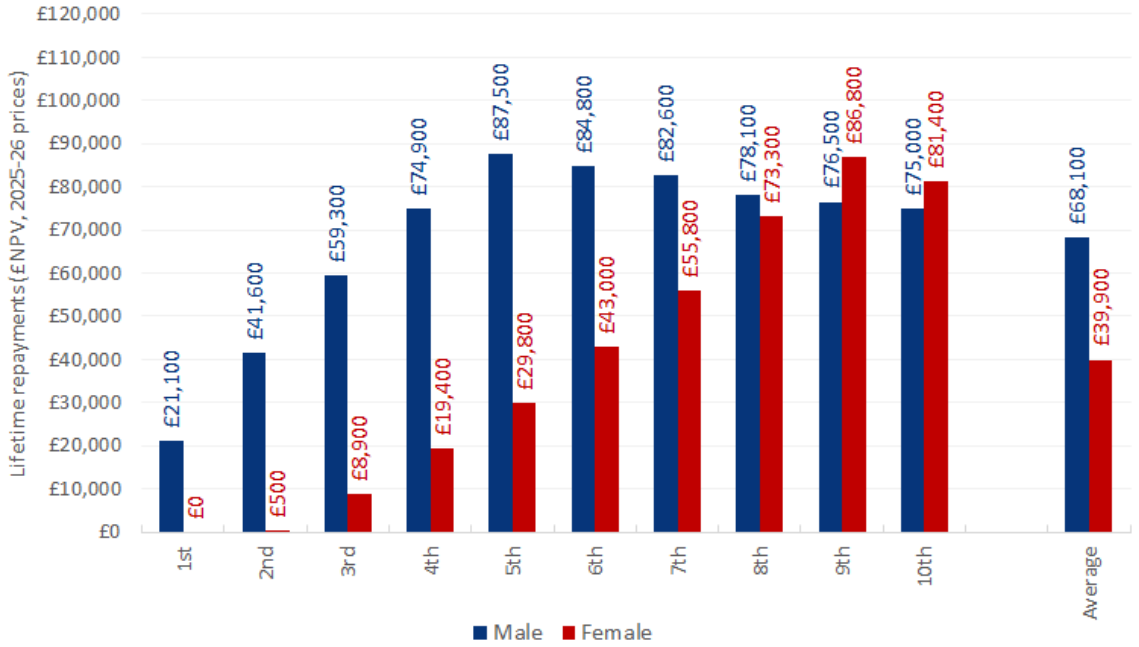
Note: All monetary values have been discounted to net present values and are presented in constant 2025-26 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Reform UK's proposals (Scenario 2) would substantially increase the Exchequer costs of the system**, by **£322m** per cohort (**82%**). The complete removal of loan interest rates would increase the costs associated with fee and maintenance loan write-offs by **£170m** and **£152m**, respectively. This outweighs any savings from the extension of the loan repayment period from 30 to 45 years.
- **The RAB charge would increase substantially, to 44.2%** (a **35.3 percentage point** increase).
- **HEIs would be unaffected.**
- Reflecting the removal of loan interest rates (both during study and post-graduation), the average debt on graduation (per full-time first degree student studying in RUK) would decline (by **£4,700**, to **£52,800**). Average lifetime repayments would decline substantially, by **£29,800** for male graduates and by **£14,300** for female graduates. Similar declines apply to Welsh students studying in Wales (not presented here).
- The **balance of contribution** between the Exchequer and the individual would stand at **115%:-15%** (vs. **63%:37%** under the Welsh Labour system (current system)). Therefore, the removal of loan interest rates (and the resulting large increase in the RAB charge and loan write-offs) would lead to a net benefit from HE funding for students.

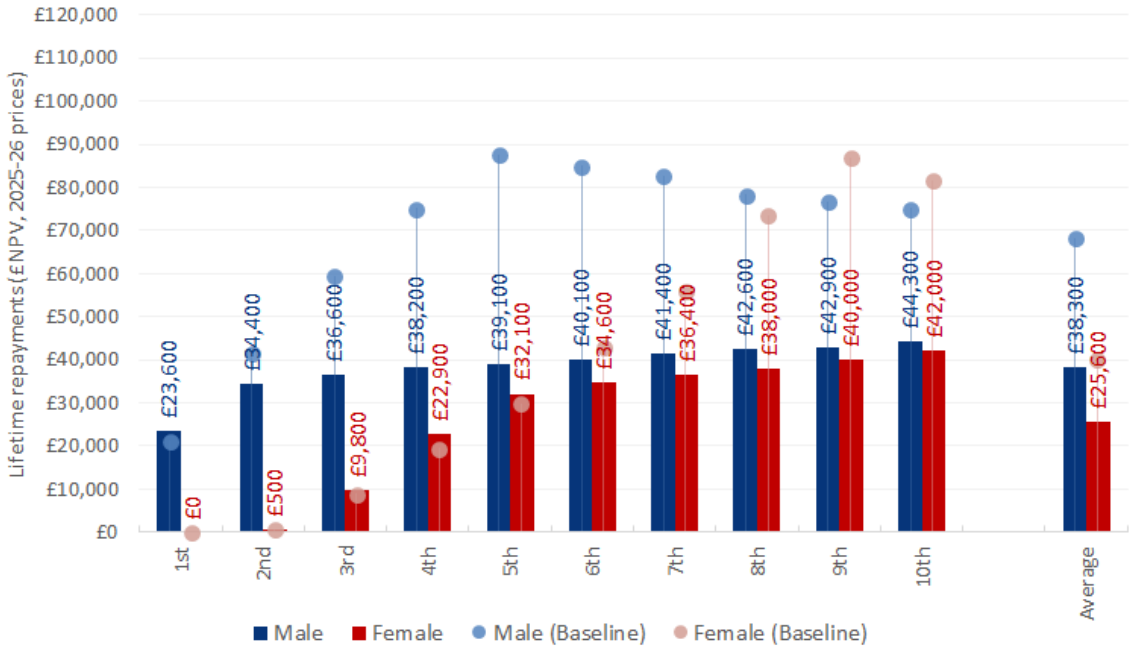
Scenario 2: Graduate loan repayments – Welsh students in RUK

Total loan repayments by Welsh domiciled students who complete FT first degrees in *RUK* (NPV in 2025-26 prices), by lifetime earnings decile and gender

Baseline



Scenario 2 (Reform UK)



