Options for increasing higher education maintenance support in England

Analysis for the Sutton Trust, February 2024

Introduction and overview

LE London Economics

Overview of the analysis

London Economics were commissioned by the Sutton Trust to **assess the implications of a range of different options for increasing maintenance support under the English higher education (HE) funding system**. Specifically:

- We focus on the **2023-24 cohort[1] of first-year English domiciled undergraduate students studying anywhere in the UK[2]**. The analysis includes both full-time and part-time students, and all types of undergraduate qualifications (i.e. first degrees and other undergraduate qualifications[3]).
- The analysis incorporates the **current funding arrangements facing the cohort of starters in 2023-24**, as well as the estimated costs **if different alternative maintenance support systems had been implemented for this cohort**.
- The modelling assesses a range of **key metrics**, including:
  - Core student loan outcomes, such as the **Resource Accounting and Budgeting (RAB) charge** (i.e. the proportion of the total loan balance written off[4]), **student loan debt on graduation**, and expected **lifetime loan repayments** (by gender, lifetime income decile, mode, and level of study);
  - The **total Exchequer cost** of the system associated with the cohort, including the cost of student support provided to English domiciled undergraduate students studying anywhere in the UK, and the associated Teaching Grant funding paid to higher education institutions across the UK (where applicable); and
  - **HEI funding**, in terms of tuition fee income and Teaching Grant funding received by institutions (minus the costs of access bursaries provided to students).

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

[2] i.e. the analysis focuses on students who are subject to the new Plan 5 loan repayment terms for England, following the implementation of the Department for Education's response to the Augar Review (see here for more information).

[3] 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.

[4] As outlined in further detail in the Annex (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 recent report by the Institute for Fiscal Studies (here), these official HMT discount rates are much lower than the current Government cost of borrowing. As a result, the official DfE statistics - as well as our results here - likely understate the true cost of student loans to the Exchequer.

Funding scenarios

In addition to the **Baseline** (current funding system), we model **nine alternative scenarios** to illustrate the impact of different changes to the level of maintenance support for full-time students:

BASELINE: CURRENT SYSTEM

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

- **Tuition fees of £9,250 per full-time student**[1], backed by **fee loans**.
- **Means-tested maintenance loans of up to £9,978 for students living away from home outside of London** ('LAFHOL').
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

SCENARIO 1A: 'FLAT' LOANS + HIGH TOP-UP GRANTS

Increase in maintenance support for full-time students[2] **to £11,400 per LAFHOL student**[3]:

- Increase in support provided through a combination of **non-means-tested 'flat' maintenance loans and high top-up (means-tested) maintenance grants.**
- **Maintenance loans of £4,651 per LAFHOL student**[4], irrespective of household income (i.e. loans are non-means-tested).
- **Maintenance grants of £6,749 per LAFHOL student** with household income of **up to £25,000**, reducing to **£0** for students with household income of **more than £62,343.**

SCENARIO 1B: 'FLAT' LOANS + HIGH TOP-UP GRANTS *PLUS* HIGHER THRESHOLDS

Same increase in maintenance support provided to full-time students as in Scenario 1A, PLUS:

- **Increase in maintenance funding eligibility thresholds**, to reflect what the original 2016-17 household income thresholds for maintenance loan eligibility would have been in 2023-24 if they had been uprated with CPI inflation each year[5] (i.e. 2016-17 thresholds in 2023-24 prices).

[1] Fees, fee loans, and maintenance loans for part-time students are set on a pro-rata basis (i.e. based on study intensity multiplied by the full-time rate; we assume an average 50% study intensity for part-time students throughout the analysis). [2] For all of the alternative scenarios presented here, we assume that there would be no change to the maintenance funding available to part-time students (i.e. we assume that they would be eligible for the same maintenance loans (and no maintenance grants, as under the current system)). [4] Scenarios 1A to 3B also all assume corresponding increases in maximum maintenance funding (and eligibility thresholds, where applicable) for students living away from home in London (LAFHIL) and students living at home (LAH). [4] This maintenance loan is equivalent to the current minimum maintenance loan available to LAFHOL students. [5] In 2016-17 (i.e. for students who entered HE from 2016-17 onwards), maintenance grants for English domiciled undergraduate students were abolished in favour of increased maintenance loans. The household income thresholds for maintenance loan eligibility have remained (almost) unchanged since 2016-17.

Funding scenarios

In addition to the **Baseline** (current funding system), we model **nine alternative scenarios** to illustrate the impact of different changes to the level of maintenance support for full-time students:

BASELINE: CURRENT SYSTEM

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

- **Tuition fees of £9,250 per full-time student**, backed by **fee loans**.
- **Means-tested maintenance loans of up to £9,978 for students living away from home outside of London** ('LAFHOL').
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

SCENARIO 2A: HIGHER MEANS-TESTED LOANS + 'OLD' GRANTS

Increase in maintenance support for full-time students to £11,400 per LAFHOL student:

- Increase in support provided through the **re-introduction of the 'old' system of maintenance grants** based on the grants that are currently available to *continuing* English domiciled students who entered HE prior to 2016-17. Corresponding **reduction in maintenance loans**[1], so that the **total level of maintenance funding is the same as under Scenario 1A**[2].
- Hence, LAFHOL students would be eligible for maximum funding of **£11,400 (including a £7,279 loan and £4,121 grant**, for household income of **up to £25,000)**, declining to a **minimum (loan) of £4,651** for household income of **more than £62,343**.

SCENARIO 2B: HIGHER MEANS-TESTED LOANS + 'OLD' GRANTS *PLUS* HIGHER THRESHOLDS

Same increase in maintenance support provided to full-time students as in Scenario 2A, PLUS:

- **Increase in maintenance funding eligibility thresholds**, to reflect what the original 2016-17 household income thresholds for maintenance loan eligibility would have been in 2023-24 if they had been uprated with CPI inflation each year (i.e. 2016-17 thresholds in 2023-24 prices).
- Thresholds for tapering between maintenance grants and loans have been set to ensure that the **total level of funding at each household income level is the same as under Scenario 1B**.

[1] In other words, the re-introduction of the 'old' system of maintenance grants (that was in existence for students who started HE qualifications prior to 2016-17) would partially replace current maintenance loans under this scenario.

[2] Hence, while we assume the same maximum maintenance grants available as for continuing students who started their qualifications prior to 2016-17, we assume different tapers and household income thresholds associated with these grants (and loans) compared to the relevant tapers and thresholds applied to these continuing students. This was necessary to ensure that the total level of maintenance funding at each level of household income is the same as under Scenario 1a, but also to ensure that funding is higher than or equal to the current (Baseline) funding level in each instance.

Funding scenarios

In addition to the **Baseline** (current funding system), we model **nine alternative scenarios** to illustrate the impact of different changes to the level of maintenance support for full-time students:

BASELINE: CURRENT SYSTEM

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

- **Tuition fees of £9,250 per full-time student**, backed by **fee loans**.
- **Means-tested maintenance loans of up to £9,978 for students living away from home outside of London** ('LAFHOL').
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

SCENARIO 3A: HIGHER MEANS-TESTED LOANS

Increase in maintenance support for full-time students to £11,400 per LAFHOL student:

- Increase in support provided through an **increase in the maintenance loan (only),** so that the **funding would continue to be provided entirely as a loan**, with no maintenance grants.
- LAFHOL students with household income of **up to £25,000** would thus receive a maximum maintenance loan of **£11,400**, reducing to a minimum of **£4,651** for students with household income of **more than £62,343**.
- **Total maintenance support at each level of household income would again be the same as under Scenarios 1A and 2A**.

SCENARIO 3B: HIGHER MEANS-TESTED LOANS *PLUS* HIGHER THRESHOLDS

Same increase in maintenance support provided to full-time students as in Scenario 3A, PLUS:

- **Increase in maintenance funding eligibility thresholds**, to reflect what the original 2016-17 household income thresholds for maintenance loan eligibility would have been in 2023-24 if they had been uprated with CPI inflation each year (i.e. 2016-17 thresholds in 2023-24 prices).
- **Total maintenance support at each level of household income would again be the same as under Scenarios 1B and 2B**.

Funding scenarios

In addition to the **Baseline** (current funding system), we model **nine alternative scenarios** to illustrate the impact of different changes to the level of maintenance support for full-time students:

BASELINE: CURRENT SYSTEM

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

- **Tuition fees of £9,250 per full-time student**, backed by **fee loans**.
- **Means-tested maintenance loans of up to £9,978 for students living away from home outside of London** ('LAFHOL').
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

SCENARIO 4A: SAME TOTAL FUNDING, WITH LOANS + 'OLD' GRANTS

Same total maintenance support as under current system, but with re-introduction of old grants:

- No change to the total maximum maintenance funding available, but **re-introduction of the 'old' system of maintenance grants to partially replace the current level of maintenance loans**.
- LAFHOL students with household income of **up to £25,000 or below** would thus receive total maintenance support of **£9,978** (split into a **grant of £4,121** and a **loan of £5,857**), declining to a **minimum (loan) of £4,651** for household income of **more than £62,343**.

SCENARIO 4B: SAME TOTAL FUNDING, WITH LOANS + 'OLD' GRANTS *PLUS* HIGHER THRESHOLDS

Same total maintenance support as under current system and Scenario 4A, PLUS:

- **Increase in maintenance funding eligibility thresholds**, to reflect what the original 2016-17 household income thresholds for maintenance loan eligibility would have been in 2023-24 if they had been uprated with CPI inflation each year (i.e. 2016-17 thresholds in 2023-24 prices).
- Note that this results in ***lower*** **levels of funding at each household income level than Scenarios 1B, 2B, and 3B.**

Funding scenarios

In addition to the **Baseline** (current funding system), we model **nine alternative scenarios** to illustrate the impact of different changes to the level of maintenance support for full-time students:

BASELINE: CURRENT SYSTEM

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

- **Tuition fees of £9,250 per full-time student**, backed by **fee loans**.
- **Means-tested maintenance loans of up to £9,978 for students living away from home outside of London** ('LAFHOL').
- **Repayment threshold of £25,000**, frozen until 2026-27 (inclusive), and uprated with Retail Price Index (RPI) inflation thereafter. **No real interest rates** applied to loans (so nominal interest = 0% + RPI). Repayment period of **40 years**.

SCENARIO 5: SCENARIO 2B + STEPPED REPAYMENT SYSTEM

Same maintenance support as Scenario 2B, but with changes to repayment terms to make the system effectively cost-neutral for the Exchequer:

- **Same maintenance funding as under Scenario 2B**: **£11,400** per LAFHOL student through the **re-introduction of 'old' maintenance grants** and a **reduction in maintenance loans**, plus **increase in maintenance funding eligibility thresholds**.
- **Introduction of a stepped repayment system**:
  - 2% on earnings of £25,000 - £35,000
  - 4% on earnings of £35,001 - £45,000
  - 6% on earnings of £45,001 - £55,000
  - 8% on earnings of £55,001+
- **(Re-)introduction of real interest rates** of **1.5%** during study, **0%-3%** post-graduation for graduates earning between £25,000 and £55,000, and **3%** for graduates earning £55,001+.

Current funding system (Baseline)

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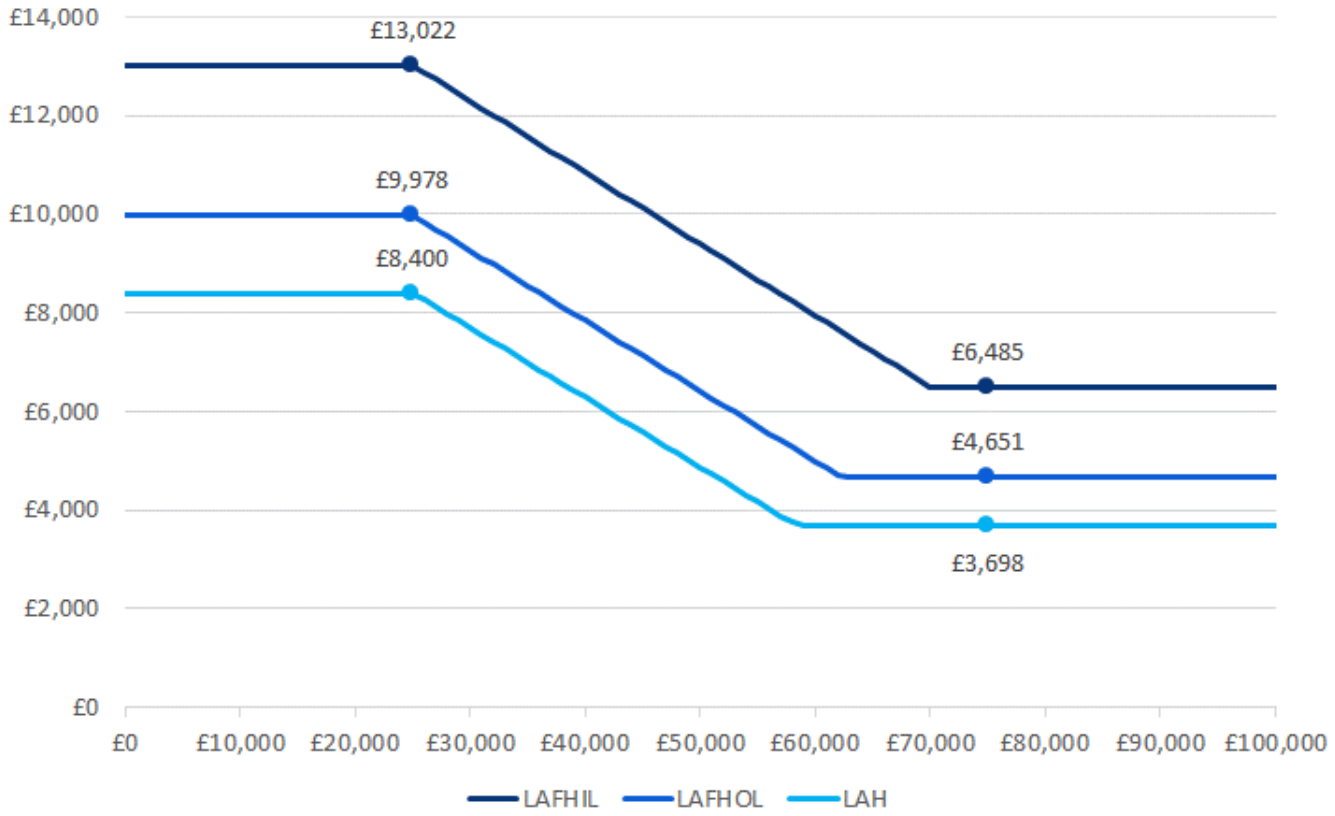
Baseline (current system): Maintenance funding

Baseline system

Maintenance loans per year for English domiciled full-time students, by household income and students' living conditions



Note: LAFHIL = Students living at home in London; LAFHOL = Students living at home outside of London; LAH = Students living at home. The figures relate to maintenance support in 2023-24, and we assume that these figures increase with RPIX (Retail Price Index excluding mortgage interest payments) in each subsequent year of study for the cohort of interest. Again, please see the Annex for more information on our methodological approach and assumptions.

[1] Similar to fees and fee loans, maintenance loans for part-time students are set on a pro-rata basis (again, we assume an average 50% study intensity for part-time students throughout the analysis). Part-time maintenance support is not presented here, as all alternative scenarios modelled assume the same level of part-time maintenance support as under the current funding system.

- The current system provides **only relatively limited maintenance support to students**. Maintenance grants for English domiciled (full-time) students were abolished from 2016-17 onwards, and students who entered higher education since then have only been able to access maintenance loans.
- Full-time undergraduate students living away from home outside of London (LAFHOL) are currently eligible for a maximum loan of **£9,978** (for household income **up to £25,000**), with a minimum loan of **£4,651** (for household income of **£62,343 or more**). Students living away from home in London (LAFHIL) are eligible for a maximum loan of **£13,022** (for household income **up to £25,000**), with a minimum of **£6,485** (for household income of **£70,040 or more**); while students living at home (LAH) are eligible for a maximum loan of **£8,400** (for household income **up to £25,000**) and a minimum of **£3,698** (for household income of **£58,291 or more**)[1].

Baseline (current system): Total costs for cohort

Baseline system

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

- Under the current Baseline funding system in 2023-24, the **Exchequer** contributes approximately **£2.01bn** per cohort of English domiciled students (comprising **£1.99bn** from the Westminster Government and **£17m** from HE funding bodies in the rest of the UK (RUK)[1]).
- Reflecting an average RAB charge of **4.1%** (across all study levels and modes), **maintenance loan write-offs** cost the public purse approximately **£326m** per cohort, while **fee loan write-offs** cost **£423m**. The cost associated with the provision of **Teaching Grants** to HEIs stands at **£1.26bn** per cohort, including **£1.24bn** for English HEIs (allocated by the Office for Students (OfS)) and **£17m** for Welsh HEIs (allocated by the Higher Education Funding Council for Wales).
- The current average Exchequer cost per full-time English domiciled student studying in England per year (in 2023-24, across all qualification levels) was estimated at **£1,600**.
- **HEIs** receive **£12.45bn** in net income per cohort, including **£11.30bn** in **fees** and **£1.26bn** in **Teaching Grants**. Against this income, HEIs contribute **£108m** per cohort in fee and maintenance **bursaries**. The average HEI income per full-time English domiciled student studying in England per year (in 2023-24, across all qualification levels) was estimated at **£10,200**.
- The average debt on graduation per student in the cohort (for full-time first degree students studying in England[2]) was estimated at **£50,500**, with average lifetime repayments of **£53,800** and **£42,100** for male and female graduates, respectively.

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m. 'Gross fee income' refers to fee income before the deduction of bursaries provided to students.

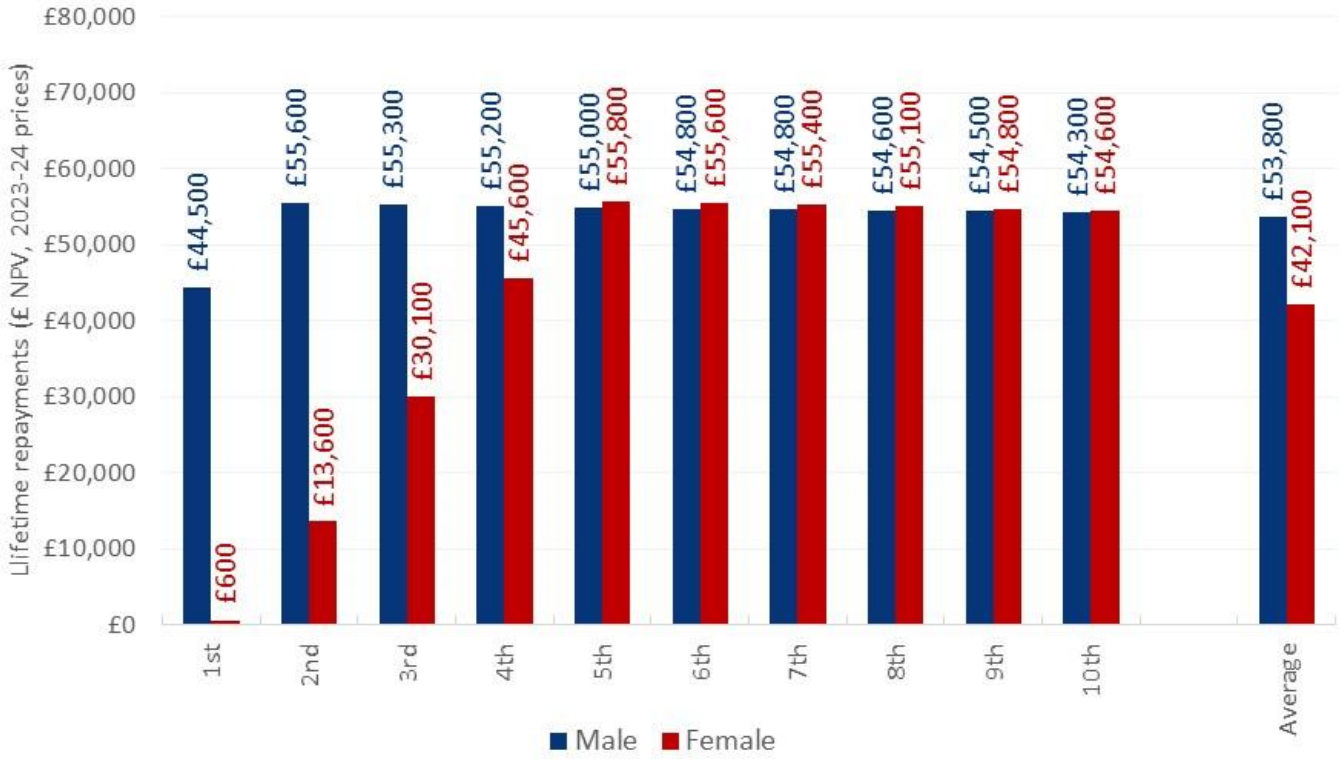
[1] The **£17m** relates to Teaching Grants paid to Welsh HEIs by the Higher Education Funding Council for Wales only (which will be replaced the Commission for Tertiary Education and Research from August 2024 onwards). English domiciled students studying in Scotland or Northern Ireland typically do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

[2] Debt on graduation and expected lifetime repayments per student are presented for full-time first degree English domiciled students studying in England only

Baseline (current system): Graduate loan repayments

Baseline system

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



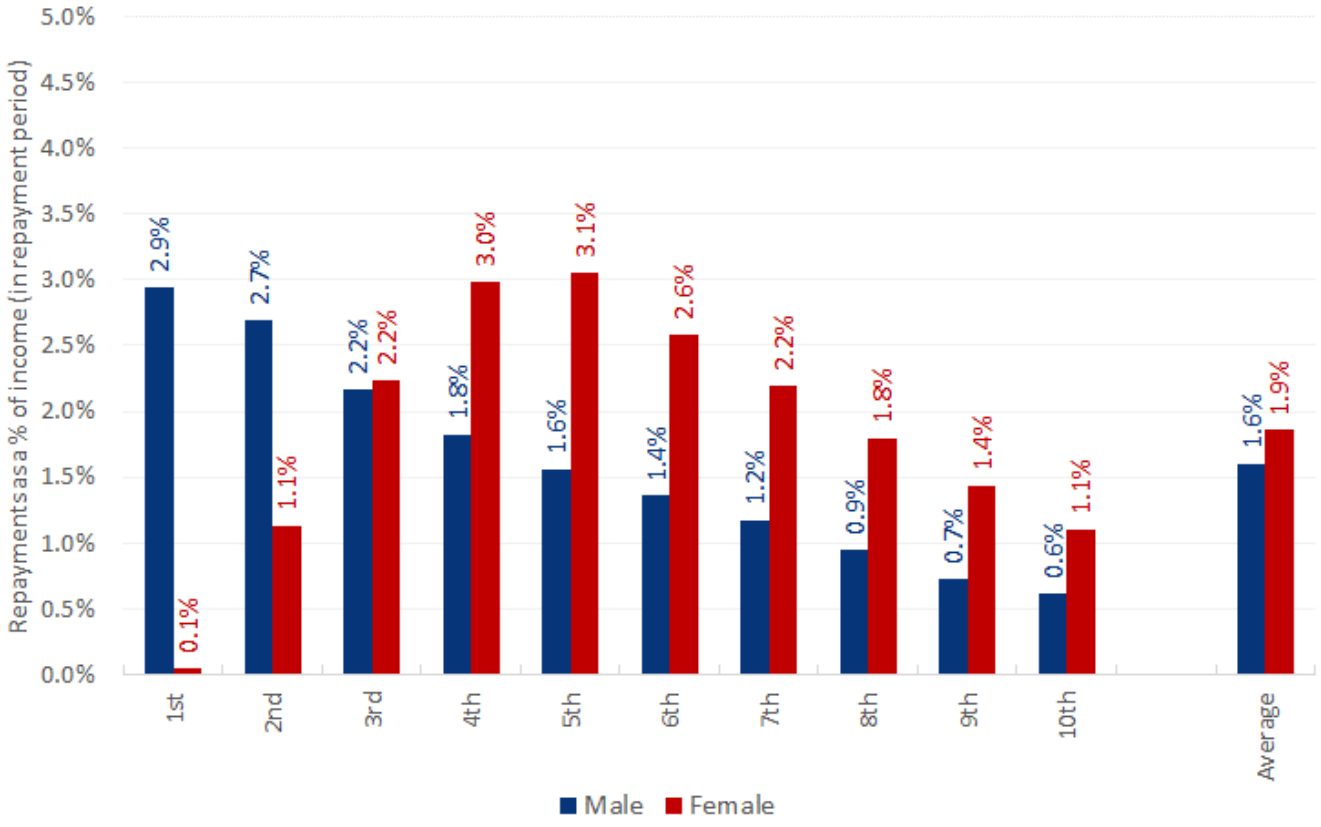
- The average repayments made by **male graduates** stand at **£53,800**. The new Plan 5 repayment conditions (introduced by the Department for Education in response to the Augar Review) have increased repayments for low- to middle-income graduates, but effectively 'guillotined' the repayments made by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