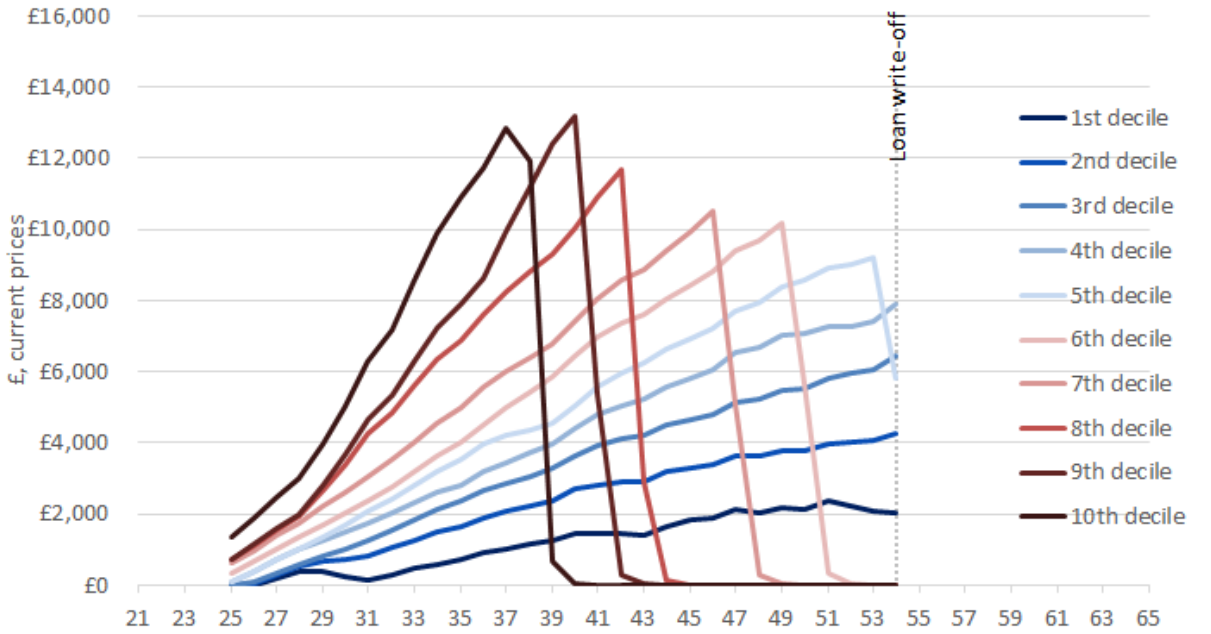
- Under Scenario 2 (Reform UK's proposals), **middle- and high-income graduates would repay much *less*** than under the current system, due to the removal of loan interest rates (allowing these graduates to pay off their debt much more quickly). Most graduates would be unaffected by the longer repayment period.
- In contrast, **graduates at the very bottom of the income distribution** (3rd to 5th deciles for women, 1st decile for men) **would repay slightly *more***, as the removal of loan interest rates would *still* be insufficient for them to ever fully repay their full loan balance before the end of repayment period, and the loan repayment period is extended from 30 years to 45 years.
- **Overall, the increased Exchequer costs resulting from the removal of loan interest rates *far outweighs* any Exchequer cost savings from the extension of the repayment period.**

Note: All values have been discounted to net present values, are presented in constant 2025-26 prices, and have been rounded to the nearest £100. All results here are presented for Welsh students studying in RUK only (for illustration; the corresponding results for Welsh students in Wales are not presented here).

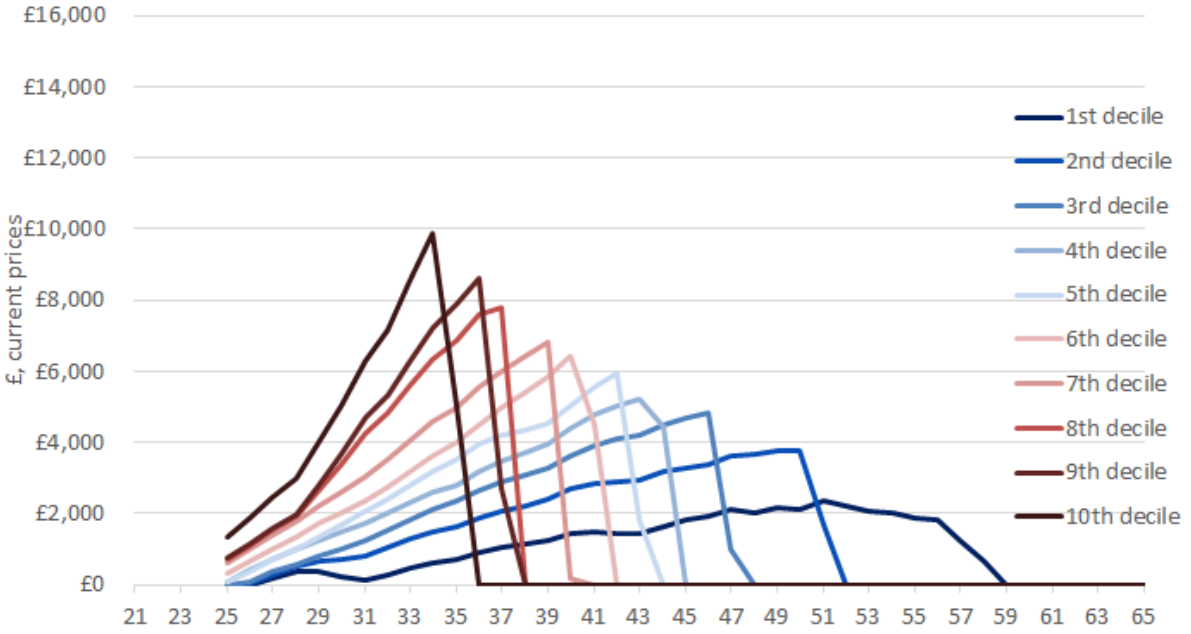
Scenario 2: Loan repayment profiles (men)

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

Baseline



Scenario 2: Reform UK



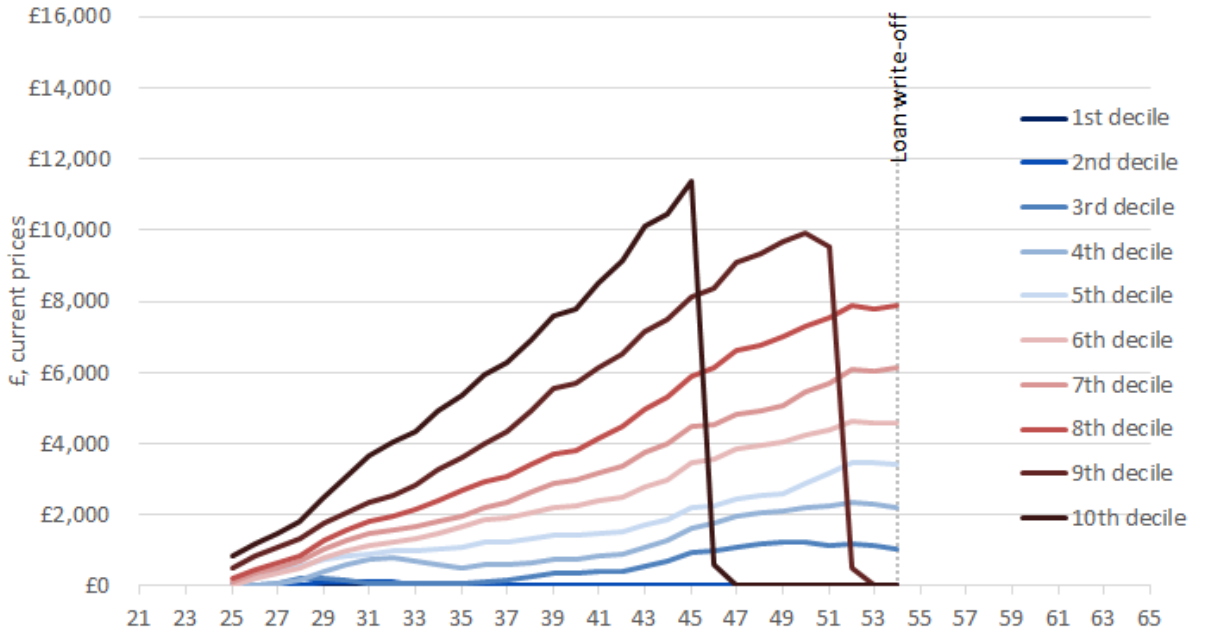
- Under Reform UK's proposals, **middle- and high-income graduates would repay *less*** than under the current system. This is because the abolition of loan interest rates would allow them to fully repay their loans more quickly than under the current loan repayment terms (and they would be unaffected by the longer loan repayment period).
- In contrast, **graduates at the very bottom of the income distribution would repay *more***, as the loan repayment period is extended.