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

Baseline (current system): Loan repayment progressivity

Baseline system

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



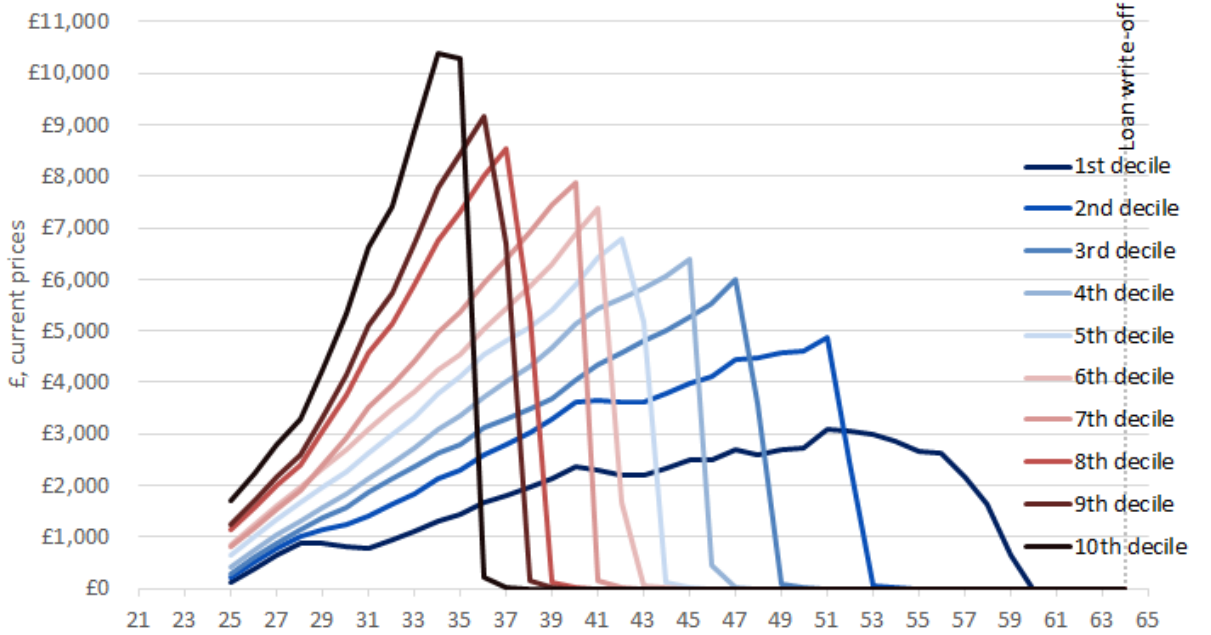
- The current loan system (again, based on the new Plan 5 repayment system) is **regressive for most of the graduate earnings distribution** (and even more regressive than the previous Plan 2 repayment system that applies to students who entered HE prior to 2023-24 (as a result of the extension of the repayment period to 40 years and the reduction, freeze, and subsequent slower uprating of the repayment threshold)).
- Reflecting lifetime loan repayments, male graduates on the **1st earnings decile** contribute **2.9%** of their income in loan repayments over the 40-year repayment period. Illustrating the regressivity of the system, this proportion declines when moving up the earnings distribution, to only **0.6%** for the highest earning male graduates (**10th decile**).
- Female graduates in the **bottom decile** contribute **0.1%** of their earnings in repayments, increasing to approximately **3.0-3.1%** for female graduates on the **4th and 5th deciles**. However, the proportion again decreases for successive earnings deciles, declining to **1.4%** for women on the **9th decile** and **1.1%** on the **10th decile**.

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

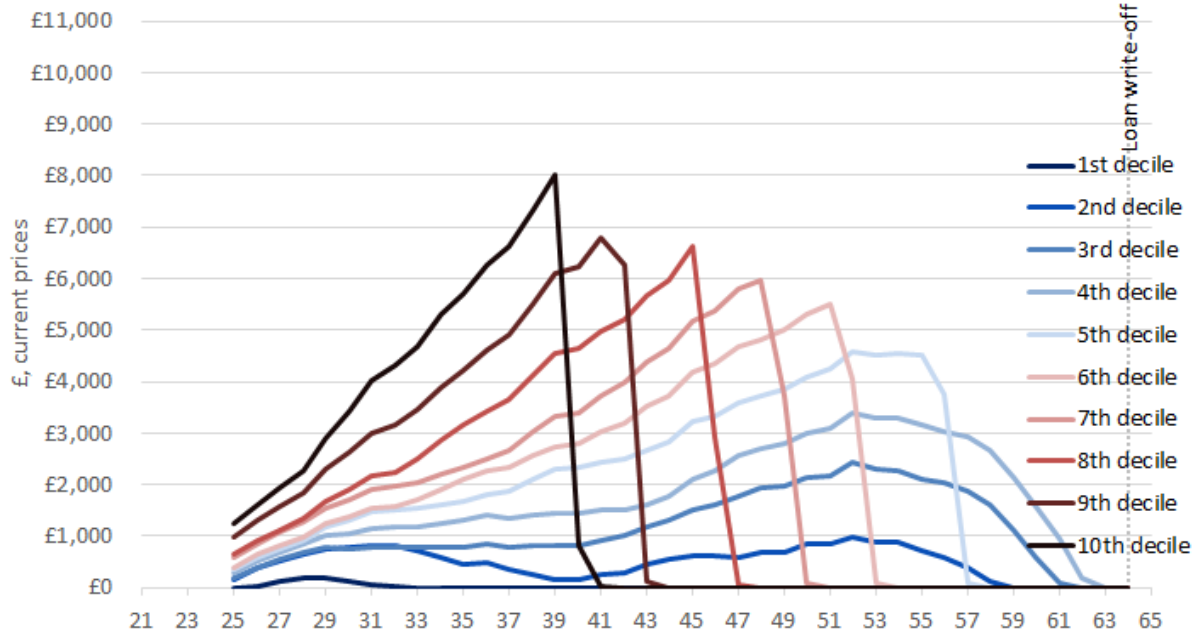
Baseline (current system): Loan repayment profiles

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

Baseline: Male graduates



Baseline: Female graduates



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

Scenarios 1A & 1B: Higher support through ‘flat’ loans and high top-up maintenance grants

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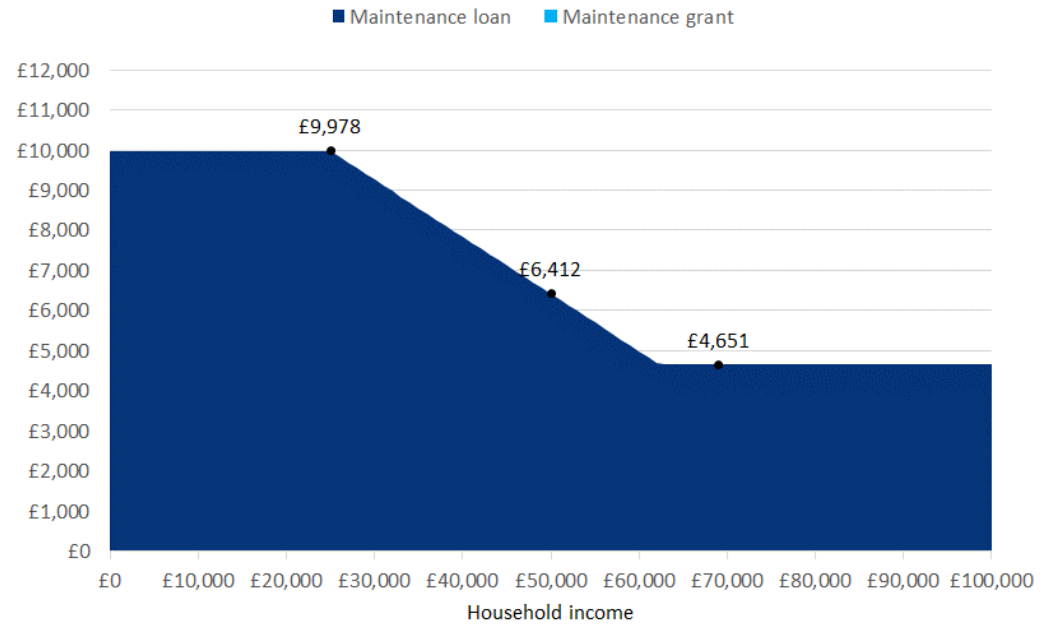
Scenario 1A: Maintenance support

In Scenario 1A, we model an increase in total maintenance support (for full-time students only[1]) to **£11,400** (for LAFHOL students[2]), through a combination of **non-means-tested 'flat' maintenance loans** (set at the current minimum maintenance loan rates) **and high top-up maintenance grants**. Specifically, we model:

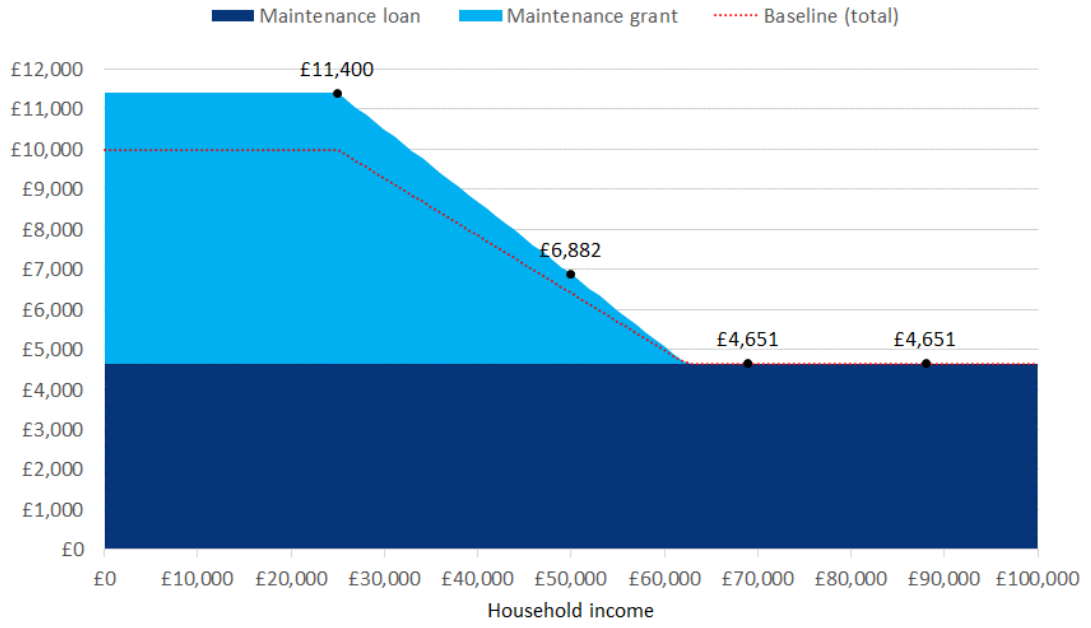
- **Maintenance loans of £4,651 per (LAFHOL) student**, irrespective of household income (i.e. loans are non-means-tested); and
- **Maintenance grants of £6,749 per (LAFHOL) student** with household income of **£25,000 or below**, tapering out to **£0** for household income of **more than £62,343** (which is the threshold for minimum maintenance loan eligibility under the current system; i.e. maintenance grants would taper out to £0 at the same threshold beyond which students are currently only eligible for the minimum maintenance loan).

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 1A: 'Flat' loans + high top-up grants



Note: The figures relate to maintenance support in 2023-24, and we again assume that these figures increase with RPIX (Retail Price Index excluding mortgage interest payments) in each subsequent year of study for the cohort of interest.
[1] For all of the alternative scenarios presented here, we assume that there would be no change to the maintenance funding available to part-time students (i.e. we assume that they would be eligible for the same maximum level of maintenance loans (and no maintenance grants) as under the current system). [2] The maximum total funding of **£11,400** for LAFHOL students reflects the Sutton Trust's recently published student maintenance cost analysis (here), reflecting the median spend per academic year for LAFHOL students (with no dependents). The corresponding assumed maximum funding rates for LAFHIL and LAH students stand at **£14,878** and **£9,597**, respectively (also see the Annex).

Scenario 1A: Total costs for cohort

Scenario 1A: 'Flat' loans + high top-up grants

Resource flows (£/£m/%)	Baseline	Scenario 1A	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£3,359m)	(£3,359m)
Cost of maintenance loans	(£326m)	(£125m)	£201m
Cost of tuition fee loans	(£423m)	(£198m)	£225m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£4,938m)**	**(£2,933m)**
RAB charge (%)	**4.1%**	**2.0%**	**-2.1pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	-
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£43,300**	**(£7,200)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£46,700/£37,300**	**(£7,100)/(£4,800)**

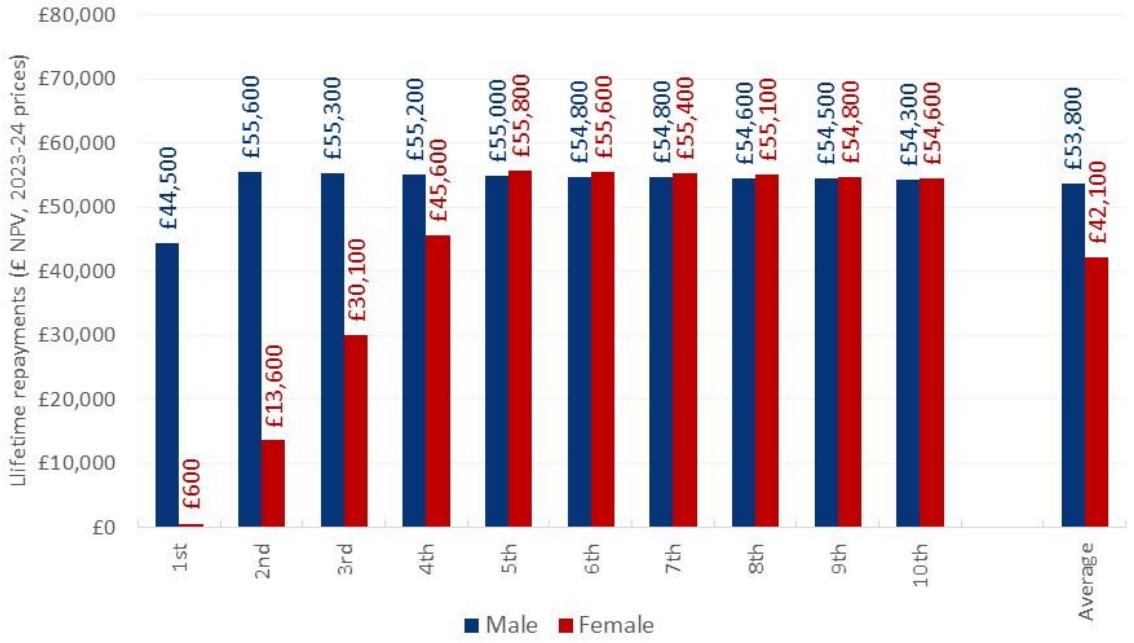
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 1A would *more than double* the total Exchequer cost of the system per cohort, with the cost rising by approximately £2.93bn**. While there would be lower loan write-offs (due to the lower maintenance loan outlay) for both fee loans (**£225m**) and maintenance loans (**£201m**), these cost savings would be more than offset by the significant incremental cost associated with the provision of maintenance grants (**£3.36bn**).
- Driven by the lower loan outlay associated with the lower maintenance loans, the RAB charge would decline by **2.1 percentage points**, to **2.0%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would stand at approximately **£4,200** (**+£2,600** compared to the current system).
- **HEIs would be unaffected** (both here and under all other alternative scenarios modelled throughout this analysis).
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£7,200** (to **£43,300**). Average lifetime repayments would decline by **£7,100** for male graduates and by **£4,800** for female graduates.

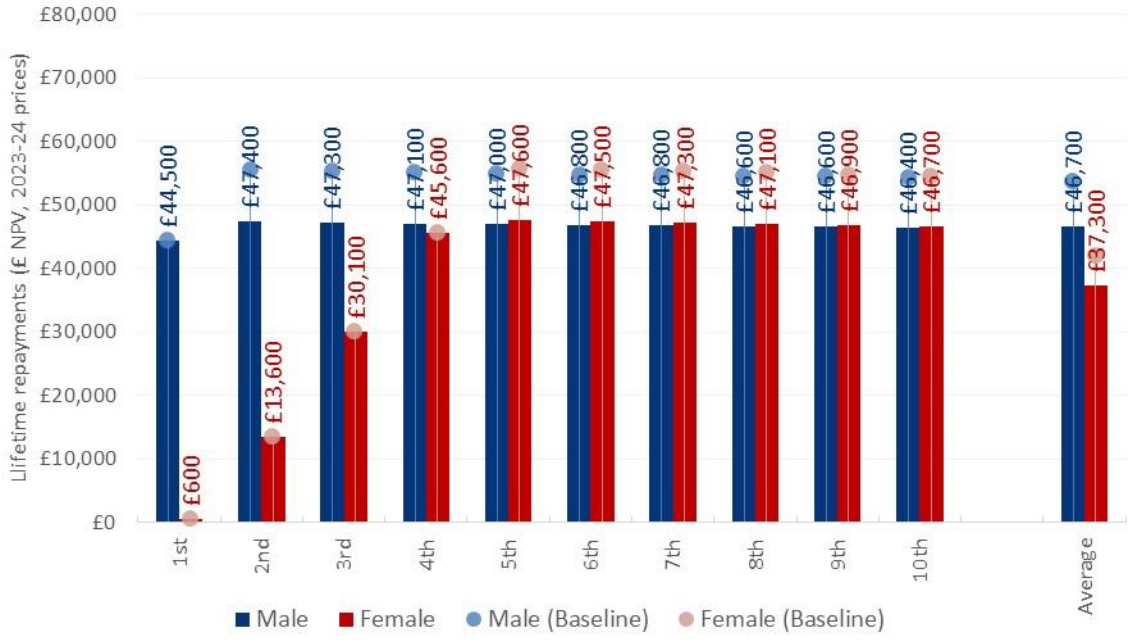
Scenario 1A: Graduate loan repayments

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

Baseline



Scenario 1A: 'Flat' loans + high top-up grants

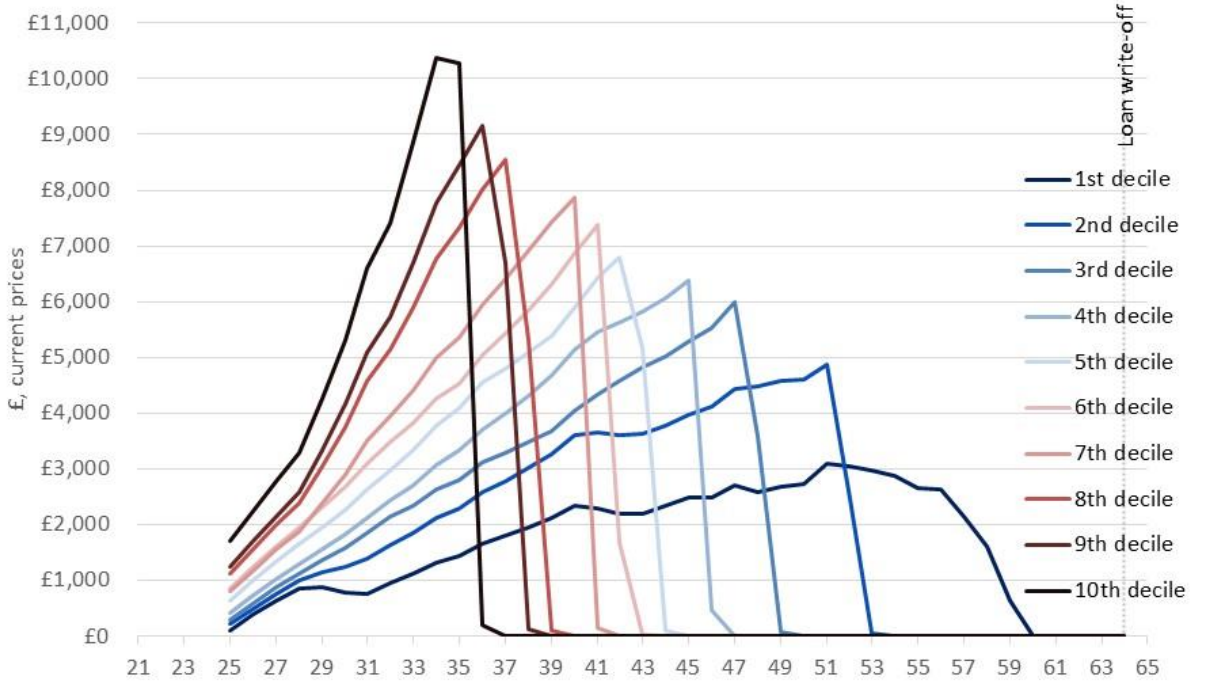


- Under Scenario 1A, while **middle- and high-income graduates would make *lower* loan repayments, graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be essentially *unaffected* by the reduced loan balance**. This is because these graduates would already be expected to never fully pay off their loan by the end of the repayment period – so their repayments are not impacted by the reduction in maintenance loans.