Note: Under the Baseline, loan write-off is assumed to occur at age 54 for full-time undergraduate first degree students (on average; se the left-hand chart). Under Scenario 2 and the extension of the loan repayment period by 15 years, loan write-off would instead occur at age 69.

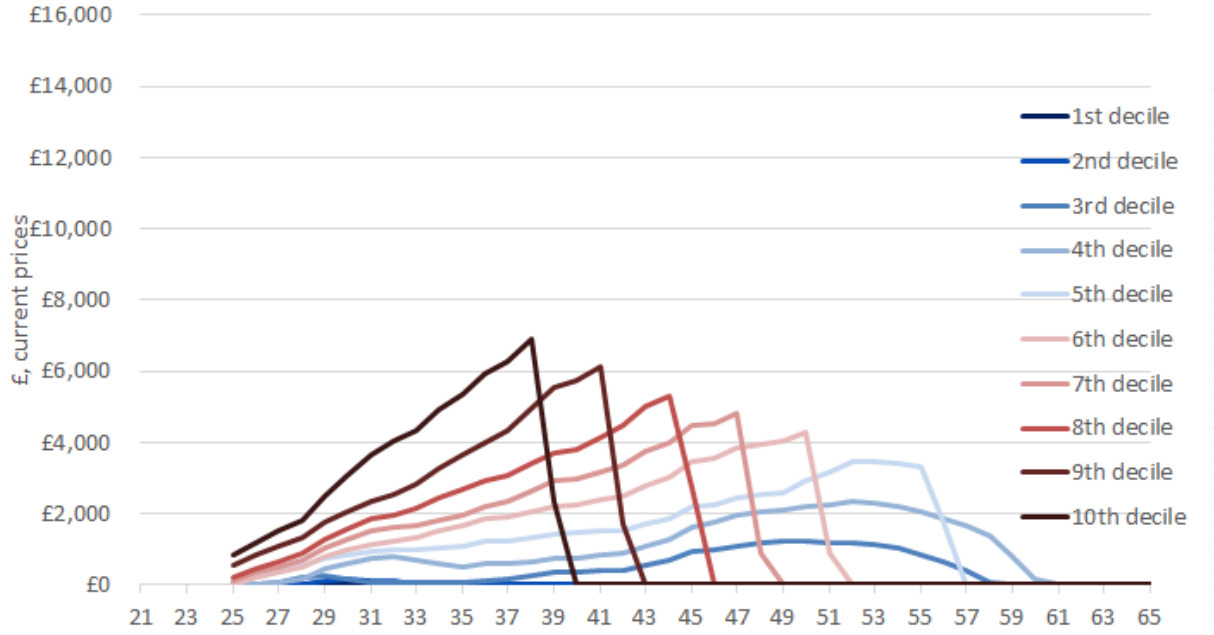
Scenario 2: Loan repayment profiles (women)

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

Baseline



Scenario 2: Reform UK



- Under Reform UK's proposals, **middle- and high-income graduates would repay *less*** than under the current system. This is because the abolition of loan interest rates would allow them to fully repay their loans more quickly than under the current loan repayment terms (and they would be unaffected by the longer loan repayment period).
- In contrast, **graduates at the very bottom of the income distribution would repay *more***, as the loan repayment period is extended.

Conclusion

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Comparison across all scenarios

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

Resource flows (£m/%)	Welsh Labour (current Baseline system)	Plaid Cymru (Reduced maintenance support for students in RUK)		Reform UK (No loan interest, 45-year repayment)	
		Total	Diff. to Baseline	Total	Diff. to Baseline
'Net' Exchequer cost (adjusted for RAB)					
Cost of maintenance grants	(£255m)	(£216m)	+£39m	(£255m)	-
Cost of maintenance loans	(£38m)	(£46m)	-£8m	(£190m)	-£152m
Cost of tuition fee loans	(£43m)	(£48m)	-£5m	(£214m)	-£170m
Cost of Teaching Grants	(£55m)	(£55m)	-	(£55m)	-
Total	**(£391m)**	**(£365m)**	**+£26m**	**(£714m)**	**-£322m**
Net HEI income					
Gross fee income	£580m	£580m	-	£580m	-
Teaching Grant income	£55m	£55m	-	£55m	-
Cost of bursary provision	(£14m)	(£14m)	-	(£14m)	-
Total	**£621m**	**£621m**	**-**	**£621m**	**-**
'Net' cost to students/graduates (adjusted for RAB)					
Cost of gross fees	(£580m)	(£580m)	-	(£580m)	-
Fee loan income	£43m	£48m	+£5m	£214m	+£170m
Bursary income	£14m	£14m	-	£14m	-
Maintenance grant income	£255m	£216m	-£39m	£255m	-
Maintenance loan income	£38m	£46m	+£8m	£190m	+£152m
Total	**(£229m)**	**(£256m)**	**-£26m**	**£93m**	**+£322m**
% of cost covered by Exchequer vs. students/graduates					
Exchequer	63%	59%		115%	
Students/graduates	37%	41%		-15%	
Total	**100%**	**100%**		**100%**	

Note: All monetary values have been discounted to net present values, are presented in constant 2025-26 prices, and have been rounded to the nearest £1m.

Comparison across all scenarios

In summary, compared to the current (2025-26) HE fees and funding system for Wales:

Under Plaid Cymru's proposals (lower maintenance support for Welsh students studying in RUK):

- **The Exchequer cost of the system would *decrease* by £26 million** per cohort.
- **Conversely, the cost to students/graduates studying in RUK would *increase* by £26 million** (students studying in *Wales* would be unaffected). Students would be worse-off due to the reduction in maintenance grant funding; however, post-graduation, only high-income graduates would be affected (would make higher loan repayments), while low- to middle-income graduates would be unaffected by the proposals.

Under Reform UK's proposals (abolition of loan interest rates and 45-year repayment period):

- **The Exchequer costs would *increase* by £322 million** per cohort (**82%** increase), due to the elimination of loan interest rates. The extension of the loan repayment period would have very little impact and would *not* offset any of the additional costs associated with the removal of interest rates.
- **Conversely, the cost to students/graduates would *decrease* by £322 million.** Middle- and high-income graduates would benefit from much lower repayments (due to the removal of loan interest rates), but low-earning graduates would make slightly higher repayments (due to the extension of the loan repayment period).

Note again that the official manifestos have not been published yet, so it is unclear to what extent these specific proposals will feature in each party's manifesto pledges.

Comparison across all scenarios

- **Importantly, since both Plaid Cymru's and Reform's proposals relate to student loans, it is unclear whether *either* party would in practice be able to implement these potential funding reforms if elected.** This is because the Welsh Government is constrained in its student support policy by budgetary limits imposed by HM Treasury – also known as the **'same or less'/'broadly comparable' rules**.
- While the Welsh Government funds maintenance grants and other special allowances for Welsh domiciled students (with limited fiscal headroom within the Welsh budget), the funding for student *loans* is instead provided to the Welsh Government (and the other devolved nations) by HMT. However, as outlined in HMT's Statement of Funding Policy (Section 7), '*to assess whether a devolved government's student loans scheme is comparable, and therefore whether the UK Government will fund the cost, the UK Government will require the devolved government to* ***demonstrate that their scheme costs the same or less than it would cost if they were to apply UK Government policy in their respective nation***'.
- The 'same or less' rules limit both the total loan outlay that can be provided to Welsh domiciled students as well as the associated expected RAB cost (i.e. the £ cost of student loan write-offs/impairments)[1]:
  - The **loan outlay rule** (which relates to Annually Managed Expenditure (AME)) stipulates that the total loan outlay expenditure for Welsh students needs to be lower than what the outlay would be *if* the English student support policy were applied to Wales instead (i.e. if the English system were applied to Welsh domiciled students).
  - The **RAB cost rule** (which relates to Departmental Expenditure Limits (DEL)) stipulates that the expected RAB cost of loan write-offs for Welsh domiciled students needs to be 'within a reasonable range' of the corresponding RAB cost for English domiciled students (adjusted for the relevant Barnett formula comparability percentage[2, 3]).

[1] Also see here for a useful summary of these rules and issues by Wonkhe.
[2] The Barnett comparability percentage for education-related expenditure for Wales currently stands at 5.79% (see here).
[3] An additional third rule (not covered here) further applies to the stock charge, in relation to impairments for loans issues in *previous* years (also referred to as the Fair Value Revaluation (FVR)). As outlined in HMT's Statement of Funding Policy (again see Section 7 here), 'HM Treasury will cover [these] costs providing they are within a reasonable range'.

Comparison across all scenarios

- In its recent call for evidence on the future of tertiary education in Wales, the Welsh Government flagged that it has essentially reached the limits for both of these rules, and that '*combined, these pressures will likely require The Welsh Government to review and amend its ongoing policy on student support outlay, and student loan repayments, to maintain appropriate controls on expenditure*'. This leaves **very limited room to undertake any major reform to Welsh HE funding policy** for any incoming government following the May 2026 elections.
- Both of the **above-outlined policy proposals (from Plaid Cymru and Reform, respectively) would likely be severely constrained by these rules**:
  - The **Plaid Cymru proposals** would result in both a higher maintenance loan outlay (for Welsh domiciled students studying in RUK) and a *marginal* increase in the RAB charge. In other words, the implementation of these proposals would potentially result in the Welsh Government exceeding *both* of the above 'same or less' rules from HMT. The results presented in Annex II illustrate the potential 'bite' of these rules in terms of total loan outlay.
  - The **Reform UK proposals** would *not* affect the loan outlay provided under the Welsh system (as the proposals focus exclusively on changing the loan repayment terms). However, the Reform UK policy position would be expected to result in a substantial increase in the RAB charge and the resulting loan write-off/impairment cost to HMT, and therefore *far* exceed the limits set by the above-outlined RAB cost rule.
- **As a result, all else equal, both policy proposals will likely be difficult to implement in practice, in the absence of cuts elsewhere in Welsh Government's spending. In the case of our interpretation of Plaid Cymru's proposals, these wider cuts are more marginal; however, Reform's proposals, if implemented, would require very significant expenditure cuts elsewhere.**

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ANNEX I
Methodology and assumptions

LE London Economics

Assumptions and methodology

- The model considers **first-year undergraduate students from Wales studying at HEIs anywhere in the UK and at FE colleges in Wales, in the 2025-26 academic year**. We use student data published by the Higher Education Statistics Agency (HESA, here) for 2023-24[1], assuming that the size and characteristics of the student cohort have **remained unchanged** between 2023-24 and 2025-26 (in the absence of more recent published data (since the data for 2025-26 (or 2024-25) were not yet published at the time that the analysis was undertaken).
- We **exclude students studying for institutional credits only**, as these students are typically not eligible for public funding.
- We also **exclude Welsh domiciled *full-time* students studying specific nursing, midwifery, allied health professional, or healthcare sciences courses in Wales that are funded by the NHS Wales Bursary Scheme**[2]. Specifically, out of a total of **12,345** Welsh domiciled first-year full-time undergraduate students studying in Wales (across all subjects), we exclude **1,055** (**9%**) students in relevant nursing, midwifery, allied health professional, or healthcare sciences courses (estimated based on the proportion of all Welsh domiciled full-time undergraduate students (studying anywhere in the UK) by subject[3], again based on the published HESA student data).
- After these exclusions, in total, the analysis assumes that there are **29,470 students in the 2025-26 cohort of first-year undergraduate Welsh domiciled students studying at HEIs throughout the UK or at FE colleges in Wales** (see next slide).

- Based on the same HESA data, we assume the following distribution of students in the cohort by **qualification level**:

Qualification level	Full-time	Part-time	Total
Other undergraduate	6.3%	39.5%	**17.7%**
HNC/HND	1.2%	5.3%	**2.6%**
Foundation Degree	3.1%	1.4%	**2.5%**
First degree	89.3%	53.8%	**77.1%**
Total	**100.0%**	**100.0%**	**100.0%**

- Part-time students are assumed to study at **50%** full-time equivalence (FTE)[4].