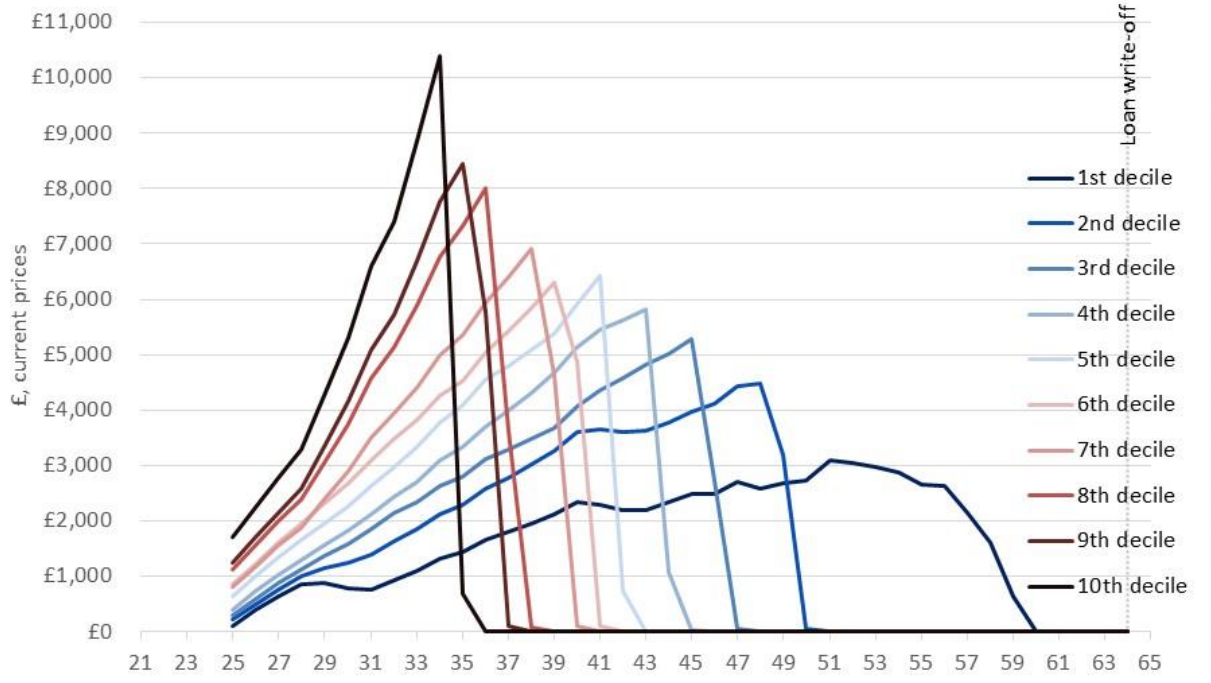
Scenario 1A: Loan repayment profiles (men)

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

Baseline



Scenario 1A: 'Flat' loans + high top-up grants

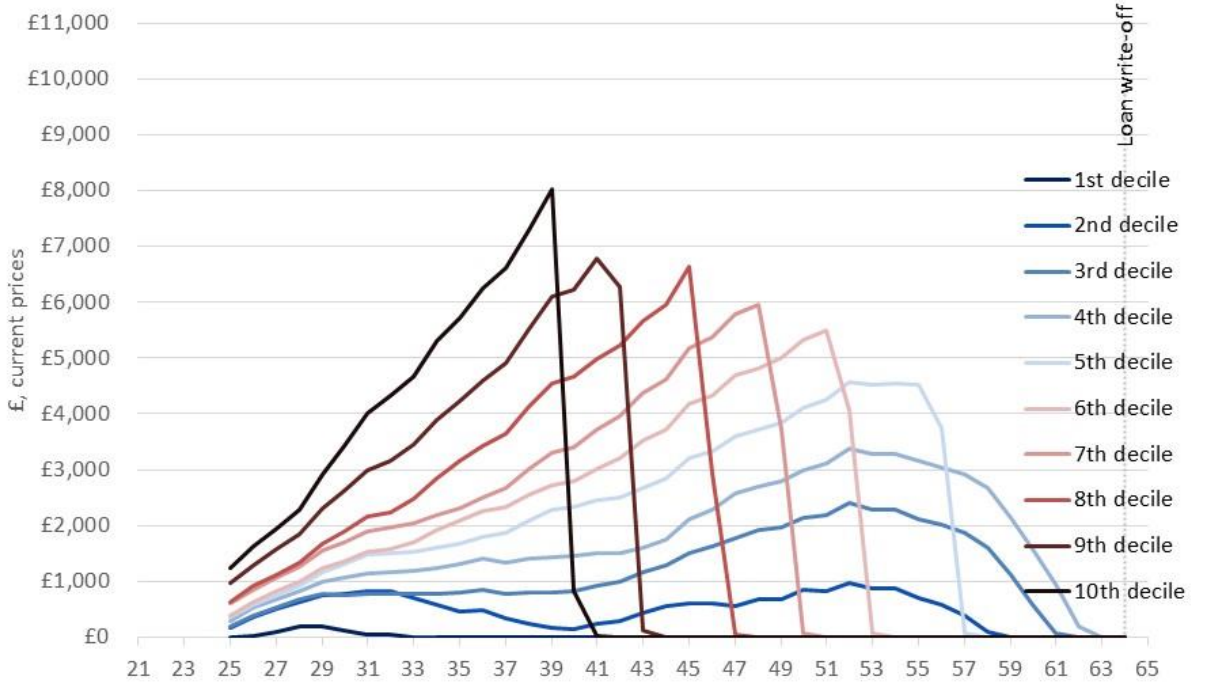


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would benefit from the reduction in maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make essentially the same repayments as under the current system.

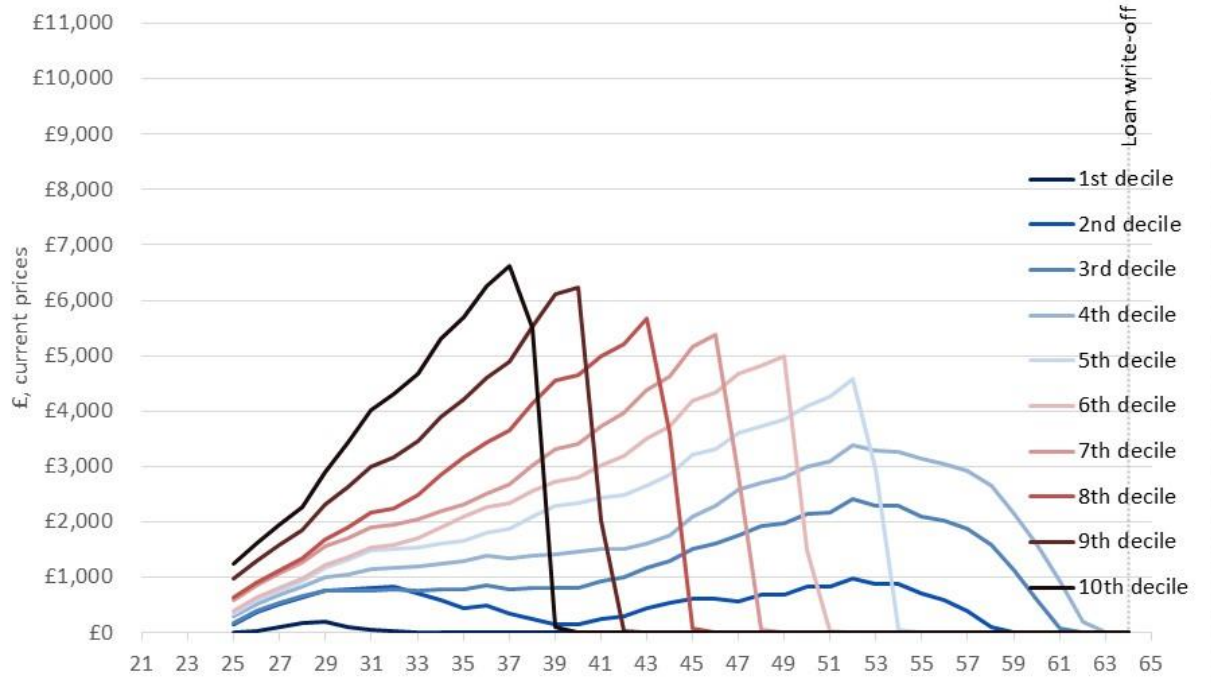
Scenario 1A: Loan repayment profiles (women)

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

Baseline



Scenario 1A: 'Flat' loans + high top-up grants



- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would benefit from the reduction in maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make essentially the same repayments as under the current system.

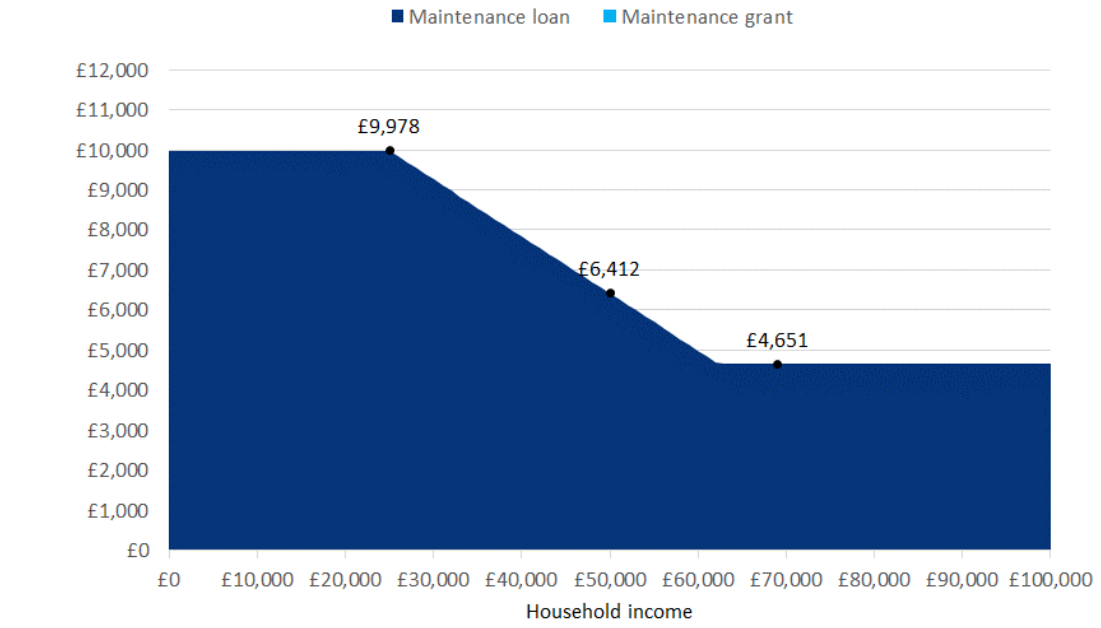
Scenario 1B: Maintenance support

In Scenario 1B, we assume the **same maximum loan and grant levels as under Scenario 1A**, but alongside an **increase in the relevant household income thresholds for eligibility**:

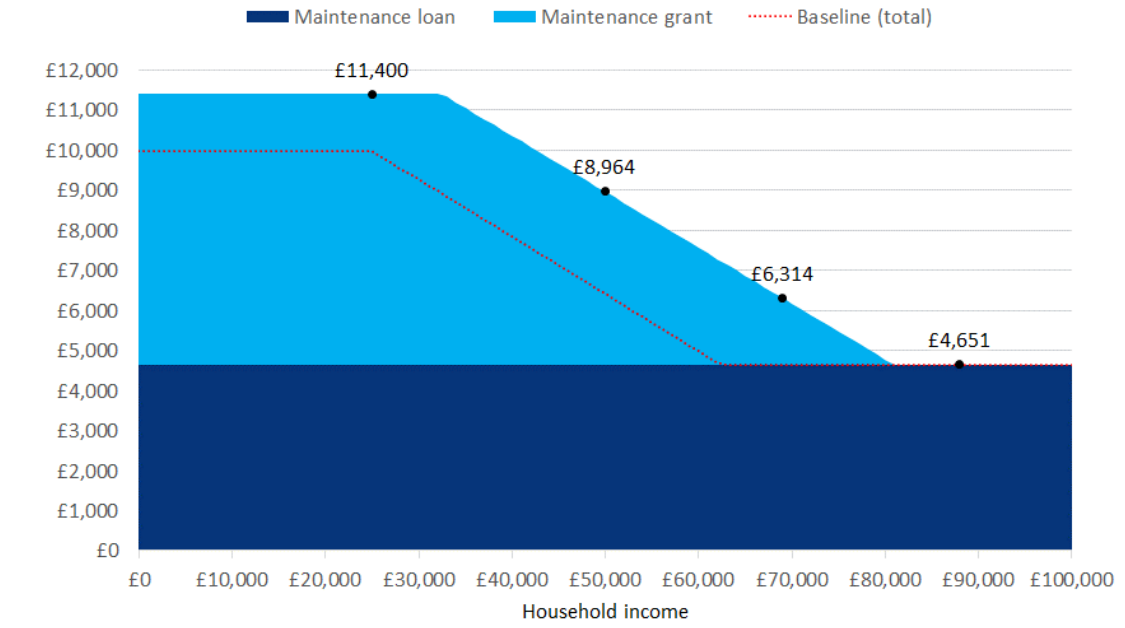
- The current thresholds have remained (almost) unchanged since the abolition of maintenance grants in 2016-17; therefore, the thresholds here reflect **what the original 2016-17 thresholds for maintenance loan eligibility would be in 2023-24 if they had been uprated with CPI inflation**[1] each year (i.e. 2016-17 thresholds in 2023-24 prices).
- We thus model **maintenance grants** of **£6,749 per (LAFHOL) student** with household income of **£32,535 or below**, tapering out to **£0** for students with household income of **more than £80,921** (beyond which students are only eligible for the non-means-tested loan of **£4,651**)[2].

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 1B: Scenario 1A + higher thresholds



[1] Based on cumulative CPI inflation between April 2016 and April 2023 (approximately **30.1%**), using Consumer Price Index data published by the Office for National Statistics (here).
[2] For the corresponding assumptions for LAFHIL and LAH students, again see the Annex.

Scenario 1B: Total costs for cohort

Scenario 1B: Scenario 1A + higher thresholds

Resource flows (£/£m/%)	Baseline	Scenario 1B	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£4,127m)	(£4,127m)
Cost of maintenance loans	(£326m)	(£125m)	£201m
Cost of tuition fee loans	(£423m)	(£198m)	£225m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£5,706m)**	**(£3,700m)**
RAB charge (%)	**4.1%**	**2.0%**	**-2.1 pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£43,300**	**(£7,200)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£46,700/£37,300**	**(£7,100)/(£4,800)**

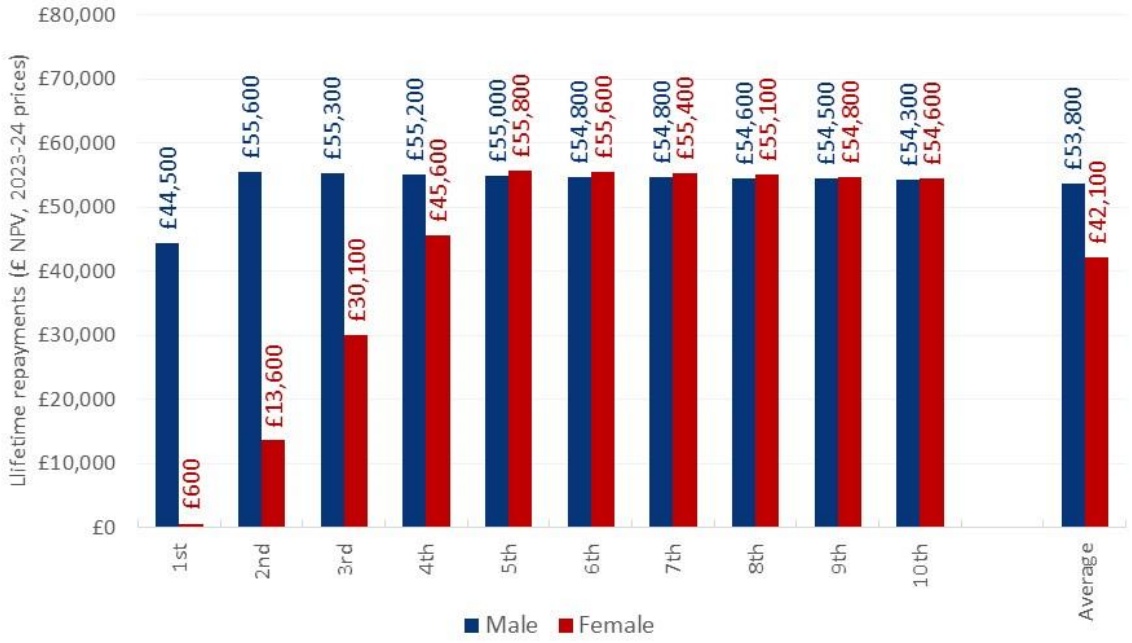
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 1B would *almost treble* the total Exchequer cost of the system per cohort, with the cost rising by approximately £3.70bn**. As under Scenario 1, there would be the same lower loan write-offs for both fee loans (**£225m**) and maintenance loans (**£201m**), but these savings would again be more than offset by the significant incremental cost from higher maintenance grant funding (**£4.13bn**) – of which approximately **19%** relates to the uprating of eligibility thresholds (and the remaining **81%** relates to the replacement of loans with grants and the increase in the level of funding).
- Again driven by the lower (maintenance) loan outlay, the RAB charge would decline by **2.1 percentage points**, to **2.0%**. This is the same as under Scenario 1A (due to the same loan outlay).
- The average Exchequer cost per full-time English domiciled student studying in England per year would rise to **£4,800** (**+£3,200** compared to the current system).
- **HEIs would again be unaffected**.
- As with Scenario 1A, the average debt on graduation (per full-time first degree student studying in England) would decline by **£7,200** (to **£43,300**), and average lifetime repayments would decline by **£7,100** for male graduates and by **£4,800** for female graduates.

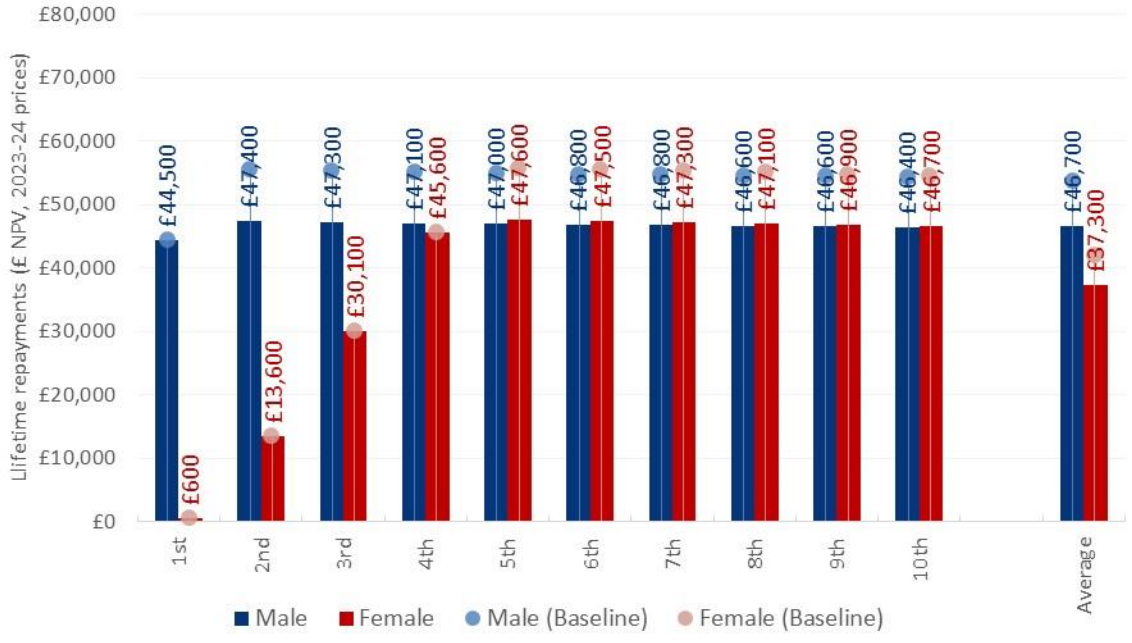
Scenario 1B: Graduate loan repayments

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

Baseline



Scenario 1B: Scenario 1A + higher thresholds

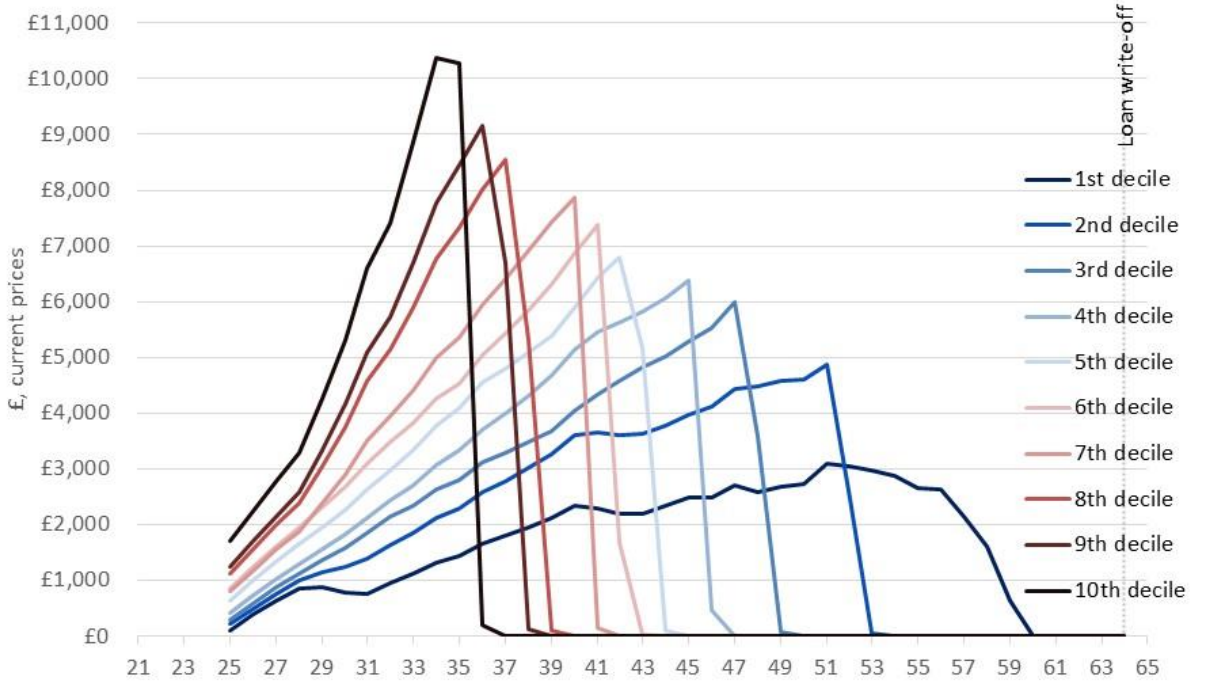


- Under Scenario 1B, graduate loan repayments would be the **same as under Scenario 1A**.
- Compared to the current system, while **middle- and high-income graduates would again make *lower* loan repayments, graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be *unaffected* by the reduced loan balance**.