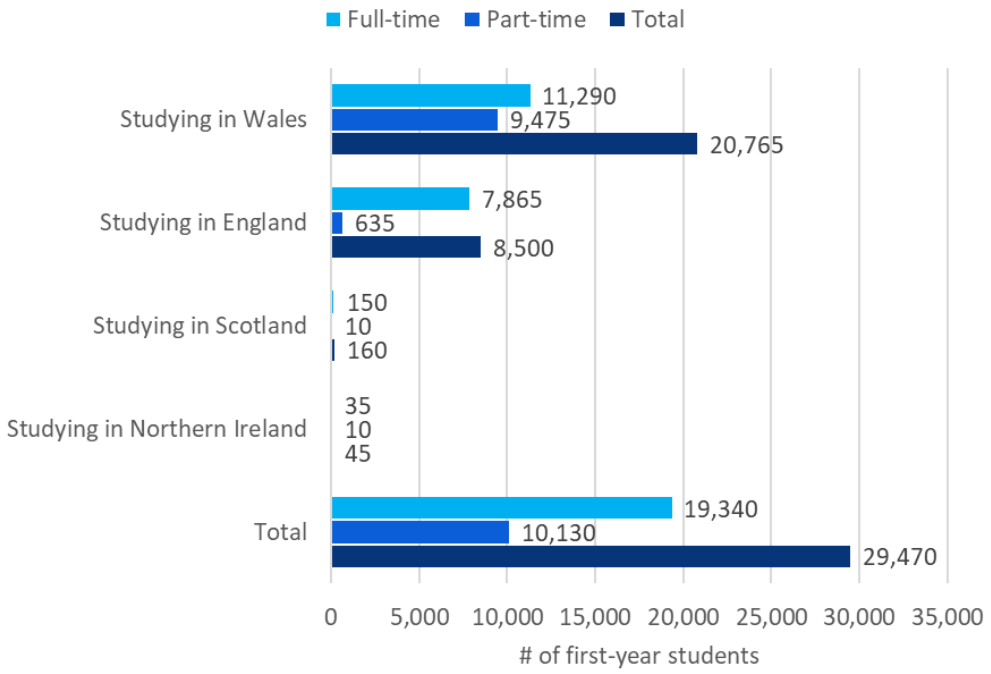
[1] The HESA data includes students studying at higher education institutions across the UK (including alternative providers) *as well as* students studying at further education colleges in Wales (only; FE colleges in England, Scotland, or Northern Ireland are not included in the data).
[2] For a list of qualifying courses in 2025-26, see here. Note that the NHS Wales Bursary Scheme does not apply to part-time students (who are instead funded by the general student support package provided by Student Finance Wales); hence, part-time students on these courses are *included* in our analysis. Further note that NHS Wales Bursaries are only provided to students who commit to working in Wales for a specified minimum period post-graduation; here, we implicitly assume that *all* students on qualifying courses avail of the Scheme.
[3] In other words, in the absence of more granular information for students studying in Wales only, we implicitly assume the same subject distribution among Welsh domiciled students studying in Wales vs. RUK.
[4] Based on a bespoke data request to HESA on the average study intensity among all UK domiciled first-year part-time students in 2021-22 (separately by study level and again excluding students studying for credit only).

Assumptions and methodology

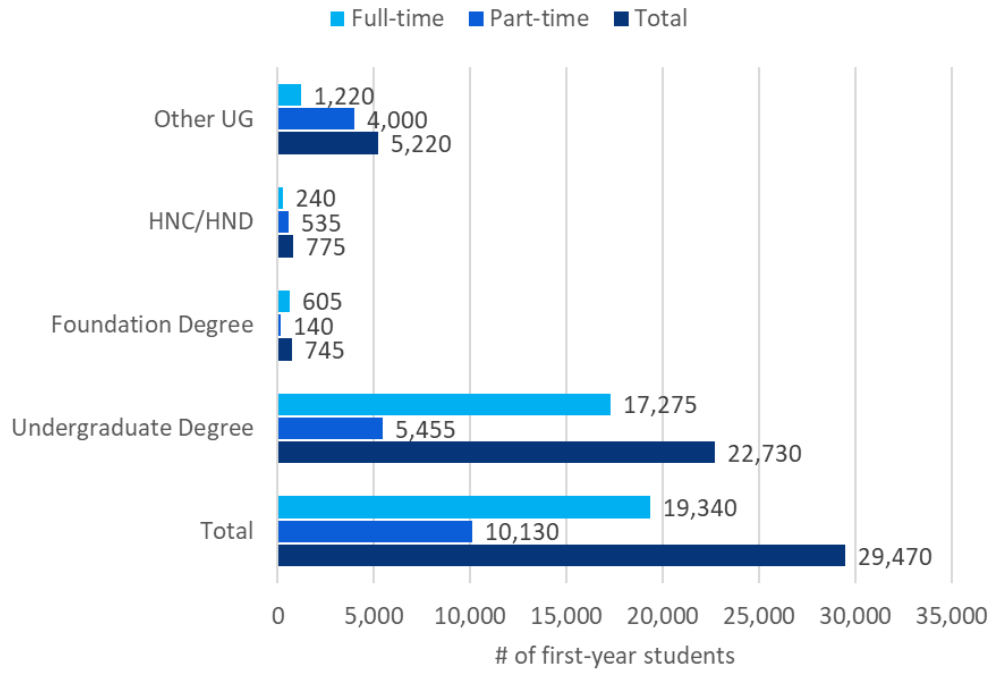
Student profile

- The analysis is based on a total of **29,470 first-year undergraduate Welsh domiciled students studying at HEIs anywhere in the UK or at FE colleges in Wales:**

By location of study and mode



By study level and mode



Note: All student numbers are rounded to the nearest 5. The information is based on the 2023-24 academic year, and we assume the same size and characteristics for the 2025-26 cohort as for the 2023-24 cohort. The analysis includes students studying at HEIs throughout the UK (including alternative providers), and at further education colleges in Wales; excludes students studying for institutional credits at undergraduate level (i.e. students who are not studying for a qualification); and excludes full-time Welsh domiciled students studying nursing, midwifery, allied health professional, or healthcare sciences courses in Wales that are funded by the NHS Wales Bursary Scheme.
Source: London Economics' analysis based on data published by HESA (here)

Assumptions and methodology

Student profile

- Again based on HESA data (here), we assume an annual continuation rate of **93.1%** for full-time students and **84.0%** for part-time students. This is based on the proportion of students who entered higher education in 2019-20[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).
- The underlying analysis is undertaken separately by gender. Based on HESA information on Welsh domiciled qualification completers (who graduated from institutions anywhere in the UK in 2023-24 (here)) by gender and qualification level, we assume the following **gender distribution**[2]:

Qualification level	Full-time		Part-time	
	Male	Female	Male	Female
Other undergraduate	42%	58%	32%	68%
HNC/HND	53%	47%	89%	11%
Foundation Degree	36%	64%	54%	46%
First degree	38%	62%	42%	58%

- 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	3	6

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 2025-26 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. The underlying discount rates to calculate net present values are discussed on this slide.