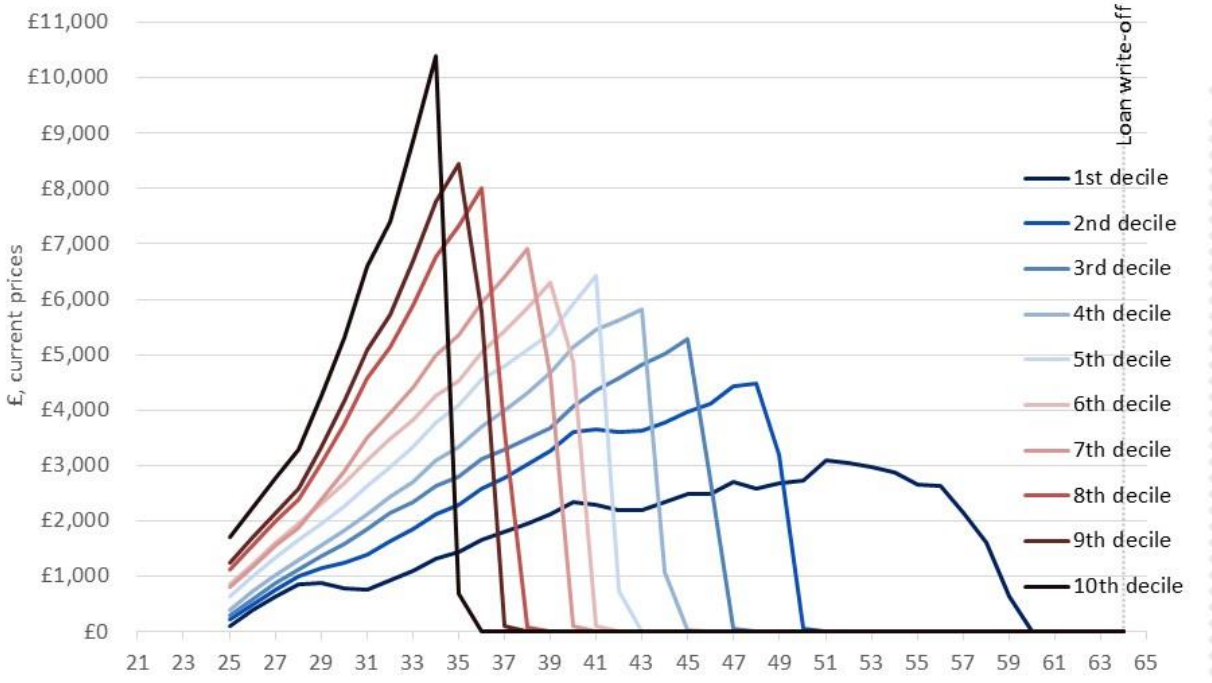
Scenario 1B: Loan repayment profiles (men)

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

Baseline



Scenario 1B: Scenario 1A + higher thresholds

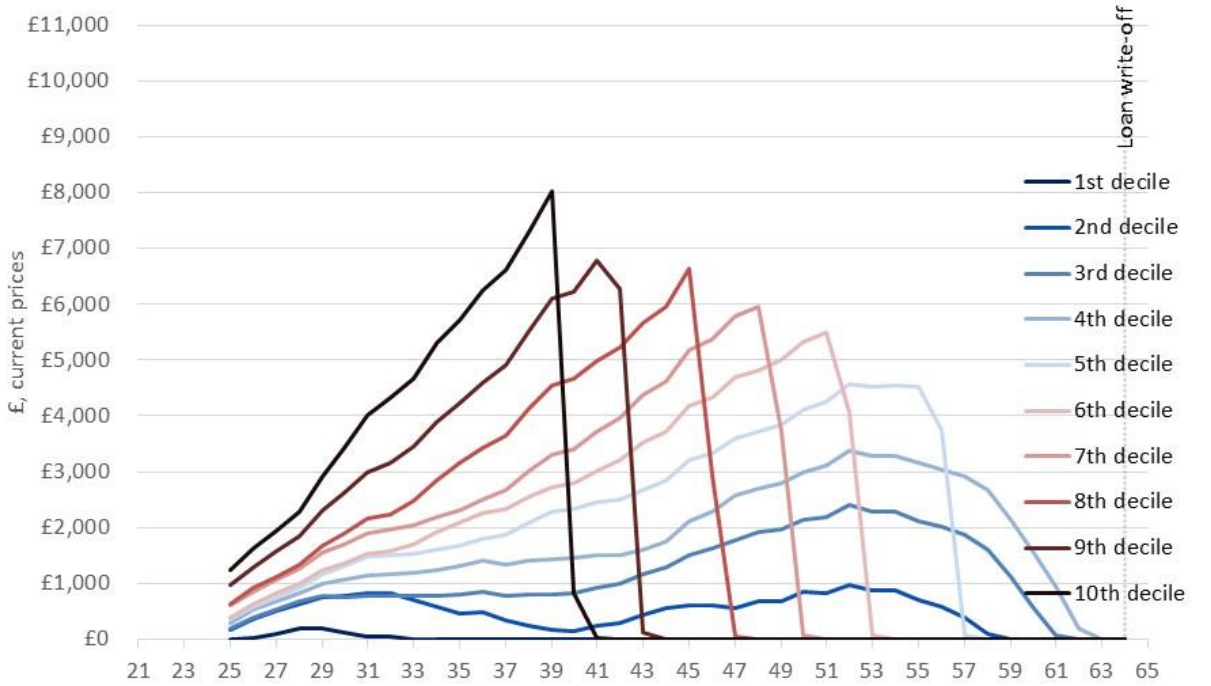


- Under Scenario 1B, graduate loan repayments would be the **same as under Scenario 1A**.
- Compared to the current system, **middle- and high-earning graduates** (2nd decile and above for male graduates) **would benefit from the reduction in maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make essentially the same repayments as under the current system.

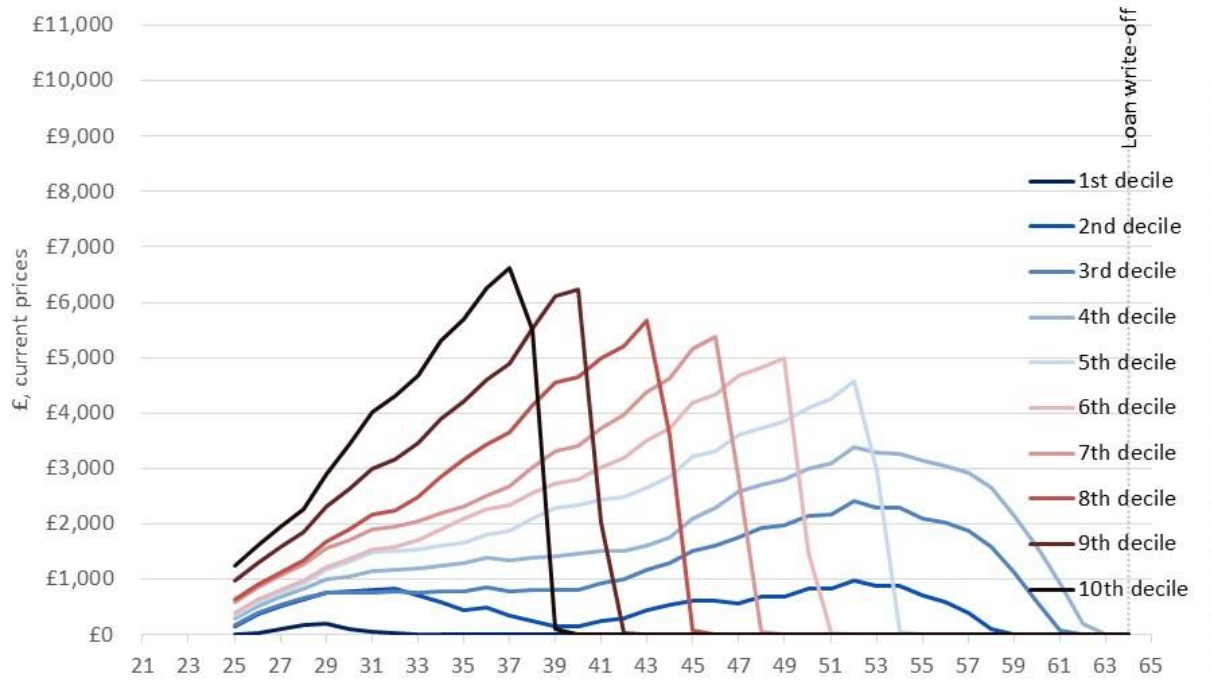
Scenario 1B: Loan repayment profiles (women)

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

Baseline



Scenario 1B: Scenario 1A + higher thresholds



- Under Scenario 1B, graduate loan repayments would be the **same as under Scenario 1A**.
- Compared to the current system, **middle- and high-earning graduates** (5th decile and above for female graduates) **would benefit from the reduction in maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make essentially the same repayments as under the current system.

Scenarios 2A & 2B: Higher support through means-tested loan and re-introducing the ‘old’ maintenance grants

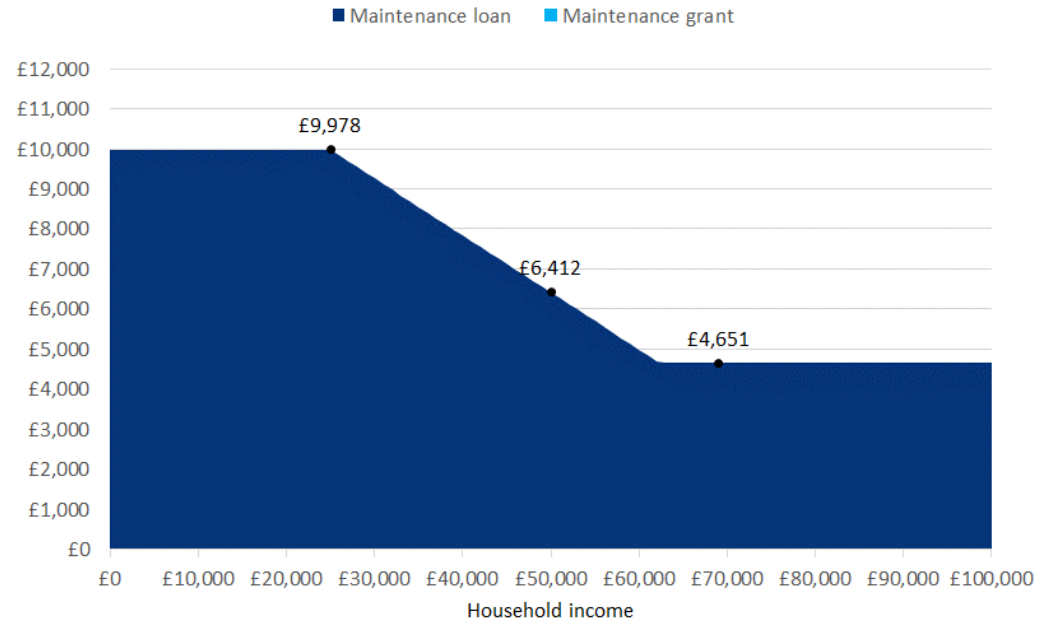
LE London Economics

Scenario 2A: Maintenance support

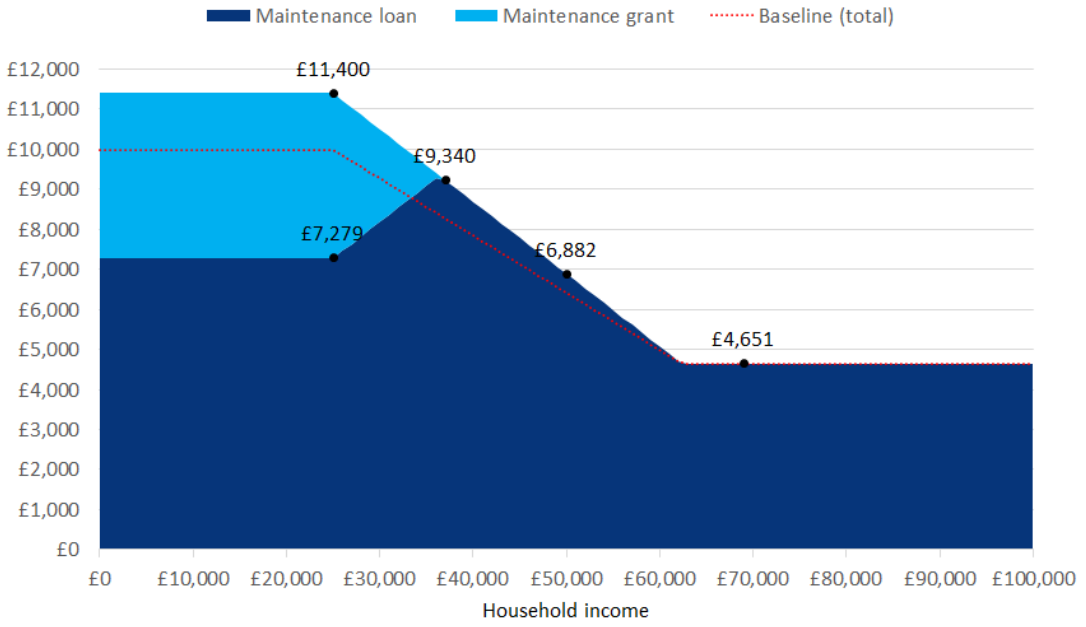
- In Scenario 2A, we again model an increase in total full-time maintenance support to **£11,400** (for LAFHOL students), but through a combination of **means-tested maintenance loans and the re-introduction of the 'old' system of maintenance grants** (to partially replace the existing maintenance loans).
- Specifically, Scenario 2A would involve the **re-introduction of maintenance grants for full-time students** (based on the grants currently available to *continuing* English domiciled students who entered HE prior to 2016-17), and a corresponding **reduction in maintenance loans so that the total level of maintenance funding is the same as under Scenario 1A**[1]. Hence, LAFHOL students with household income of **£25,000 or below** would receive maintenance funding of **£11,400**, split into a **grant of £4,121** and a **loan of £7,279**. As under the current system, students with household income of **more than £62,343** would again only be eligible for a **loan of £4,651** (and no grant).

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 2A: Higher means-tested loans + 'old' grants



[1] Hence, while we assume the same maximum maintenance grants available as for continuing students who started their qualifications prior to 2016-17, we assume different tapers and household income thresholds associated with these grants (and loans) compared to the relevant tapers and thresholds applied to these continuing students. This was necessary to ensure that the total level of maintenance funding at each level of household income is the same as under Scenario 1A, and that the total funding is higher than or equal to the current (Baseline) funding level in each instance.

Scenario 2A: Total costs for cohort

Scenario 2A: Higher means-tested loans + 'old' grants

Resource flows (£/£m/%)	Baseline	Scenario 2A	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£1,502m)	(£1,502m)
Cost of maintenance loans	(£326m)	(£257m)	£69m
Cost of tuition fee loans	(£423m)	(£361m)	£62m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£3,376m)**	**(£1,371m)**
RAB charge (%)	**4.1%**	**3.5%**	**-0.6pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£48,300**	**(£2,200)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£51,600/£40,600**	**(£2,200)/(£1,500)**

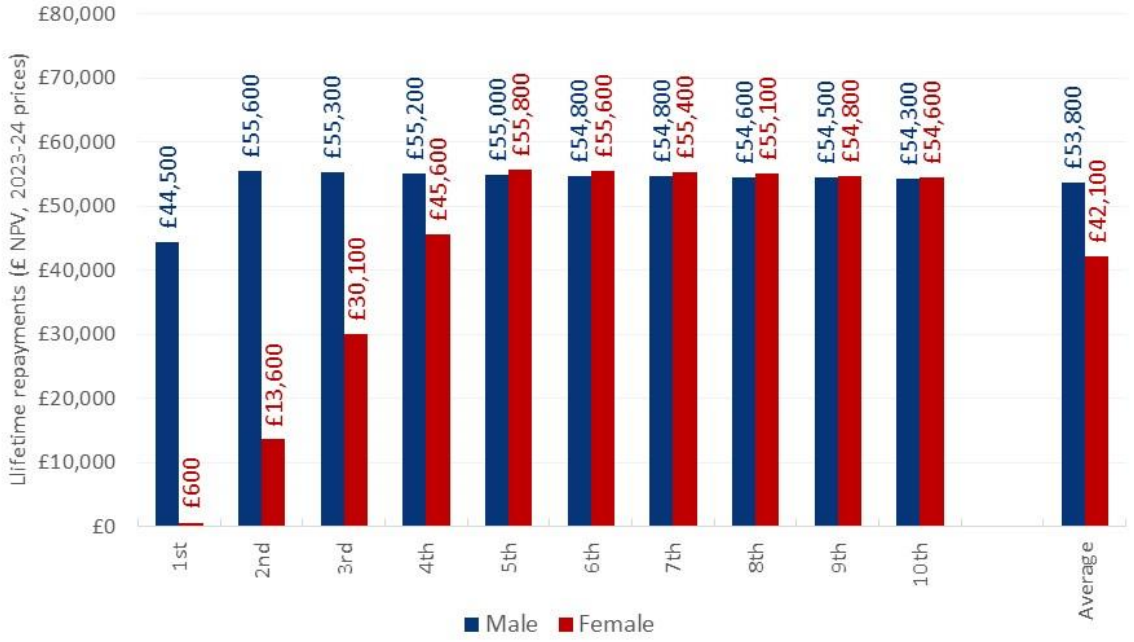
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Under Scenario 2A, the total Exchequer cost of the system per cohort would increase by approximately £1.37bn** (i.e. a smaller cost increase than under Scenarios 1A or 1B). Again, the reduction in cost due to lower loan write-offs (due to the lower maintenance loan outlay) for both fee loans (**£62m**) and maintenance loans (**£69m**) would be more than offset by the additional cost associated with (re-)introducing maintenance grants (**£1.50bn**).
- Here, the RAB charge would decline by **0.6 percentage points**, to **3.5%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would rise to **£2,800** (**+£1,200** compared to the current system).
- **Again, HEIs would be unaffected**.
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£2,200** (to **£48,300**). Average lifetime repayments would decline by **£2,200** for male graduates and by **£1,500** for female graduates.

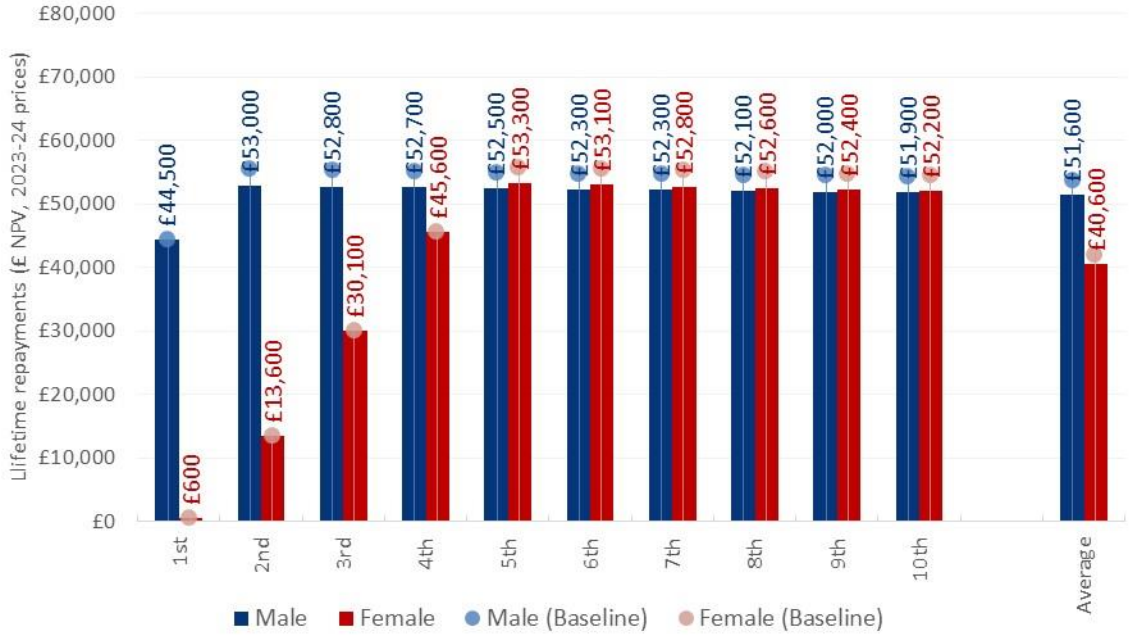
Scenario 2A: Graduate loan repayments

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

Baseline



Scenario 2A: Higher means-tested loans + 'old' grants

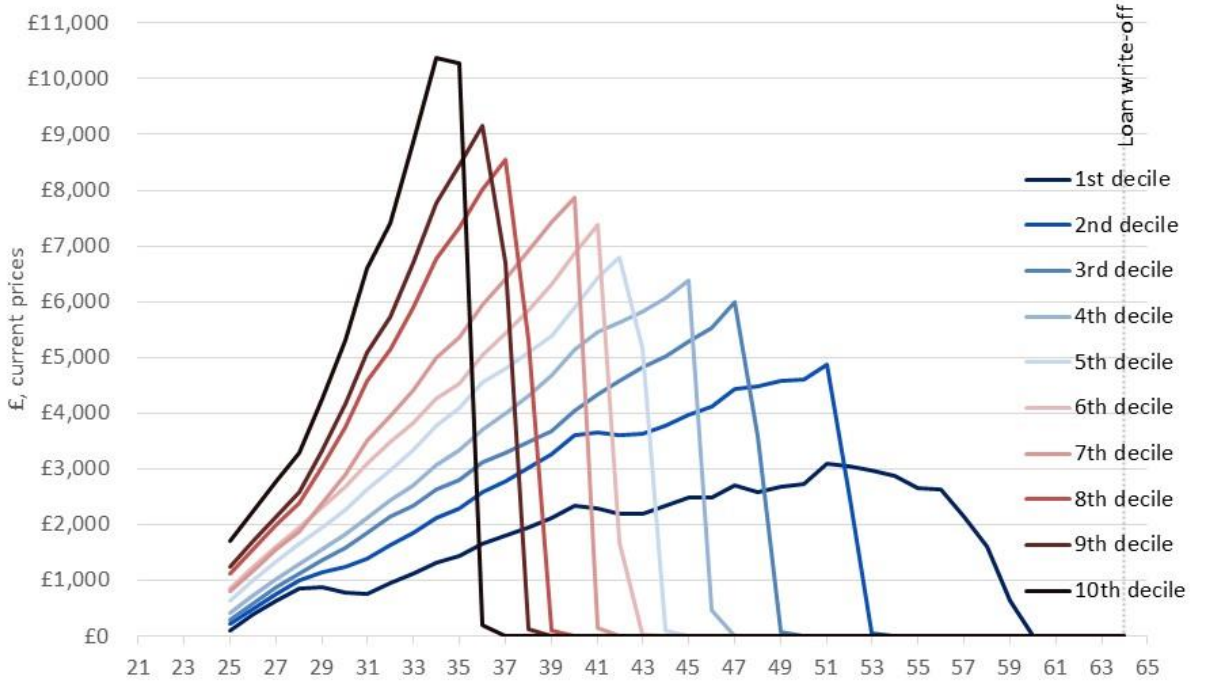


- The impact of the reduction in maintenance loans under Scenario 2A on graduates' loan repayments is broadly similar to Scenarios 1A and 1B.
- Under Scenario 2A, **middle- and high-income graduates would again repay (marginally) *less***. In contrast, **graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be *unaffected* by the lower loan balance**, since they would already be expected to never fully pay off their loan by the end of the repayment period – so their repayments are not affected by the reduction in maintenance loans.

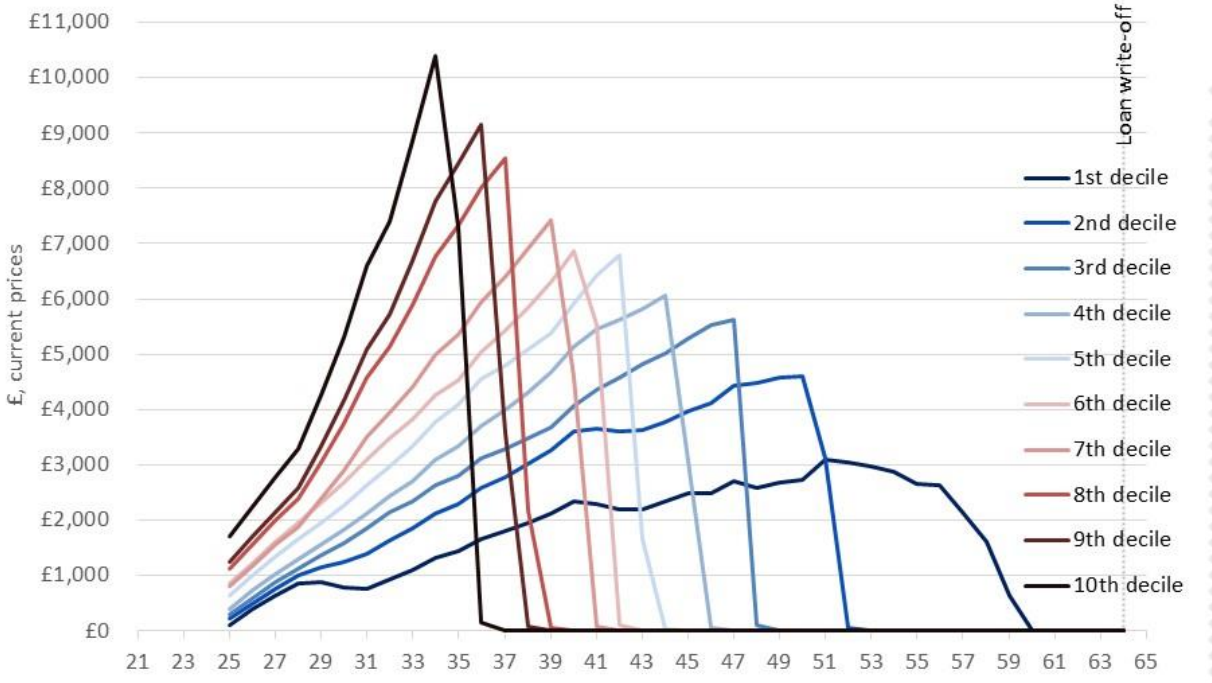
Scenario 2A: Loan repayment profiles (men)

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

Baseline



Scenario 2A: Higher means-tested loans + 'old' grants

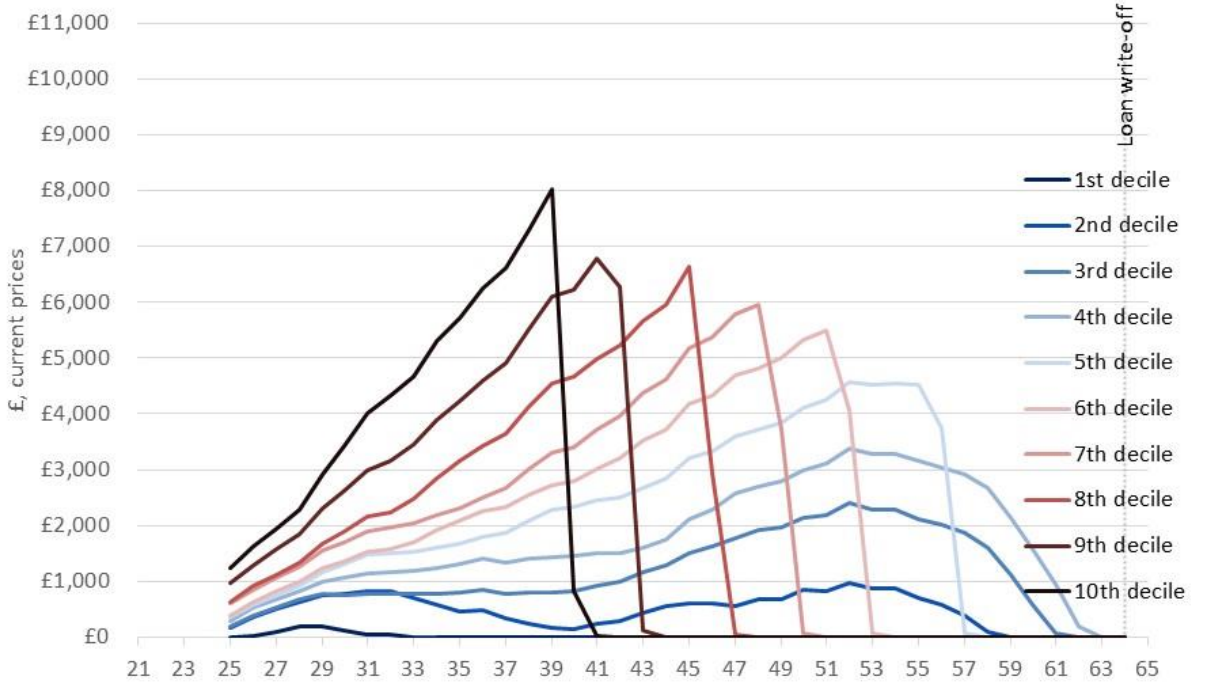


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would again benefit from the lower maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make the same repayments as under the current system.

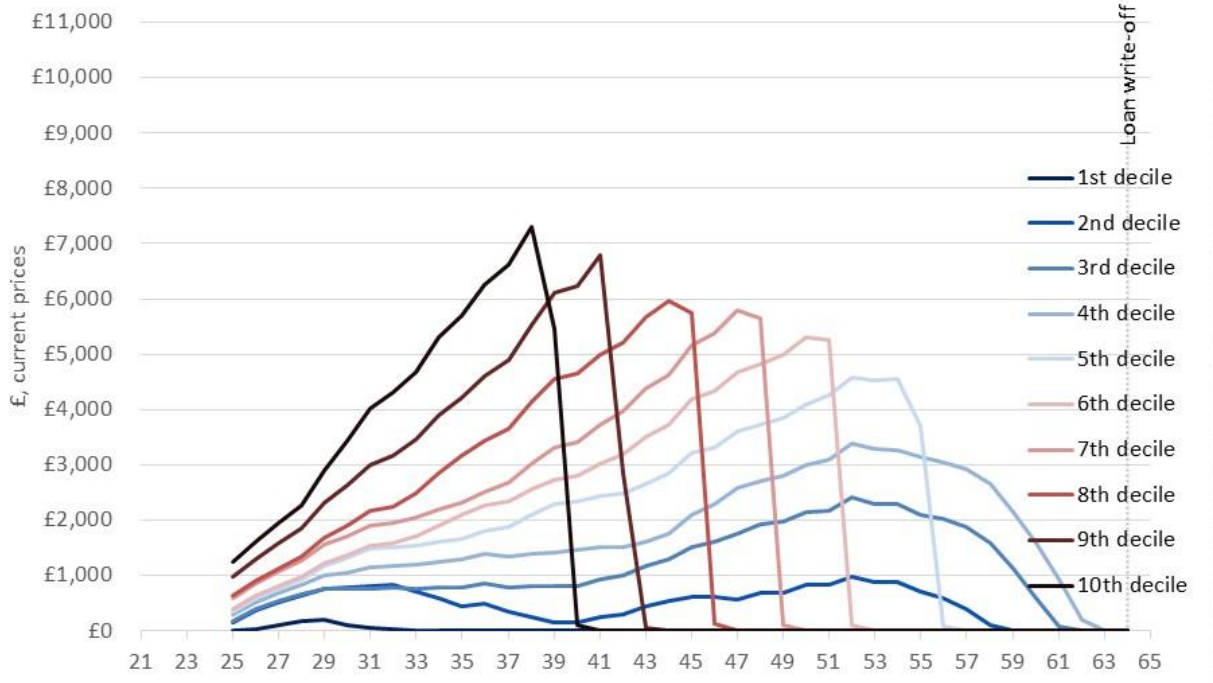
Scenario 2A: Loan repayment profiles (women)

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

Baseline



Scenario 2A: Higher means-tested loans + 'old' grants



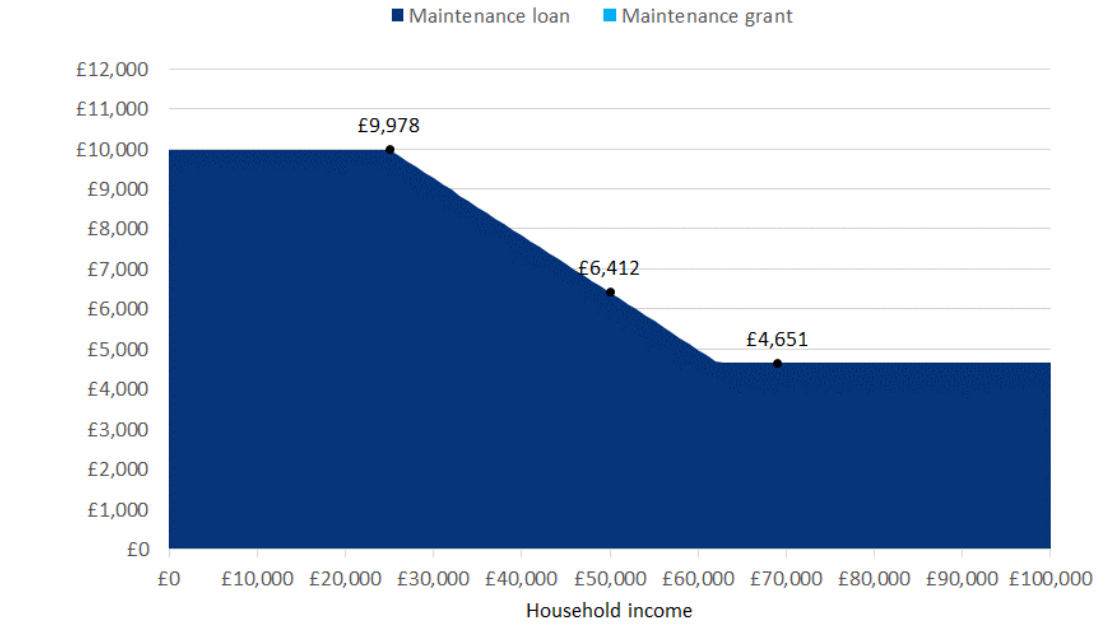
- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would again benefit from the lower maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would make the same repayments as under the current system.

Scenario 2B: Maintenance support

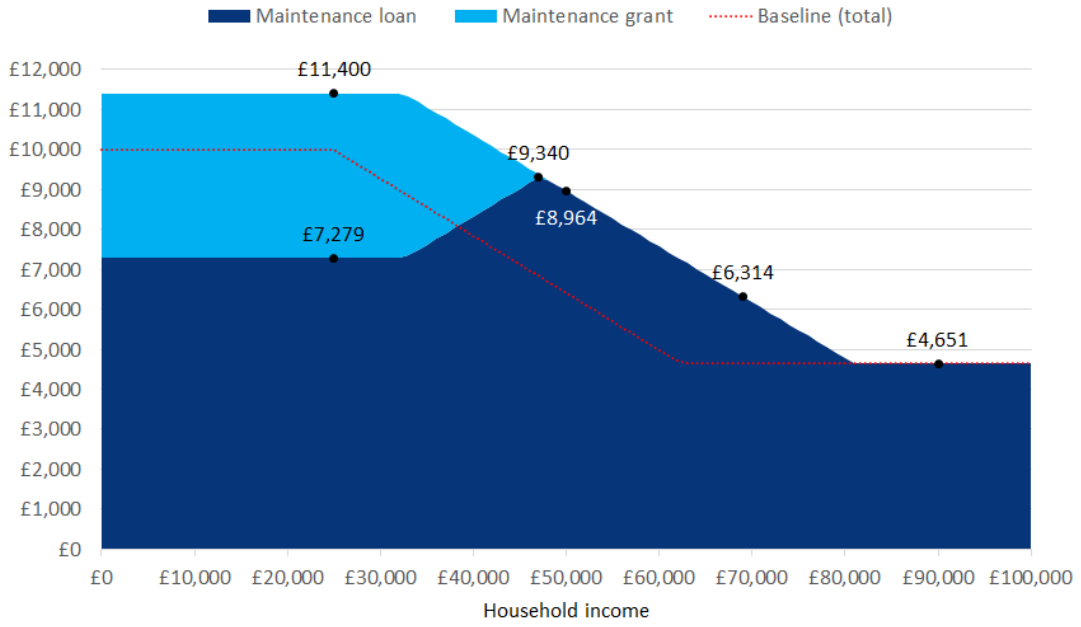
- Scenario 2B again assumes the **same maximum loan and grant levels as under Scenario 2A**, but alongside an **increase in the relevant household income thresholds for eligibility**. Again, the thresholds here are based on the 2016-17 maintenance loan thresholds, adjusted to 2023-24 prices using CPI inflation. The thresholds for tapering between maintenance grants and maintenance loans have been set to ensure that the **total level of funding at each household income level is the same as under Scenario 1B**.
- Hence, under Scenario 2B, LAFHOL students with household income of **£32,535 or below** would receive maintenance funding of **£11,400** (split into a **grant of £4,121** and a **loan of £7,279**), and students with household income of **more than £80,921** would only be eligible for a **loan of £4,651**.

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 2B: Scenario 2A + higher thresholds



Scenario 2B: Total costs for cohort

Scenario 2B: Scenario 2A + higher thresholds

Resource flows (£/£m/%)	Baseline	Scenario 2B	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£1,841m)	(£1,841m)
Cost of maintenance loans	(£326m)	(£292m)	£34m
Cost of tuition fee loans	(£423m)	(£393m)	£30m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£3,783m)**	**(£1,777m)**
RAB charge (%)	**4.1%**	**3.8%**	**-0.3pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£49,400**	**(£1,100)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£52,800/£41,400**	**(£1,000)/(£700)**

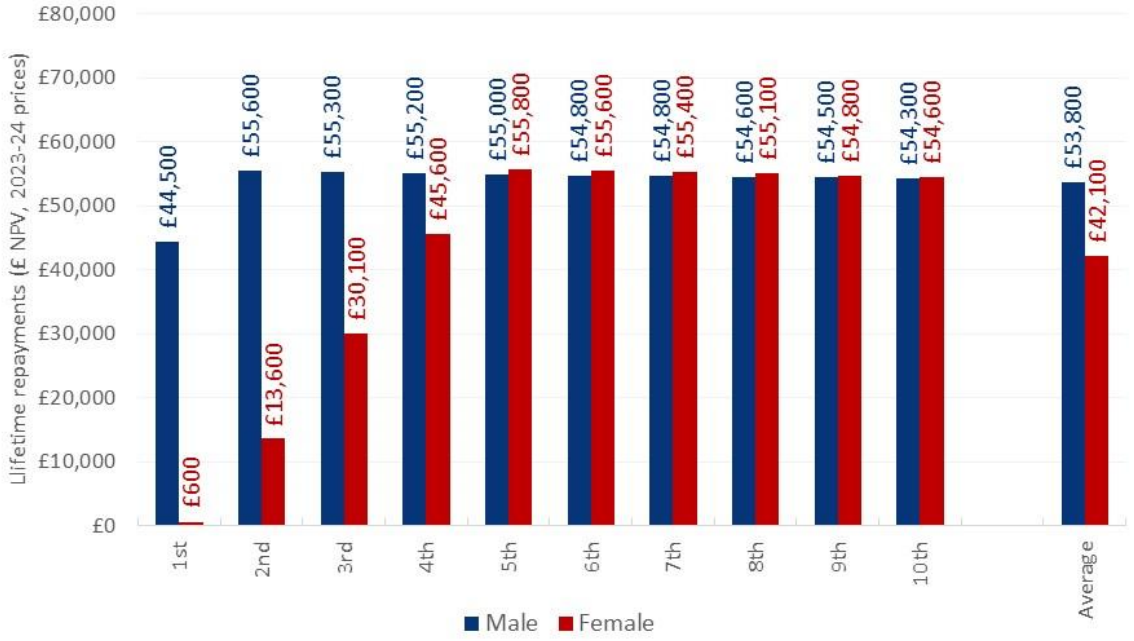
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 2B would increase the Exchequer cost of the system per cohort by approximately £1.78bn**. Again, while there would be lower loan write-offs for both fee loans (**£30m**) and maintenance loans (**£34m**), the incremental costs of the additional maintenance grant funding (**£1.84bn**) would be much larger than these cost savings.
- The RAB charge would decline by **0.3 percentage points**, to **3.8%**. This is slightly larger than the RAB charge under Scenario 2A (**3.5%**), as Scenario 2B would involve a larger maintenance outlay due to the increase in eligibility thresholds.
- The average Exchequer cost per full-time English domiciled student studying in England per year would stand at **£3,200** (**+£1,600** compared to the current system).
- **HEIs would again be unaffected**.
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£1,100** (to **£49,400**), and average lifetime repayments would decline by **£1,000** for male graduates and by **£700** for female graduates.

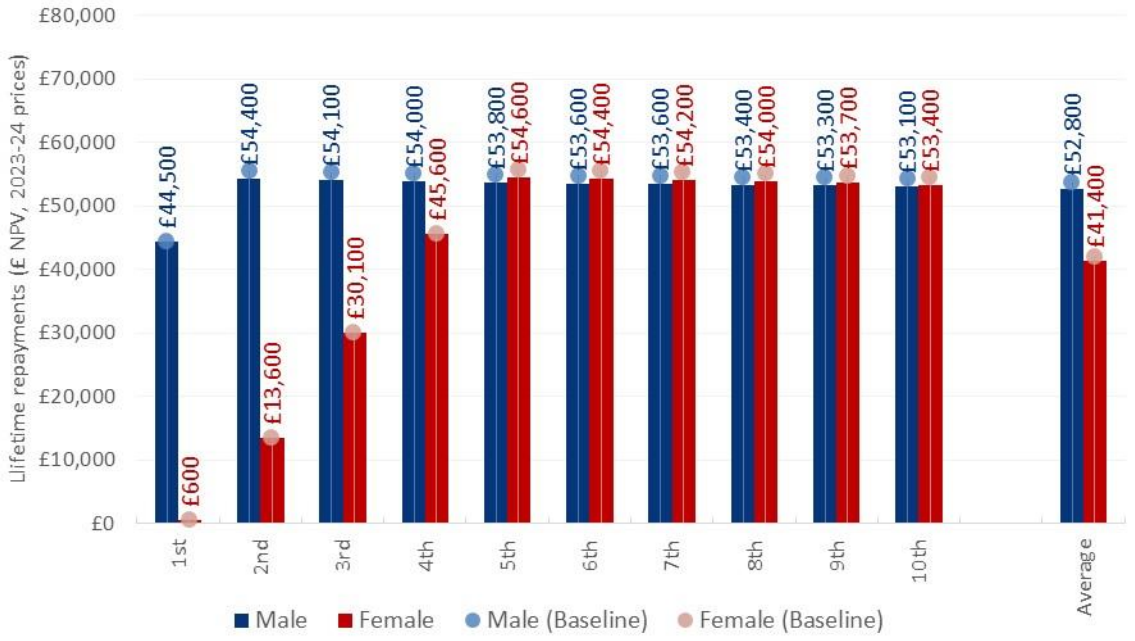
Scenario 2B: Graduate loan repayments

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

Baseline



Scenario 2B: Scenario 2A + higher thresholds

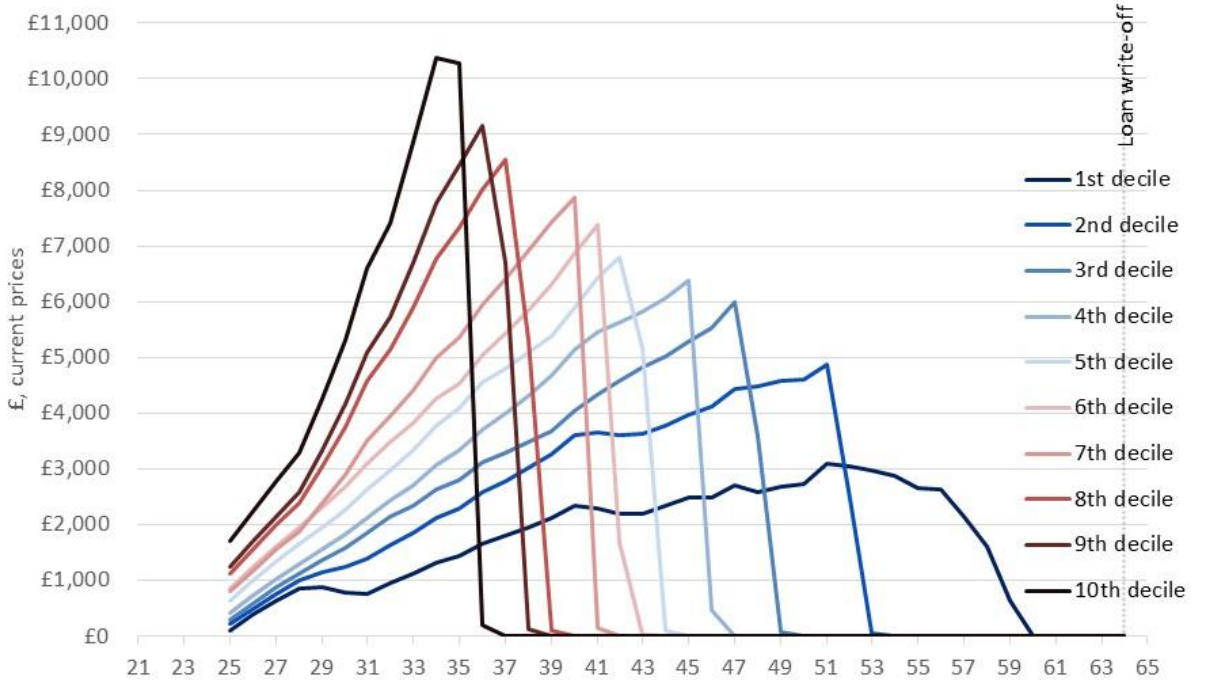


- Under Scenario 2B, **middle- and high-income graduates would make very marginally *lower* loan repayments**, while **graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would again make the same repayments as under the current system**.