[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, since an exclusion within the underlying data of students on nursing, midwifery, allied health professional, or healthcare sciences courses covered by the NHS Wales Bursary Scheme was *not* possible due to a lack of granularity in the underlying HESA data.
[3] The assumptions in relation to the age at enrolment are based on a bespoke data request to 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

Fees, fee loans, and bursaries

- The analysis assumes a (gross) **fee** charged to **full-time students** in 2025-26 of **£9,535** per student per year for Welsh domiciled students studying in both Wales and RUK. The gross fees charged to part-time students are assumed to be **£4,768** for those studying in RUK and **£2,625** for those studying in Wales. Part-time RUK fees are calculated on a pro-rata basis assuming a 50% part-time study intensity, and fees for part-time students studying in Wales are based on the maximum tuition fee loan currently available to these students[1].
- In terms of growth in subsequent academic years, following the Welsh Government's announcement in November 2025 (here), we assume that fees (and associated fee loans) for full-time undergraduate students (studying in both Wales and RUK, and for both first-year and continuing students) will increase from **£9,535** to **£9,790** in 2026-27. Although the announcement states that tuition fee caps in future years will be considered in the next Senedd term, we assume that the Welsh Government's current policy is to continue to increase full-time fees and fee loans in line with RPIX inflation (following the policy in England (see here)).
- Similarly, we assume that fees for part-time undergraduate students studying in RUK will increase from **£4,768** to **£4,895** in 2026-27 and then continue to rise with RPIX inflation in future years (as these fees are calculated on a pro-rata basis relating to full-time tuition fees). For part-time undergraduate students studying in Wales, we assume that fees and fee loans will increase to **£2,875** in 2026-27 (following the Welsh Government's announcement in November 2025 (here)) and will then remain frozen in every subsequent year of study for the cohort (i.e. from 2027-28 onwards).
- The fees presented 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, our assumptions are based on information from Welsh HE providers' fee and access plans (for 2020-21[2]) on the total level of fee waiver and other bursary funding provided by each provider in 2020-21 (separately for full-time and part-time students), and HESA data on the corresponding total number of students studying in Wales (here, again for 2020-21 for consistency). We assume that any bursaries are only available to students with a household income of **£25,000 or less**. In addition, for simplicity, we assume that the resulting fee waivers and other bursaries per student also apply to Welsh domiciled students studying in **England**, **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 waiver has a negligible impact on the assumed 'net' fee).
- In terms of **public fee support**, we assume that both full-time and part-time students cover the resulting average net fees (after bursaries) by taking out a (non-means-tested) **fee loan** of the same amount from the Student Loans Company. Based on SLC data on student support provided to Welsh students in 2023-24 (here), we assume a **fee loan take-up rate of 89% for full-time students**[3] (i.e. that 89% of all full-time students in the relevant student body avail of this fee loan), and **54% for part-time students**.
- We assume the same fees and fee support settings under **Scenario 1** and **Scenario 2** as under the Baseline.

[1] i.e. note again that, while there is no official tuition fee cap imposed by the Welsh Government for part-time Welsh domiciled students studying in Wales, we assume that, in practice, their fees are moderated by the level of fee loan available. [2] The use of 2020-21 data in this instance was necessitated by the fact that Welsh providers' fee and access plans for more recent academic years do not include the required detailed bursary information. [3] The full-time take-up rate was calculated by dividing the number of Welsh domiciled full-time undergraduate students in receipt of SLC fee loans in 2023-24 (i.e. *funded* students from SLC data, here (including only students who started courses from 2018-19 onwards, i.e. following the significant funding changes implemented based on the Diamond Review recommendations)) by the *total* number of Welsh domiciled full-time undergraduate students studying at UK HE providers in 2023-24 (again 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 and grants

- In terms of **maintenance funding**, under the current system in 2025-26, students can get a mixture of loans and grants to help with their living costs:
  - **Full-time students** living away from home outside of London (**LAFHOL**) are eligible for maximum support of **£12,345** per year. Importantly, this is irrespective of household income (and only the underlying mixture of loan vs. grant funding depends on household income). This includes a maximum grant of **£8,100** and a minimum loan of **£4,245** for household income of **up to £18,370**. For household income of **more than £59,200**, the grant then declines to a minimum (non-means-tested) 'base grant' of **£1,000**, while the loan increases to **£11,345**. Students living away from home in London (**LAFHIL**) are eligible for total maintenance support of **£15,415**; this includes a grant of **£10,124** and a loan of **£5,291** for household income of **up to £18,370**. For household income of **more than £59,200**, the grant again declines to the minimum 'base grant' of **£1,000**, while the loan increases to **£14,415**. Finally, students living at home (**LAH**) are eligible for total maintenance support of **£10,480**; this includes a grant of **£6,885** and a loan of **£3,595** for household income of **up to £18,370**. For household income of **more than £59,200**, the grant again declines to **£1,000**, while the loan increases to **£9,480**.
  - Maintenance support for **part-time students** is based on different maximum rates than for full-time students, and funding here does *not* depend on students' living circumstances (i.e. the same funding rates apply to LAFHOL, LAFHIL, and LAH students). These students are eligible for maximum total support of **£4,553** per annum, including a grant of **£3,000** and a loan of **£1,553** for household income of **up to £25,000**, with the grant decreasing to **£500** and the loan increasing to **£4,053** for household income of **more than £59,200**[1].
- We have modelled **full-time students' maintenance funding eligibility** by **students' living conditions**. We calculate these estimates separately for students studying in Wales and RUK, assuming that any LAH students are studying in *Wales*, and all LAFHIL students are studying in London (i.e. in RUK)[2]. In relation to students studying in Wales, we assume that **40%** are LAH students and **60%** are LAFHOL students (with no LAFHIL students in this group). For RUK, we assume that **9%** are LAFHIL students and the remaining **91%** are LAFHOL students (with no LAH students in this group). As noted above, part-time maintenance funding does *not* depend on students' living conditions.
- In terms of **maintenance loan take-up rates**, again based on SLC data on student support for Welsh domiciled undergraduate students in 2023-24, we assume a **maintenance loan take-up rate of 92% for full-time students**, and **50% for part-time students**[3].
- For **maintenance grants**, we assume that all students take out the maximum available maintenance grant to which they are entitled (based on their household income and living circumstances).

[1] The funding rates for part-time students are based on a maximum maintenance grant of **£6,000** per FTE student and a maximum maintenance loan of **£8,105** per FTE student (net of the **£1,000** minimum maintenance grant). Here, we assume a study intensity of 50%, thus arriving at a maximum and minimum maintenance grant of **£3,000** and **£500**, respectively, and a maximum and minimum loan of **£4,053** and **£1,553**, respectively.

[2] The distribution of students across these different living conditions is based on information from the 2021-22 Student Income and Expenditure Survey for Wales (on the proportion of full-time students living at home vs. living away from home; here), combined with HESA data on the number of first-year Welsh domiciled full-time undergraduate students living in London vs. elsewhere in the UK, and living in Wales vs. elsewhere in the UK in 2023-24 (here).

[3] The full-time take-up rate was calculated by dividing the number of Welsh domiciled full-time undergraduate students in receipt of SLC maintenance loans in 2023-24 (i.e. *funded* students from SLC data, here, again only including students who started courses from 2018-19 onwards) by the *total* number of Welsh domiciled full-time undergraduate students studying at UK HE providers in 2023-24 (from HESA data, here). We undertook similar calculations for part-time students to estimate the part-time maintenance loan take-up rate.