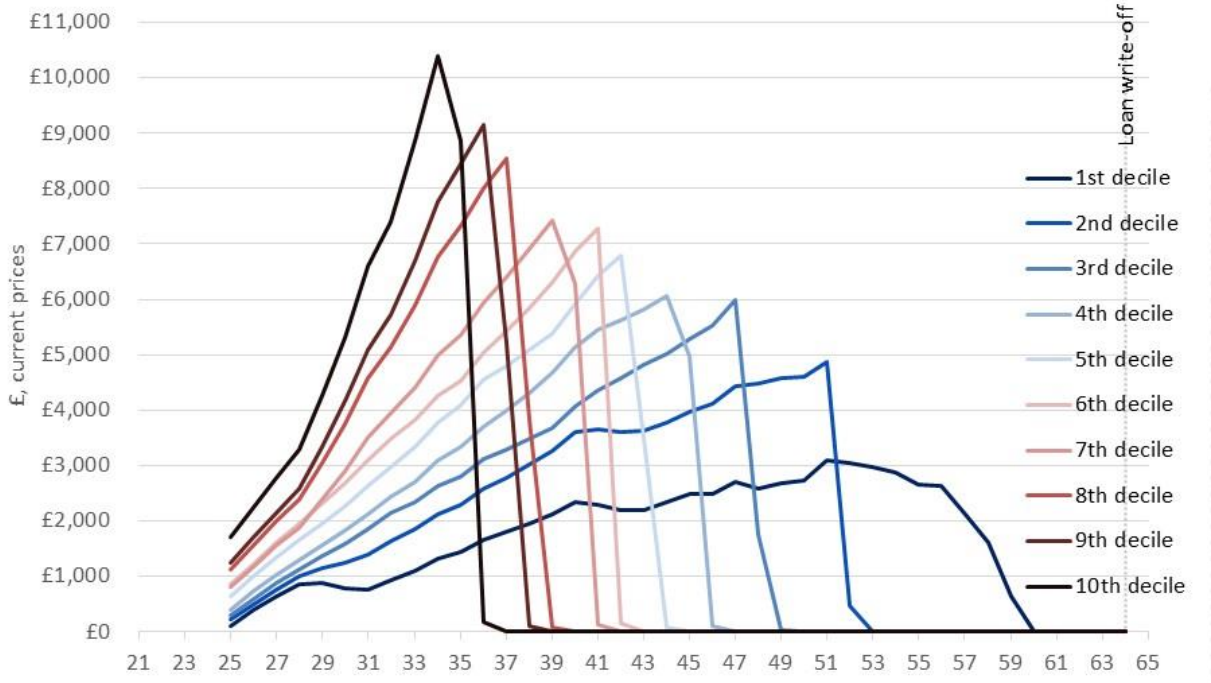
Scenario 2B: Loan repayment profiles (men)

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

Baseline



Scenario 2B: Scenario 2A + higher thresholds

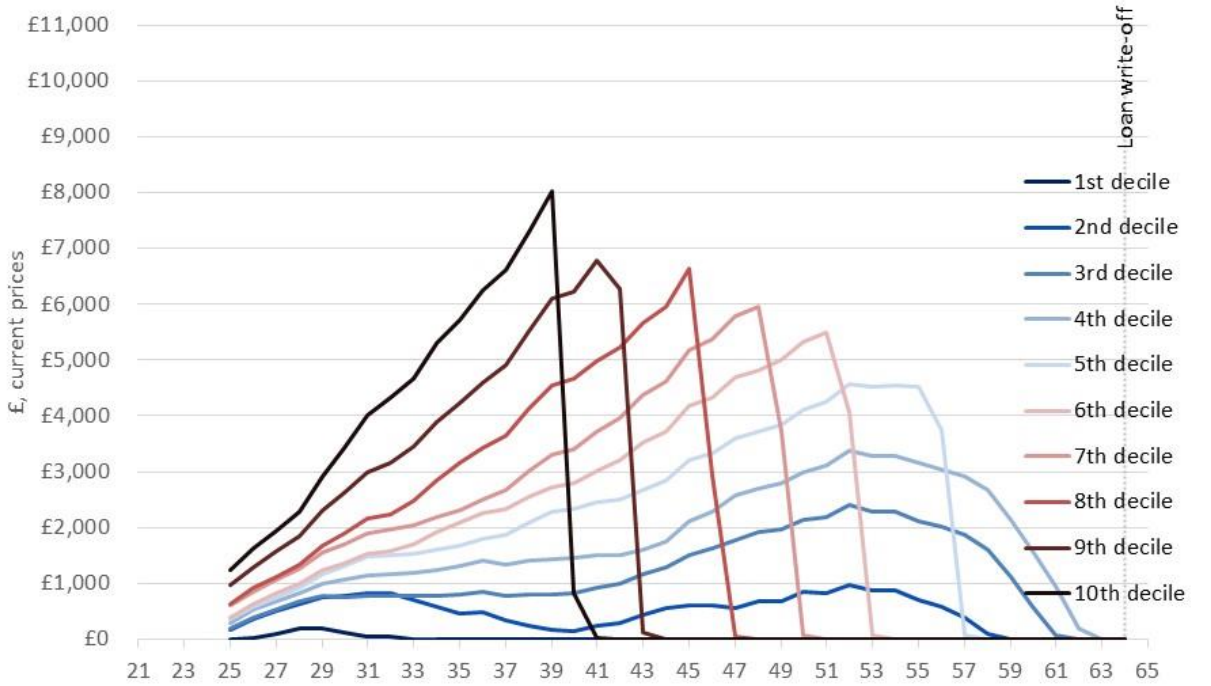


- **Again, middle- and high-earning graduates** (2nd decile and above for male graduates) **would benefit from the lower maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

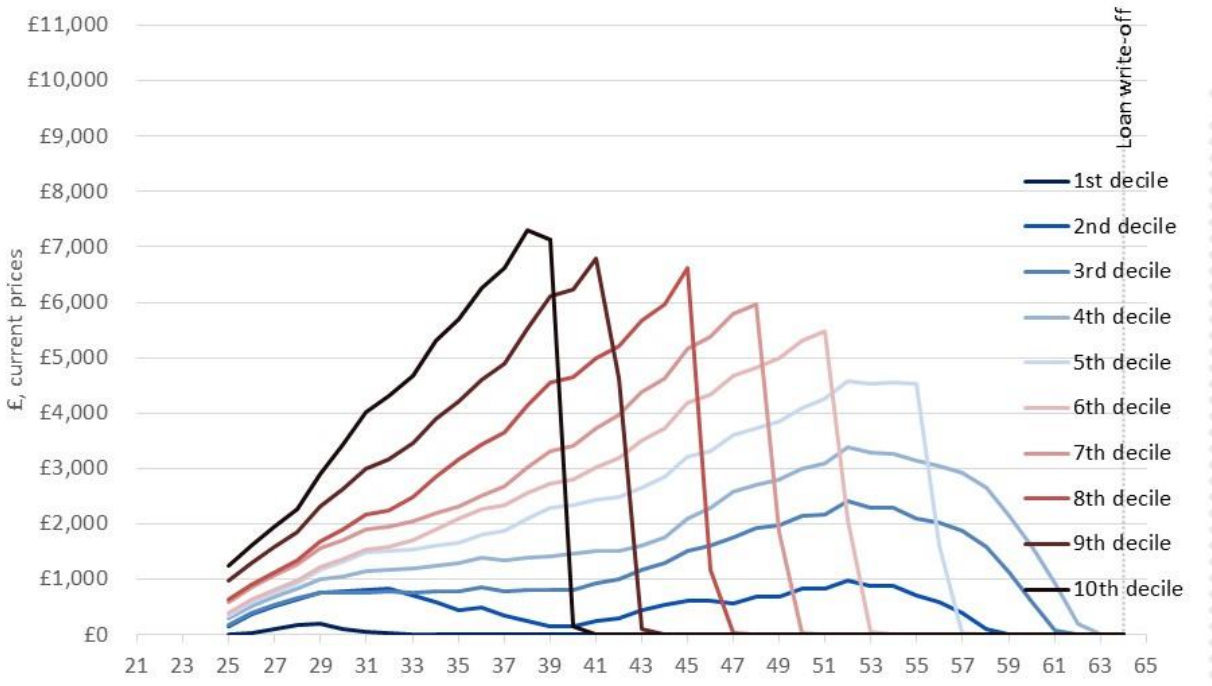
Scenario 2B: Loan repayment profiles (women)

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

Baseline



Scenario 2B: Scenario 2A + higher thresholds



- **Again, middle- and high-earning graduates** (5th decile and above for female graduates) **would benefit from the lower maintenance loans**, since the resulting lower loan outlay would allow them to repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

Scenarios 3A & 3B: Higher support through means-tested loans only

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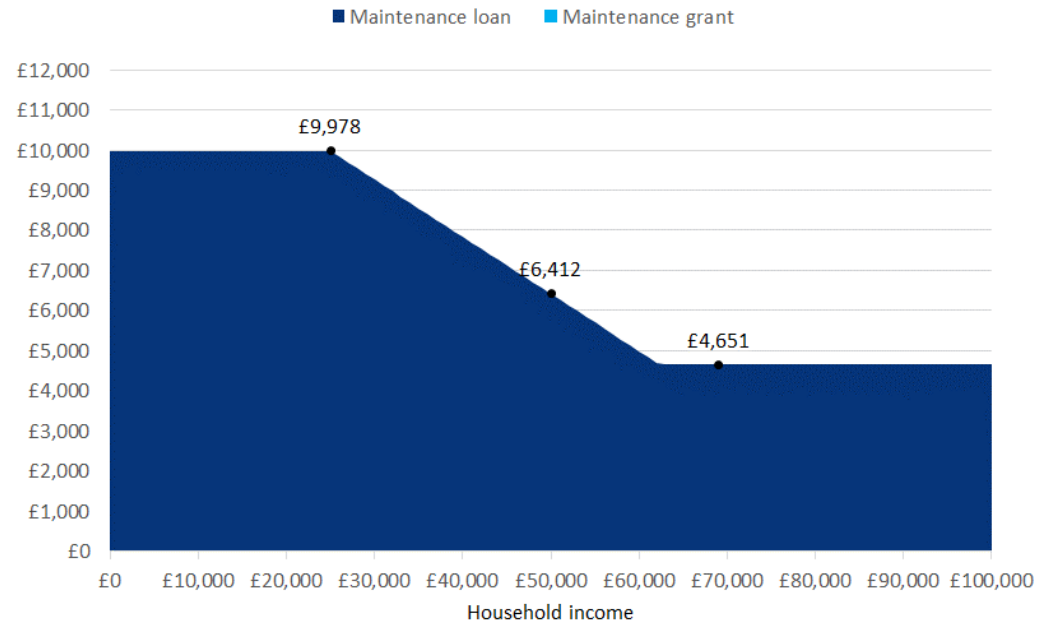
Scenario 3A: Maintenance support

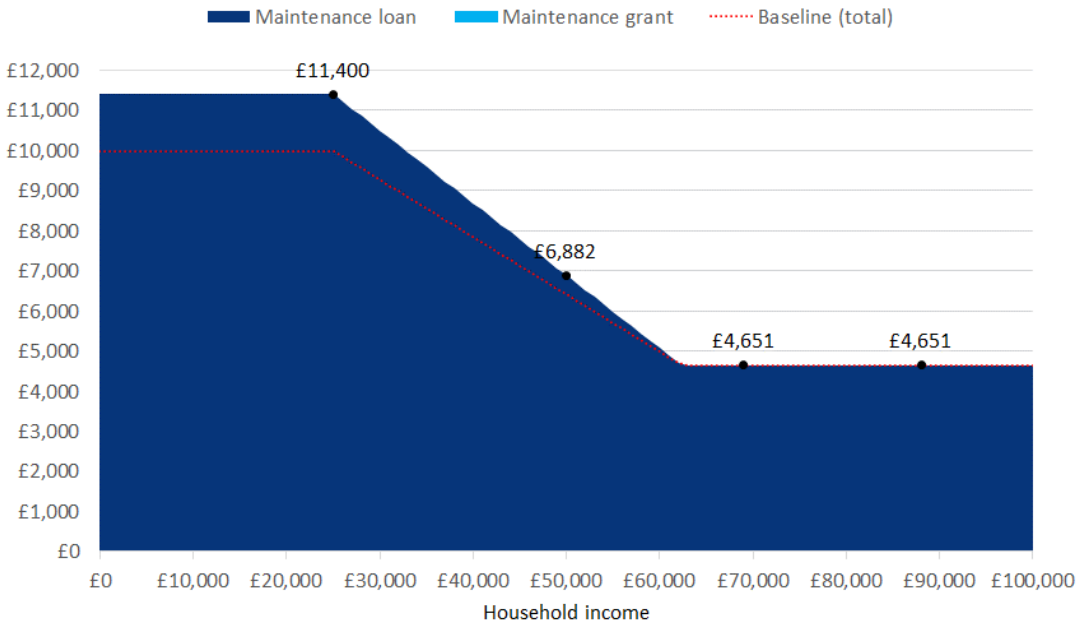
- In Scenario 3A, we also again model an increase in full-time maintenance support to **£11,400** (LAFHOL). However, in contrast to Scenarios 1A to 2B, the **funding would continue to be provided entirely as a loan**, with no maintenance grants.
- In other words, LAFHOL students with household income of **£25,000 or below** would receive a maximum maintenance loan of **£11,400**, tapering to a minimum loan of **£4,651** for students with household income of **more than £62,343**. T**otal maintenance support at each level of household income would therefore again be the same as under Scenarios 1A and 2A**.

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 3A: Higher means-tested loans only



Scenario 3A: Total costs for cohort

Scenario 3A: Higher means-tested loans only

Resource flows (£/£m/%)	Baseline	Scenario 3A	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	-	-
Cost of maintenance loans	(£326m)	(£390m)	(£64m)
Cost of tuition fee loans	(£423m)	(£472m)	(£49m)
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£2,119m)**	**(£113m)**
RAB charge (%)	**4.1%**	**4.5%**	**+0.4pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£52,500**	**£2,000**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£55,800/£43,400**	**£2,000/£1,300**

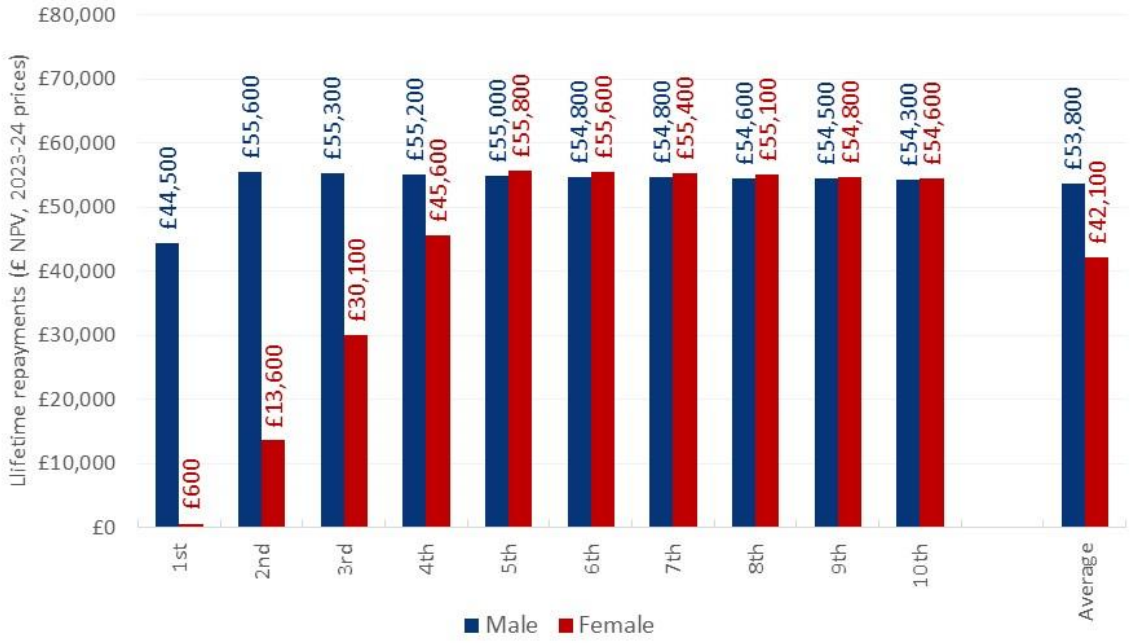
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 3A would result in an increase in the total Exchequer cost of the system of £113 million per cohort**. In contrast to Scenarios 1A to 2B, there would be slightly *larger* loan write-offs for both fee loans (**£49m**) and maintenance loans (**£64m**), due to the increase in maintenance loans under this scenario (while Scenarios 1A to 2B instead all involve a partial replacement of maintenance loans with grants). Given the lack of maintenance grants, this option is, therefore, much less costly to the Exchequer than Scenarios 1A to 2B.
- Driven by the larger loan outlay, the RAB charge would *increase* by **0.4 percentage points**, to **4.5%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would stand at approximately **£1,700** (**+£100** compared to the current system).
- **HEIs would again be unaffected**.
- The average debt on graduation (per full-time first degree student studying in England) would increase by **£2,000** (to **£52,500**). Average lifetime repayments would increase by **£2,000** for male graduates and by **£1,300** for female graduates.

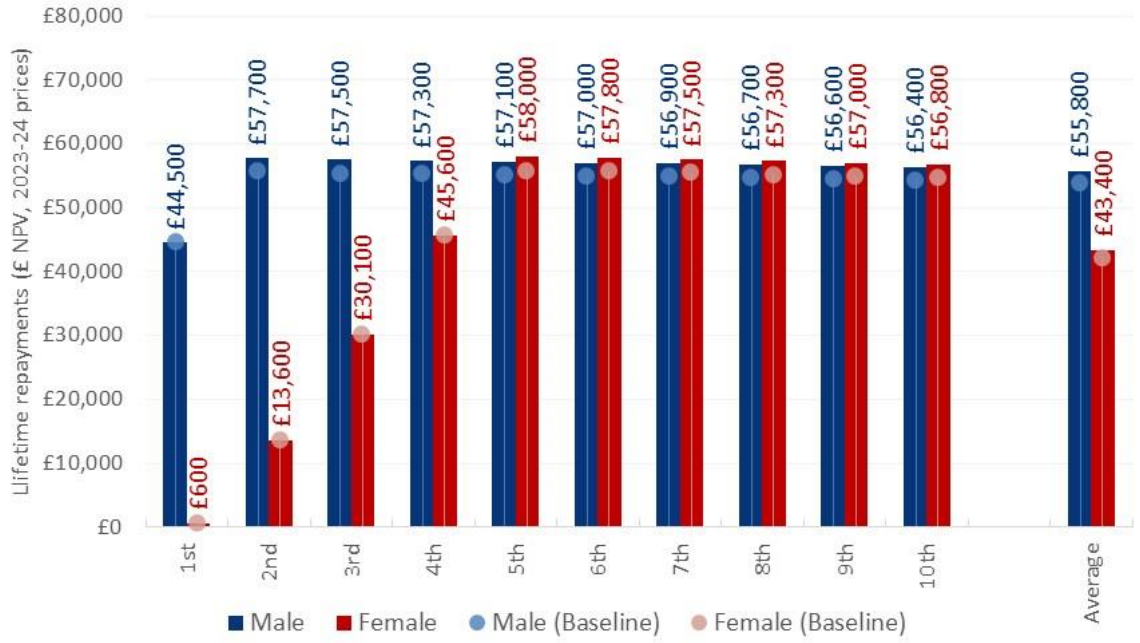
Scenario 3A: Graduate loan repayments

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

Baseline



Scenario 3A: Higher means-tested loans only

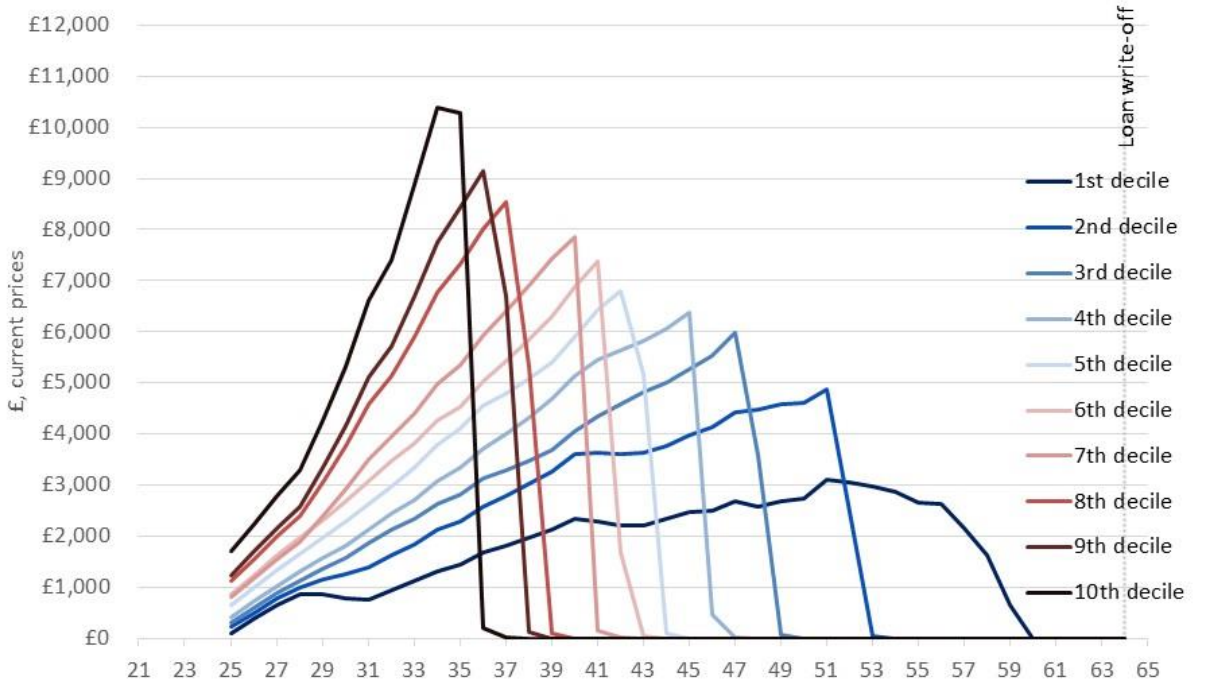


- Due to the higher maintenance loan outlay, in contrast to Scenarios 1A to 2B, **Scenario 3A would result in a (small) *increase* in lifetime loan repayments for middle- and high-income graduates**, while **graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be *unaffected* by the increased maintenance loans** as they would already be expected to never fully pay off their loan by the end of the repayment period. The limited impact of increasing maintenance loans on the lowest earning graduates is a widely misunderstood aspect of the HE fees and funding system.

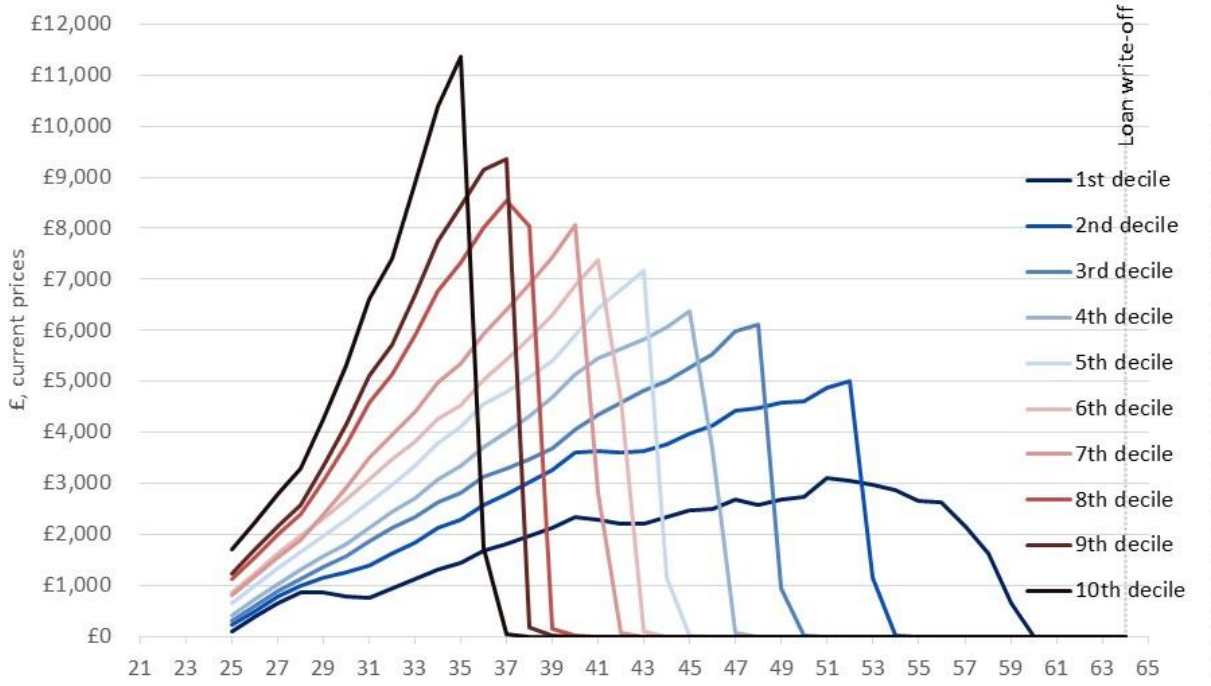
Scenario 3A: Loan repayment profiles (men)

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

Baseline



Scenario 3A: Higher means-tested loans only

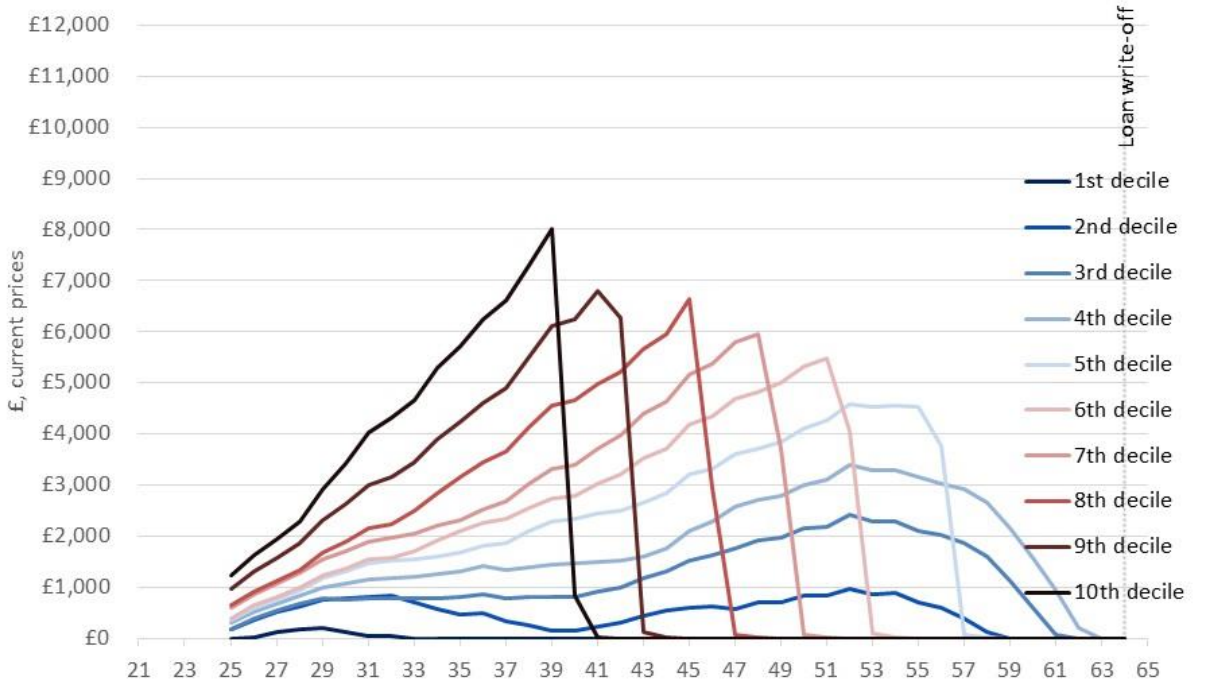


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would repay (slightly) more due to the increase in maintenance loans**, since the larger loan outlay implies that they repay their loans more slowly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would again make the same repayments as under the current system.

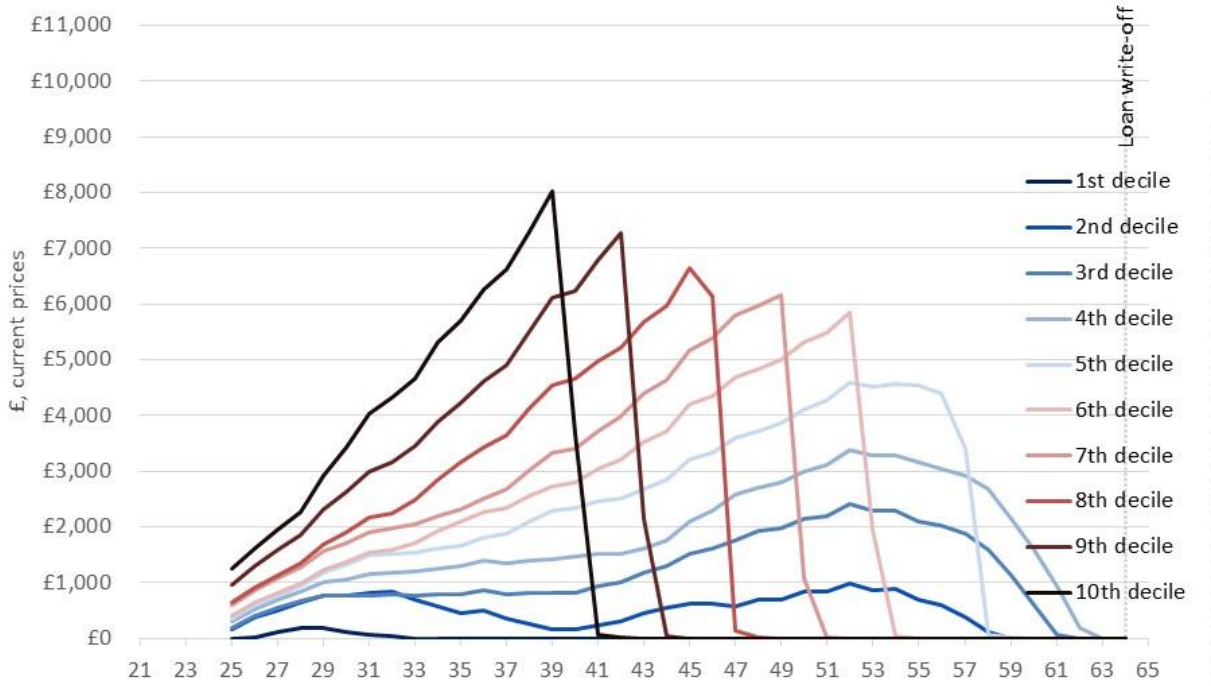
Scenario 3A: Loan repayment profiles (women)

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

Baseline



Scenario 3A: Higher means-tested loans only



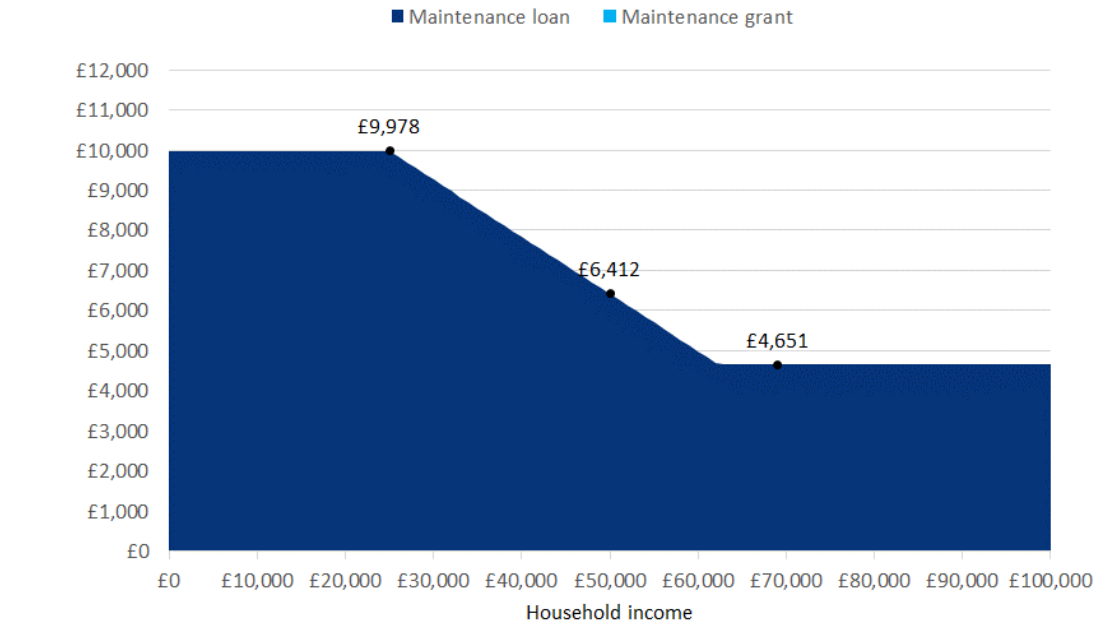
- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would repay (slightly) more due to the increase in maintenance loans**, since the larger loan outlay implies that they repay their loans more slowly.
- However, **graduates at the bottom of the earnings distribution** (who are currently *not* repaying their entire loans) would again make the same repayments as under the current system.

Scenario 3B: Maintenance support

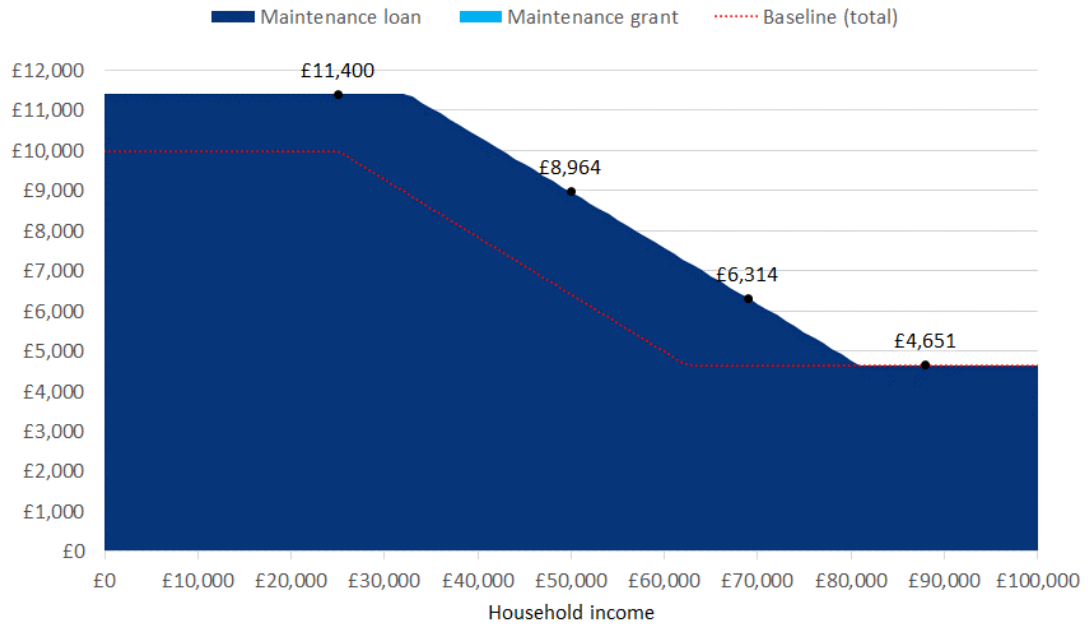
- Scenario 3B again involves the **same maximum loan levels as Scenario 3A**, but alongside the above-described **increase in the relevant household income thresholds for eligibility** (using 2016-17 maintenance loan thresholds adjusted to 2023-24 prices). Again, this results in the **same total level of funding at each household income level as under Scenarios 1B and 2B**.
- Hence, under Scenario 3B, LAFHOL students with household income of **£32,535 or below** would receive the maximum loan of **£11,400**, and students with household income of **more than £80,921** would only be eligible for the minimum loan of **£4,651**.

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 3B: Scenario 3A + higher thresholds



Scenario 3B: Total costs for cohort

Scenario 3B: Scenario 3A + higher thresholds

Resource flows (£/£m/%)	Baseline	Scenario 3B	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	-	-
Cost of maintenance loans	(£326m)	(£462m)	(£136m)
Cost of tuition fee loans	(£423m)	(£520m)	(£98m)
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£2,239m)**	**(£233m)**
RAB charge (%)	**4.1%**	**5.0%**	**+0.9pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£54,500**	**£4,000**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£57,900/£44,800**	**£4,100/£2,700**

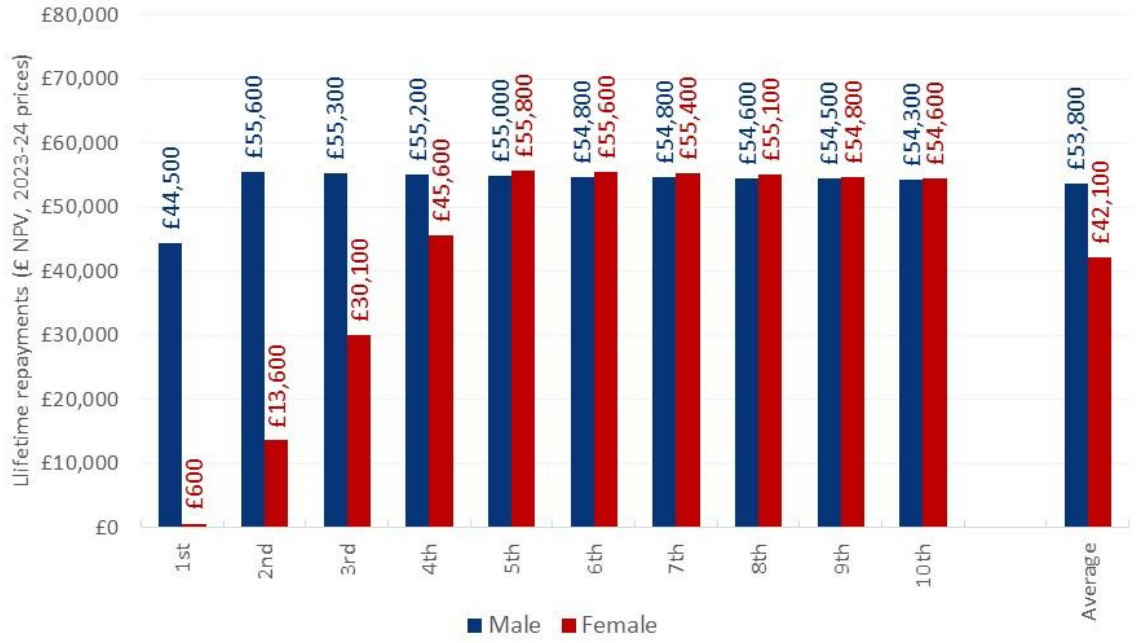
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 3B would increase the Exchequer cost of the system by approximately £223 million per cohort**, again driven by larger loan write-offs for fee loans (**£98m**) and maintenance loans (**£136m**).
- The higher maintenance loans would result in an increase in the RAB charge by **0.9 percentage points**, to **5.0%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would rise to **£1,800** (**+£200** compared to the current system).
- **HEIs would again be unaffected**.
- The average debt on graduation (per full-time first degree student studying in England) would increase by **£4,000** (to **£54,500**) – i.e. a larger increase than under Scenario 3A (due to the increased eligibility for maintenance loans here). Average lifetime repayments would increase by **£4,100** for male graduates and by **£2,700** for female graduates.

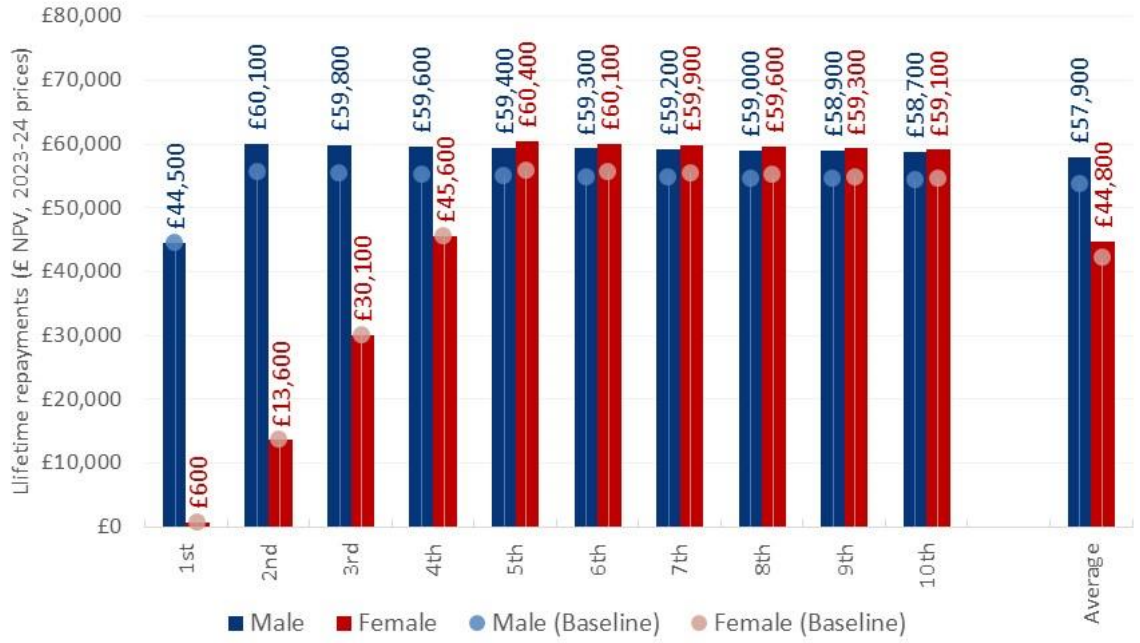
Scenario 3B: Graduate loan repayments

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

Baseline



Scenario 3B: Scenario 3A + higher thresholds

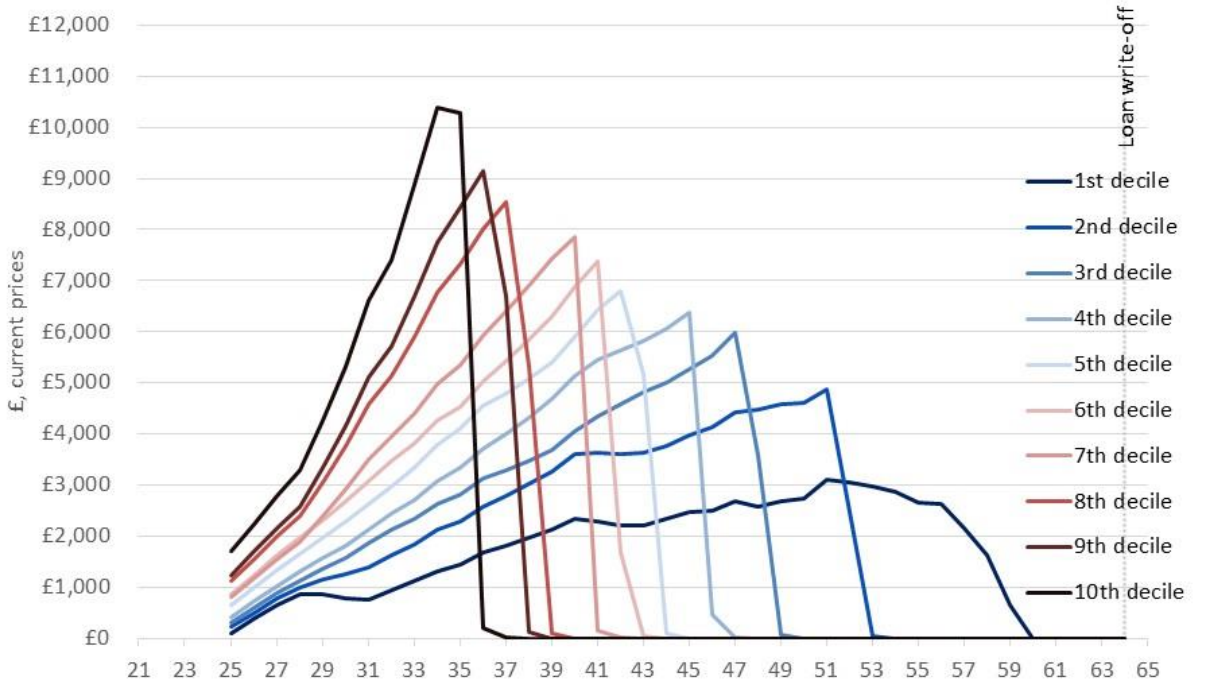


- Similar to Scenario 3A, under Scenario 3B, **middle- and high-income graduates would make somewhat *higher* loan repayments**, while **graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be *unaffected* by the higher maintenance loans**.

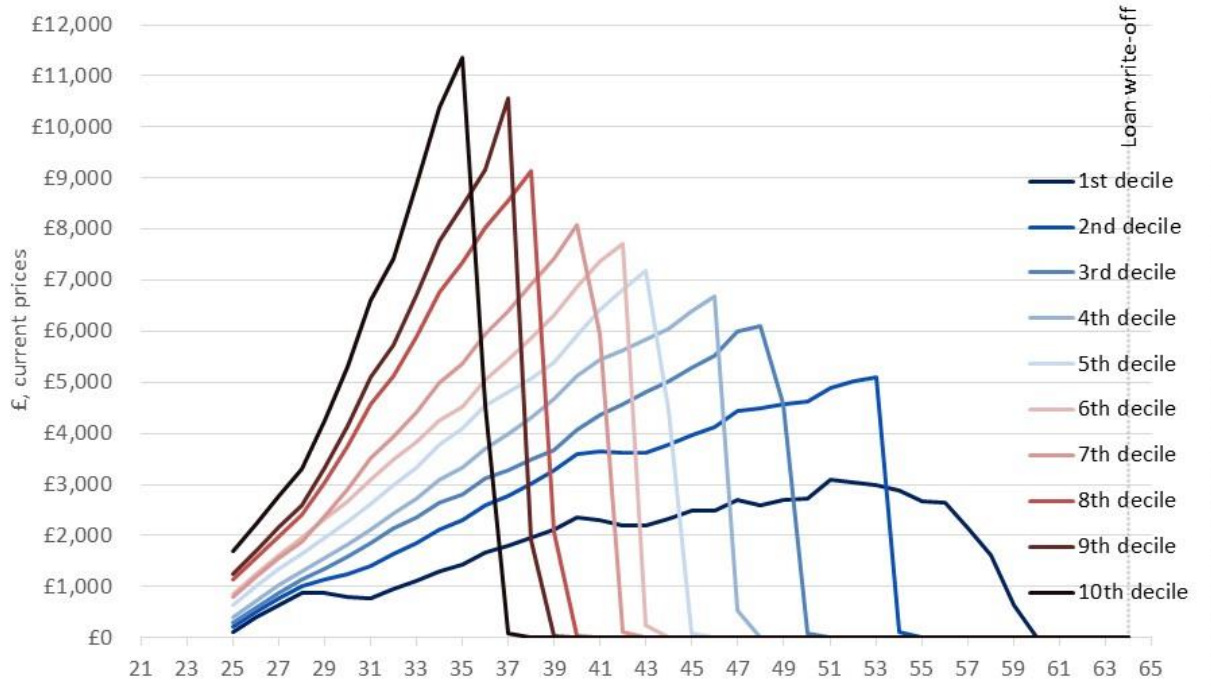
Scenario 3B: Loan repayment profiles (men)

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

Baseline



Scenario 3B: Scenario 3A + higher thresholds

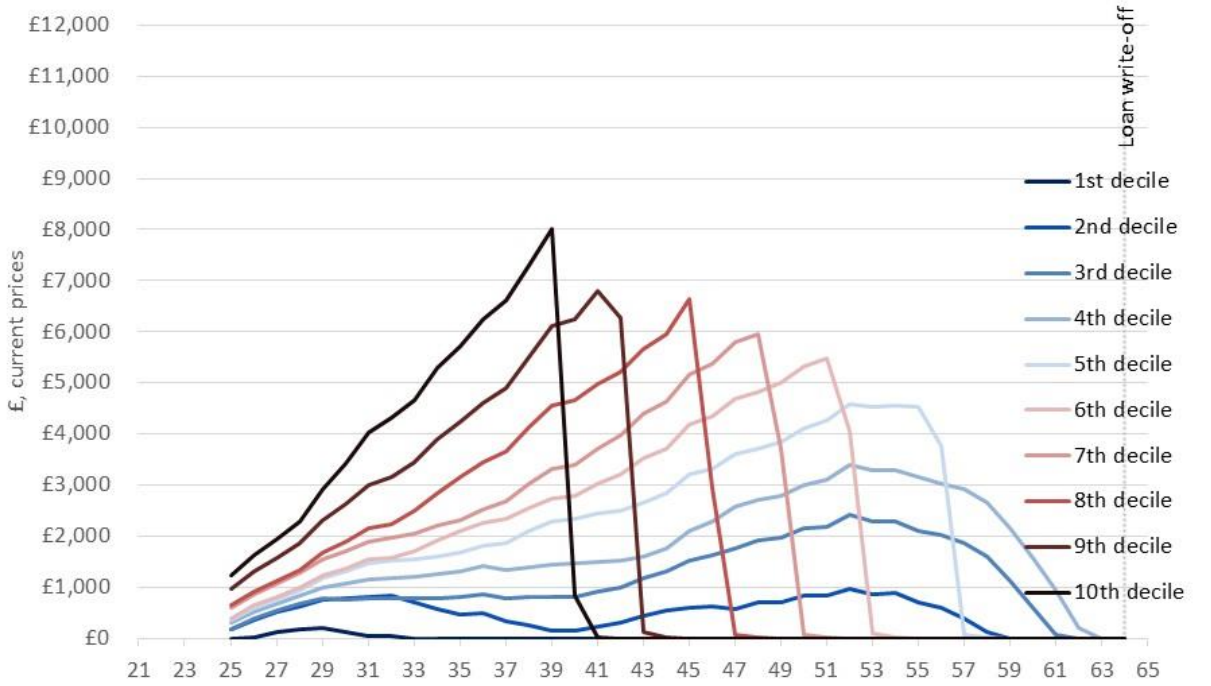


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would repay *more* due to the increase in maintenance loans**, since the larger loan outlay implies that they repay their loans more slowly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