Assumptions and methodology

Maintenance loans and grants

- In terms of students' **household income:**
  - We base eligibility for means-tested maintenance loans and grants on the (above-described) current household income eligibility thresholds applied by Student Finance Wales in 2025-26.
  - We combine these household income thresholds with 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 2024-25 (and the associated household income thresholds applicable to Welsh maintenance grants in that year) – separately for full-time vs. part-time students.
  - We then adjust the information to 2025-26 values to reflect the fact that average household income grows over time, by applying OBR estimates of UK annual average earnings growth between 2024-25 and 2025-26 (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 Office for Budget Responsibility (OBR) forecasts of UK average earnings growth; see further detail below);
  - **Maximum maintenance loans** will increase by **2.0%** in 2026-27 (see here). This is linked to CPI inflation, so we assume that, in subsequent years (i.e. 2027-28 onwards), maintenance loans will continue to increase in line with CPI inflation forecasts;
  - **Maximum maintenance grants** will increase by **2.0%** in 2026-27, based on the same announcement (see here). However, as this is the first increase in maintenance grants since they were first introduced in 2018-19, we assume that maintenance grant funding will again remain constant in subsequent years; and that,
  - The **household income thresholds associated with maintenance loans and maintenance grants** (which have remained unchanged since 2018-19) remain constant in all years.
- Our assumptions in relation to maintenance support under **Scenario 1** are outlined in more detail throughout the main slides above. We assume the same maintenance support settings under **Scenario 2** as under the Baseline.

Assumptions and methodology

Loan repayment terms

- In terms of student loan repayment terms, under the current funding system (where Welsh domiciled students are currently subject to Repayment Plan 2 (here)):
  - Student loans accumulate interest of **3% + RPI during study**, **0-3% + RPI** for earnings **between £28,470 and £51,245** post-graduation, and **3% + RPI** for earnings of **£51,245 or more**;
  - Loans are repaid at a rate of **9%** of earnings in excess of **£28,470** per annum. This earnings threshold (and the above-mentioned higher interest rate threshold) is uprated with RPI inflation in each subsequent year (also see the next slide for more information on how exactly RPI affects these thresholds));
  - All loans are written off **30 years** from the Statutory Repayment Due Date (SRDD); and
  - Based on the **partial maintenance loan cancellation scheme**, we assume that **£1,500** of students' debt is cancelled (i.e. deducted from the outstanding loan balance) when they make their first repayment. This applies to full-time students only (as part-time students are not eligible for the partial loan cancellation).
- We assume the same repayment terms under **Scenario 1** as under the Baseline. Our assumptions in relation to repayment terms under **Scenario 2** are outlined in more detail throughout the main slides above.

Assumptions and methodology

Inflation, growth & discount rates

- We use OBR medium- and long-term forecasts in relation to **RPI**, **CPI** and **nominal average earnings growth** per annum (see here (for medium-term projections from the OBR's November 2025 Economic and Fiscal Outlook (EFO)), and here (for long-term projections from the OBR's March 2025 Economic and Fiscal Outlook), which were the most recent forecasts available from the OBR at the time that the analysis was undertaken). Where applicable, we also rely on historical RPI data published by the Office for National Statistics (ONS; here) [1].
- The **loan interest rate** is usually set in September each year, based on the RPI of *March in that same year* (plus the relevant real interest rate, depending on graduates' income). Hence, the RPI figure used in calculating the interest rate for academic year 2025-26 is based on March 2025 RPI data from the ONS. 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 2026 for the assumed interest rate in 2026-27), and the annual figure for the corresponding previous financial year from the long-term projections (e.g. we use forecasts for financial year 2031-32 for the assumed interest rate in 2032-33).
- **Maximum maintenance loan levels** are assumed to increase in line with CPI projections from 2026-27 onwards. Using the OBR's medium-term projections, we assume that maintenance loans increase with CPI for the corresponding first quarter (January to March) of the next full calendar year (e.g. we use predicted CPI for 2027 Q1 to forecast maintenance loan levels in academic year 2026-27).
- The **repayment threshold** is assumed to increase in April each year in line with RPI in the year to the *previous March*, following the approach taken in previous years (e.g. the threshold in 2026-27 will increase by 3.2% (from £28,470 to £29,385) (see here), in line with March 2025 RPI). We apply the same assumptions for the **upper interest rate threshold**.
- In terms of **discount rates**, which are used to estimate the **aggregate financial flows across the cohort** and 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 **-0.85% + RPI** up to and including 2029-30, and **0.05% + RPI** from 2030-31 onwards (based on official HM Treasury discount rates for financial instruments to be applied as of 31st March 2025, see here and here). This follows the same approach used by the DfE in its forecasts of the RAB charge and the associated long-run cost of student loans in England (here). **Importantly, these real discount rates are *lower* than the current long-term real Government cost of borrowing** (i.e. Government gilt yields), since the official discount rates applied to student loans predominantly reflect *historical* rather than current gilt yields (e.g. see a report by the Institute for Fiscal Studies (here)). This results in a significant *underestimation* of the true Exchequer cost of providing student loans, and, therefore, an effective implicit public subsidy for these loans. While our use of the above discount rates reflects the Government's own approach to measuring the cost of student loans, this constitutes one of the key caveats associated with our estimates, as further discussed below (see this slide).

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

Assumptions and methodology

Teaching Grants

- As outlined above, the analysis focuses on **Welsh domiciled students in the 2025-26 cohort studying at higher education providers anywhere in the UK** (including HEIs anywhere in the UK and FE colleges in Wales). Therefore, the estimated level of Teaching Grant funding associated with the cohort includes Teaching Grants paid to **Welsh HE providers** (by the Commission for Tertiary Education and Research (Medr)) and to **English HEIs** (by the Office for Students).
- In contrast, Welsh domiciled 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 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.
- To estimate the average level of Teaching Grant per student per year for students in the cohort studying in **Wales**, we use data on HE funding allocations from Medr (here) and HESA student data (here) for the 2023-24 academic year (i.e. in the absence of more recent information at the time that the analysis was undertaken, we assume the same average Teaching Grants in 2025-26 as in 2023-24). Specifically, we divide the total Teaching Grant income received by HEIs and FE colleges in Wales (from Medr) by the total number of relevant students to whom these Teaching Grants typically apply (from HESA). In other words, we exclude any non-UK domiciled students[1] and any higher degree (research) students, since it is assumed that there is no Teaching Grant funding paid for these students. We then 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 for Wales, Scotland, and Northern Ireland** (all rounded to the nearest £10):

Study location	Full-time	Part-time
Wales	£730	£370
Scotland	-	-
Northern Ireland	-	-

- 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 2024-25 (as granular data for 2025-26 is yet to be published) in England 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	£11,580	3%
Band B	£1,737	21%
Band C1.1	£290	10%
Band C1.2	£131	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 **£1,070** per year. Based on average study intensity, the corresponding average funding per part-time student was estimated at **£540**.

- 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).

[1] Some EU domiciled students may still be covered by Teaching Grant funding (e.g. if they started their course in 2020-21 or before), but, for simplicity, we assume that this funding does *not* cover any EU domiciled students (given the significant changes to funding rules for EU students post-Brexit).

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 2025 Q3**, 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 51 of the cohort).
- Using the **Labour Force Survey** data, we first assessed the annual salaries (expressed in June 2025 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 2025 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, 46 and 51; 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 51). In addition, to boost sample size, imputation was undertaken in case of a respondent not being available at a given age (or missing information more generally).
[4] Again, separately for first degrees, Foundation Degrees, HNCs/HNDs, and other undergraduate qualifications.

Assumptions and methodology

Graduate earnings

- Using the merged LFS/BCS data, we then computed the lifetime earnings for each individual within the data, based on the sum of annual earnings between the assumed first year post-graduation for our relevant cohort of students (i.e. the age at completion for each given qualification (e.g. age 25 for full-time first degrees)[1]) and the assumed age of retirement (68). This allowed us to assign each individual to a *lifetime* earnings decile (again by gender and qualification level).
- Finally, for each single year of age, we then computed the **average earnings among all individuals within the specific lifetime earnings decile** (e.g. the average earnings at age 30 among individuals in the 1st lifetime earnings decile), i.e. we generated age-earnings profiles by lifetime decile (for each gender and qualification). We then further 'smoothed' these age-earnings profiles using 3-year rolling averages.
- Note that our resulting RAB charge estimates here are expected to be lower than the official RAB charge estimates for Wales produced by the Department for Education/the Welsh Government. This is predominantly because our analysis is based on *higher* graduate earnings estimates (based on the above-outlined combination of Labour Force Survey and British Cohort Study data) than the graduate earnings forecasts that the official DfE/Welsh Government model is based on. The DfE/Welsh Government model instead relies on microdata on student loan borrowers from the Student Loans Company (which are not publicly accessible), combined with Longitudinal Educational Outcomes data, resulting in more pessimistic earnings forecasts.

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 Office for Budget Responsibility forecasts of average nominal earnings growth per year (see this slide)).

[1] See this slide for more information on the assumed age at graduation by qualification level and mode among the 2025-26 student cohort.
[2] We use a 2-year annualised change to determine these new rates of decline (to provide a smoother evolution).

Assumptions and methodology

Key limitations and caveats

- Our modelling is based on a range of key simplifying assumptions to avoid excessive complexity and to keep the analysis flexible and tractable. Therefore, our modelling is subject to **several key limitations and caveats**:
  - The analysis is based on estimated (employment-adjusted) average lifetime earnings profiles across a range of different groups of graduates (estimated separately by gender, age, qualification level, mode of study, and lifetime earnings decile), which are necessary to allow us to estimate graduates' expected lifetime loan repayments. These estimates are highly uncertain, and rely on (and are sensitive to) forecasts of average earnings growth and inflation many years into the future.
  - To avoid excessive complexity, our estimates of graduates' lifetime loan repayments do *not* adjust for potential graduate income from investments; early or voluntary repayments; early loan cancellation (e.g. due to death or disability); or loan repayments by drop-outs.
  - Another important caveat relates to our use of official discount rates to estimate the cost of student loans. As noted above, the official HM Treasury discount rates applied by the DfE to estimate the RAB charge and the long-run cost of student loans (for England) are substantially lower than the current Government cost of borrowing.

Specifically, as detailed in a 2024 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 (where 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 few years, with the annual yield on 15-year gilts standing at 4.9% at the start of December 2025[1], which is 2.4 percentage points higher than projected RPI (2.5%) over the next 15 years (from 2026-27 to 2040-41). In other words, the gilt yield equals **RPI + 2.4%**. In contrast, the official discount rates for student loans stand at **RPI - 0.85%** pre-2030 and **RPI + 0.05%** from 2030 onwards, which are substantially lower than the current gilt yield. At the same time, with the student loan interest rate in England now equal to RPI under the post Augar system (Plan 5, rather than up to RPI + 3% under the pre Augar system (Plan 2)), this means that student loan interest rates in England are now 2.4 percentage points *lower* than the current gilt yield – so that, in addition to the loss of loan write-offs, the Government now *also* makes an expected loss on loans that are fully repaid.

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

Since expected loan repayments reach far into the future, the results are very sensitive to the discount rate, so the impact of these assumptions on the size of the estimates is substantial. For example, if we instead assumed a discount rate of **RPI + 2.4%** to estimate the RAB charge (to mirror the above 15-year gilt yield), the estimated Exchequer cost of the current Welsh funding system associated with the 2025-26 entry cohort would increase from **£391m** to **£646m** (see the table on the right-hand side).

Net Exchequer cost associated with the 2025-26 cohort under different discount rates for calculating the RAB charge (NPV in 2025-26 prices)

Net Exchequer cost (adjusted for RAB)	Original estimates (discount rate of RPI-0.85%/RPI+0.05%)	Revised estimates (discount rate of RPI+2.4%)
Cost of maintenance grants	(£255m)	(£247m)
Cost of maintenance loans	(£38m)	(£163m)
Cost of tuition fee loans	(£43m)	(£183m)
Cost of Teaching Grants	(£55m)	(£53m)
Total	**(£391m)**	**(£646m)**

Note: All values have been discounted to net present values (using the different discount rates indicated), are presented in constant 2025-26 prices, and have been rounded to the nearest £1m.

[1] Up from 1.2% at the end of 2021.

ANNEX II
Supplementary findings

LE
London
Economics

Estimated total loan outlay for the cohort

Total estimated (AME) loan outlay for the 2025-26 cohort (cash terms (not discounted) in current prices)

Scenario	£m	*Difference to Baseline*
Baseline (current Welsh funding system)	£932m	-
'Same or less' rule: English policy applied to Wales	£939m	*+£7m*
Scenario 1 (Plaid Cymru)	£968m	*+£36m*
Scenario 2 (Reform UK)	£932m	-

Note: All values are in cash terms (i.e. in current/nominal prices, and not discounted), and calculated in total over the cohort's entire expected study duration.

- As outlined above, HM Treasury's 'same or less' rules for loan funding constitutes a key constraint affecting the Welsh Government's student support policy.
- On this slide, we present the estimated total loan outlay associated with the 2025-26 cohort (over these students' total expected study duration), to **illustrate the 'bite' of the 'same or less' rules in terms of total loan outlay expenditure**.
- Under the Baseline (i.e. the current funding system in Wales), the estimated total loan outlay for the cohort stands at **£932m**. To assess whether this complies with the 'same or less' rule, we then model what that outlay would be if the *English* funding system were applied to Wales instead. This is estimated at **£939m** – i.e. **the Welsh loan outlay is now right at the limit set by HMT**. This broadly matches the Welsh Government's own assessment: As stated in its call for evidence on the future of tertiary education in Wales (here), *'the Welsh Government's most recent analysis found that projected Welsh student loan outlay based on current Welsh and UK Government policy is now (within a margin of error) nearly equal to the modelled UK Government policy counterfactual'.*
- Under **Plaid Cymru's** proposals, our analysis estimates that the Welsh Government would *exceed* that limit, with the total loan outlay per cohort increasing to **£968m** (due to the proposed increase in maintenance loans for Welsh students studying in RUK).