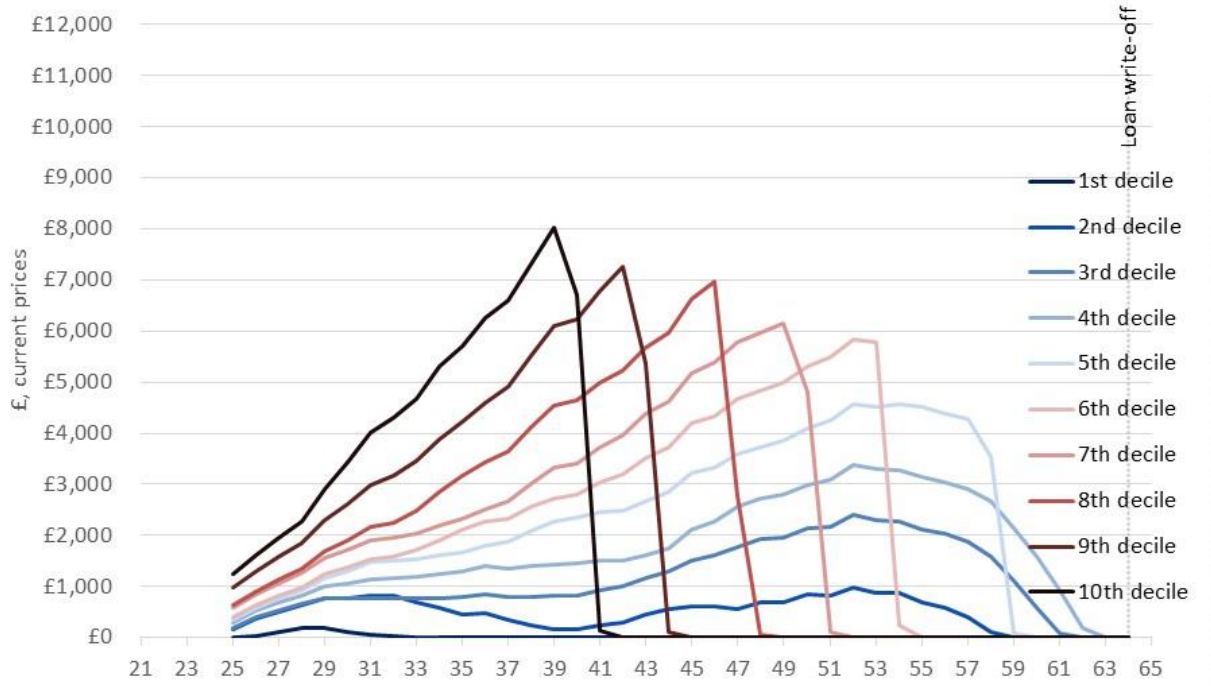
Scenario 3B: Loan repayment profiles (women)

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

Baseline



Scenario 3B: Scenario 3A + higher thresholds



- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would repay *more* due to the increase in maintenance loans**, since the larger loan outlay implies that they repay their loans more slowly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

Scenarios 4A & 4B: No change to total support, but re-introduction of ‘old’ maintenance grants

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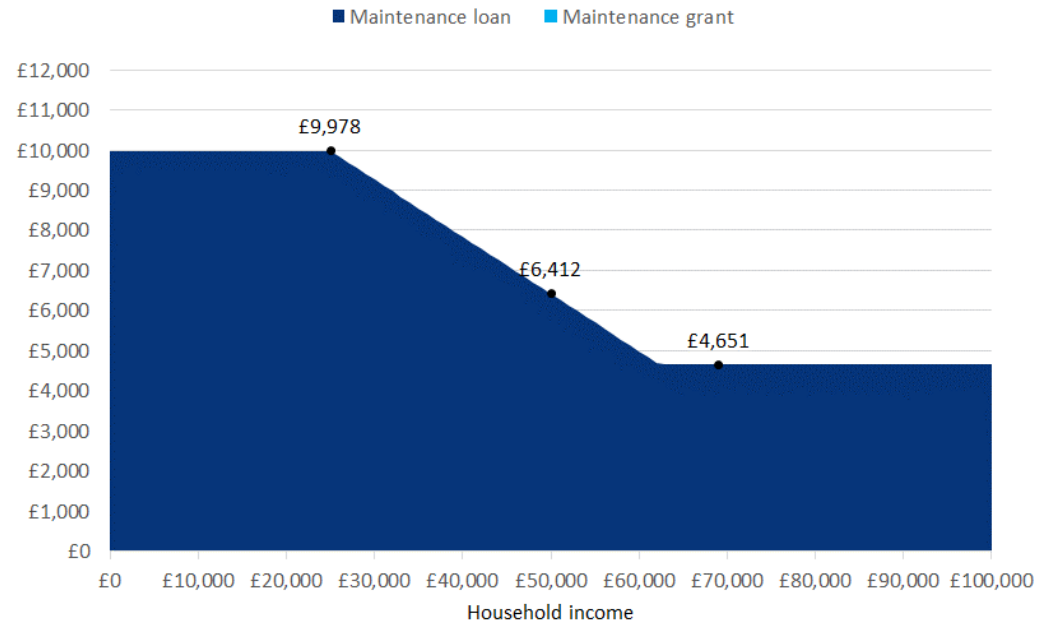
Scenario 4A: Maintenance support

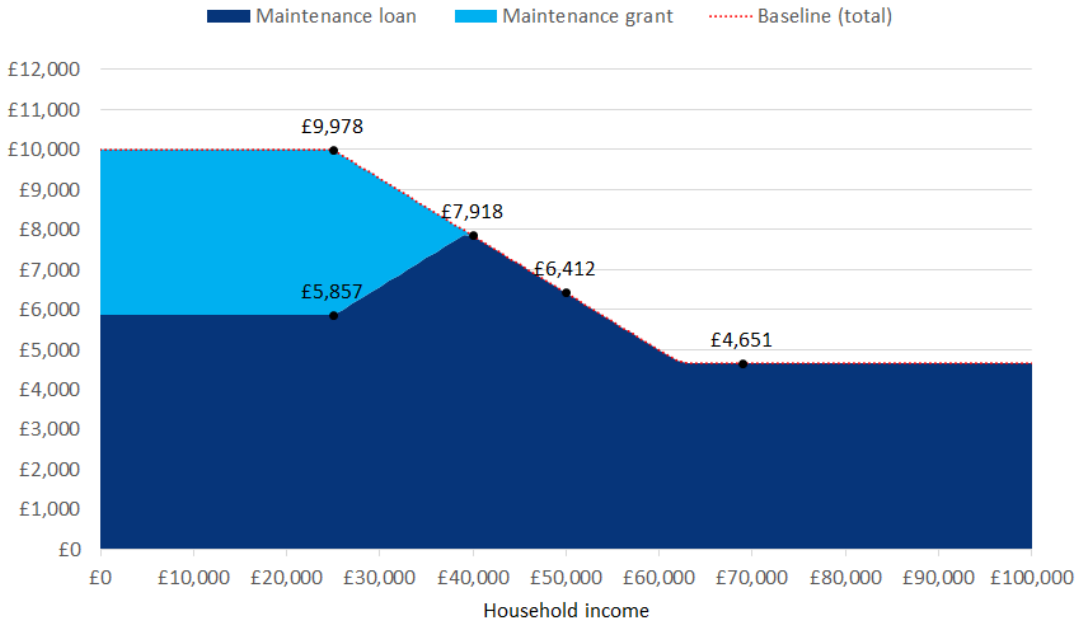
- In contrast to all of the above options, Scenario 4A assumes **no change to the total maximum maintenance funding available** (i.e. total maximum support is the **same as under the current system – and much lower than under Scenarios 1A to 3B**). However, compared to the loans-only Baseline system, Scenario 4A would involve the **re-introduction of the 'old' system of maintenance grants to partially replace the current level of maintenance loans**.
- Similar to Scenario 2A, Scenario 4A would involve **re-introducing the current maintenance grant levels available to *continuing* English domiciled students who entered HE prior to 2016-17**, and a corresponding **reduction in maintenance loans so that the total level of maintenance funding is the same as in the Baseline**[1]. LAFHOL students with household income of **£25,000 or below** would thus receive maintenance funding of **£9,978**, split into a **grant of £4,121** and a **loan of £5,857**. Students with household income of **more than £62,343** would again only be eligible for a **loan of £4,651** (and no grant).

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 4A: Same total with means-tested loans + 'old' grants



[1] Here, while we assume the same maximum maintenance grants available as for continuing students who started their qualifications prior to 2016-17, we again assume different tapers and household income thresholds associated with these grants (and loans) compared to the relevant tapers and thresholds applied to these continuing students, to ensure that the total level of maintenance funding at each level of household income is the same as under the Baseline. Further note that this results in somewhat different thresholds and tapers as compared to Scenario 2A.

Scenario 4A: Total costs for cohort

Scenario 4A: Same total with means-tested loans + 'old' grants

Resource flows (£/£m/%)	Baseline	Scenario 4A	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£1,559m)	(£1,559m)
Cost of maintenance loans	(£326m)	(£198m)	£129m
Cost of tuition fee loans	(£423m)	(£297m)	£126m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£3,310m)**	**(£1,305m)**
RAB charge (%)	**4.1%**	**2.9%**	**-1.2pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	-
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£46,200**	**(£4,300)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£49,500/£39,200**	**(£4,300)/(£2,900)**

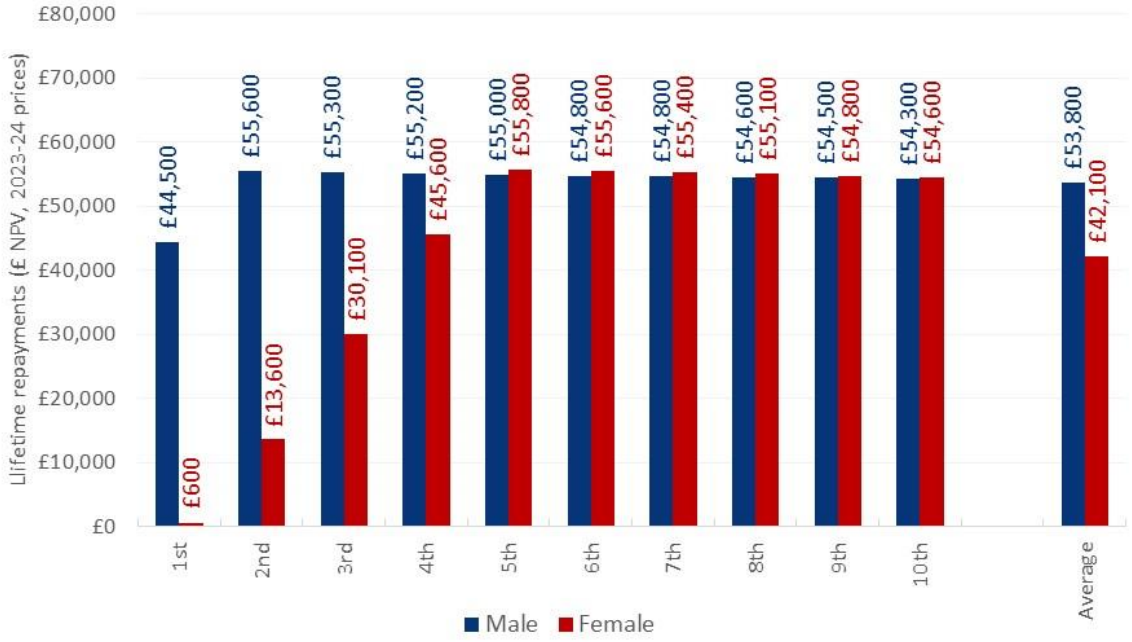
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Under Scenario 4A, the total Exchequer cost of the system per cohort would increase by approximately £1.31bn**. While there would be lower loan write-offs (for both fee loans (**£126m**) and maintenance loans (**£129m**)) due to the lower maintenance loan outlay, as under Scenarios 1A to 2B, there would again be a significant incremental cost associated with the additional maintenance grant funding (**£1.56bn**).
- As a result of the lower loan outlay, the RAB charge would decline by **1.2 percentage points**, to **2.9%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would stand at approximately **£2,800** (**+£1,200** compared to the current system).
- **HEIs would again be unaffected**.
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£4,300** (to **£46,200**). Average lifetime repayments would decline by **£4,300** for male graduates and by **£2,900** for female graduates.

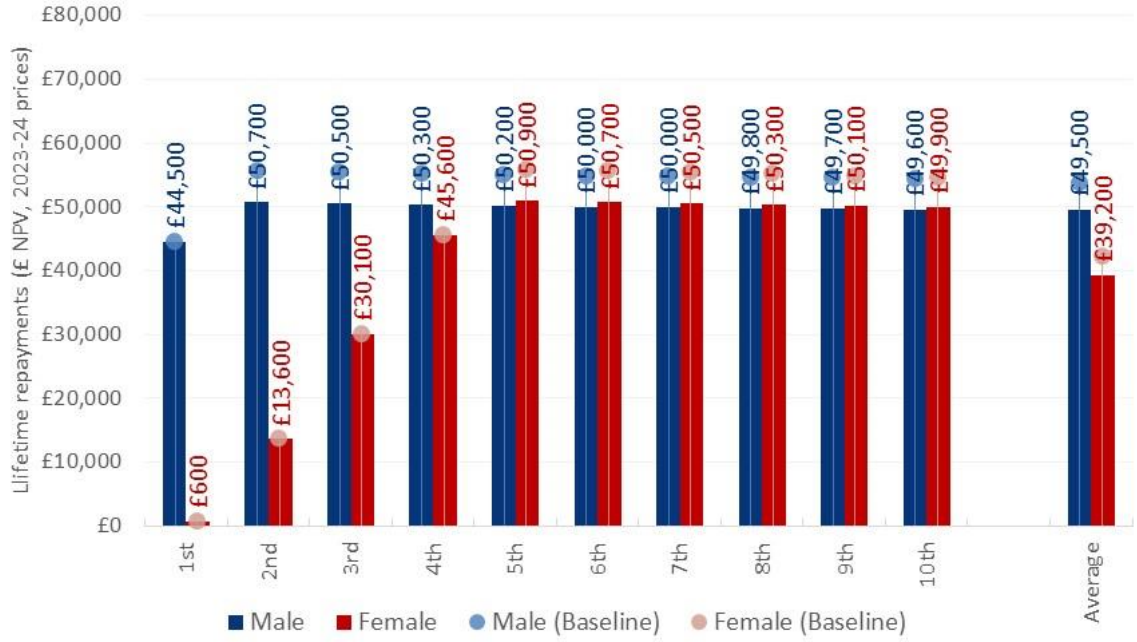
Scenario 4A: Graduate loan repayments

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

Baseline



Scenario 4A: Same total with means-tested loans + 'old' grants

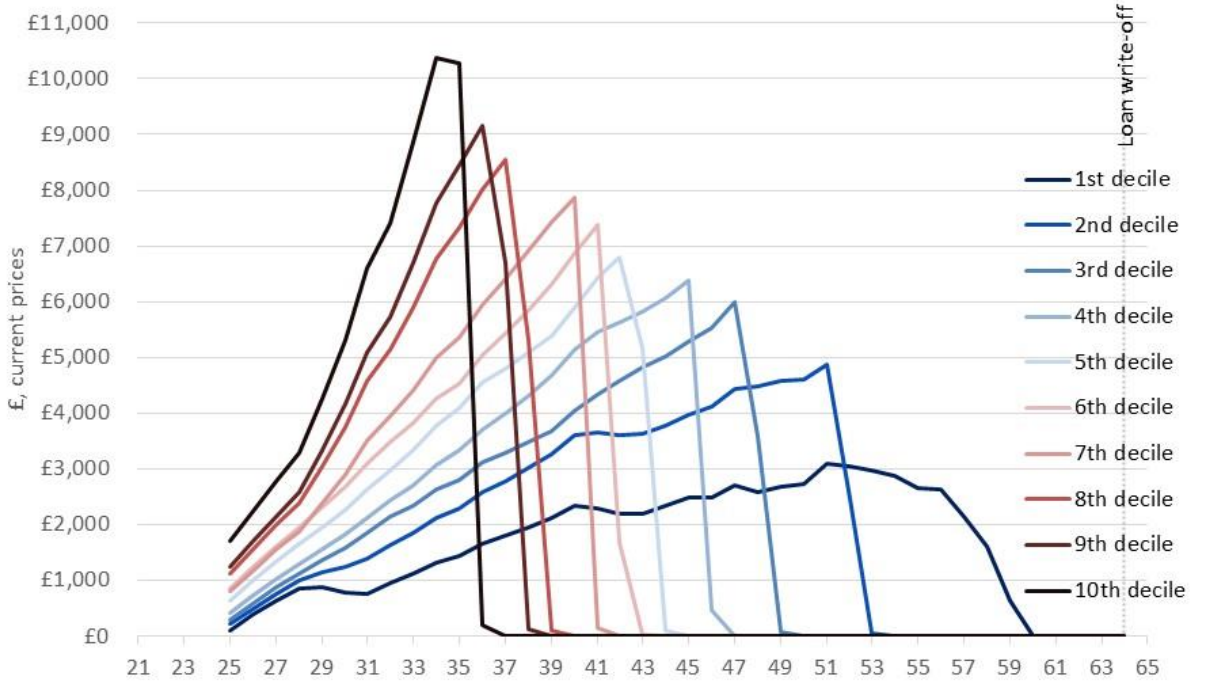


- Similar to Scenarios 1A to 2B, under Scenario 4A, **middle- and high-income graduates would make *lower* loan repayments (by approximately £4,000-£5,000 in each instance)**, and **graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be expected to make the same repayments as under the current system**.

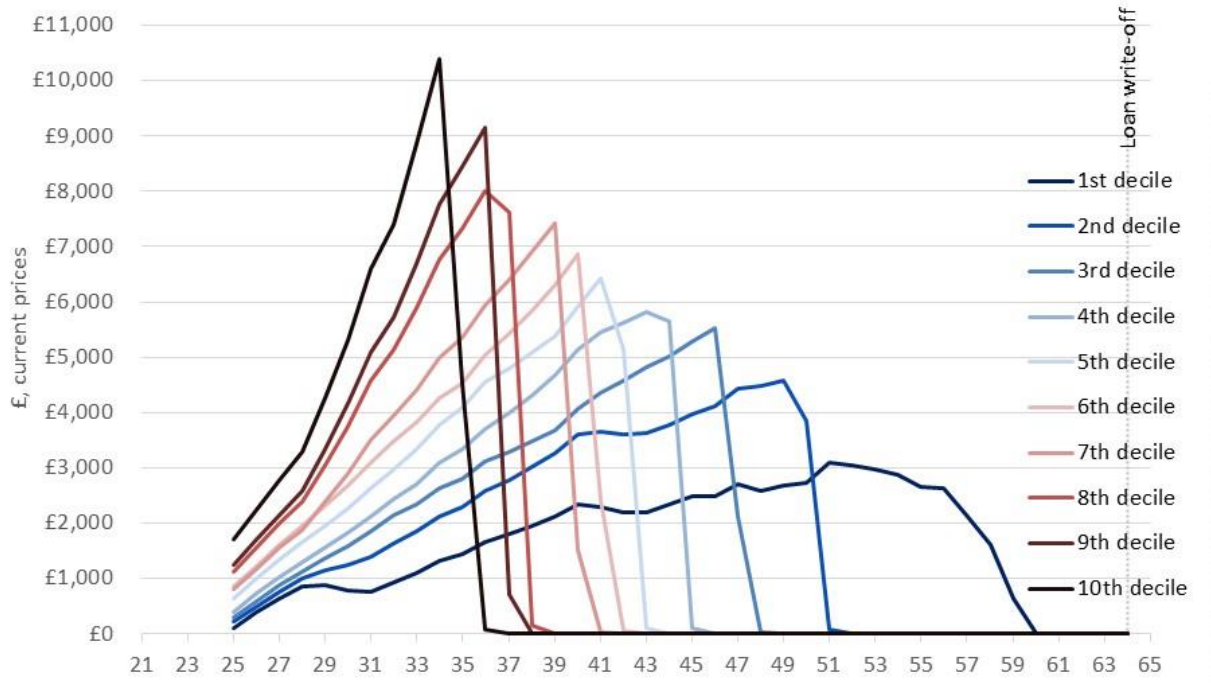
Scenario 4A: Loan repayment profiles (men)

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

Baseline



Scenario 4A: Same total with means-tested loans + 'old' grants

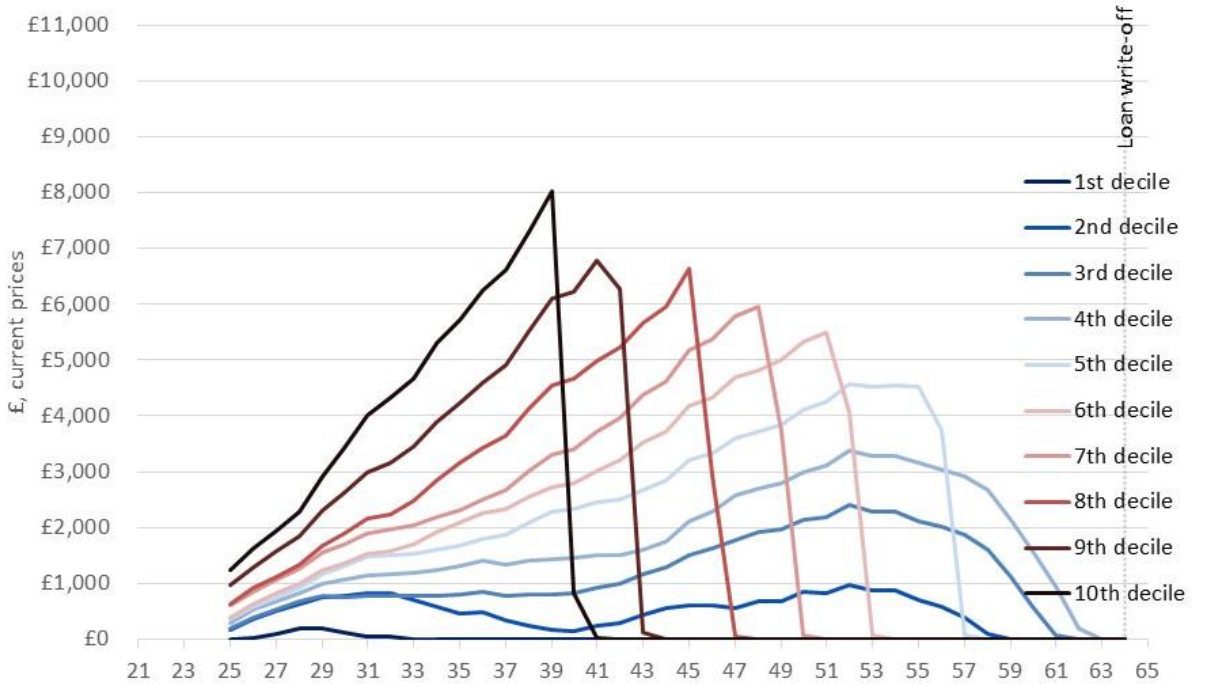


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would benefit from the lower maintenance loans**, as they would repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

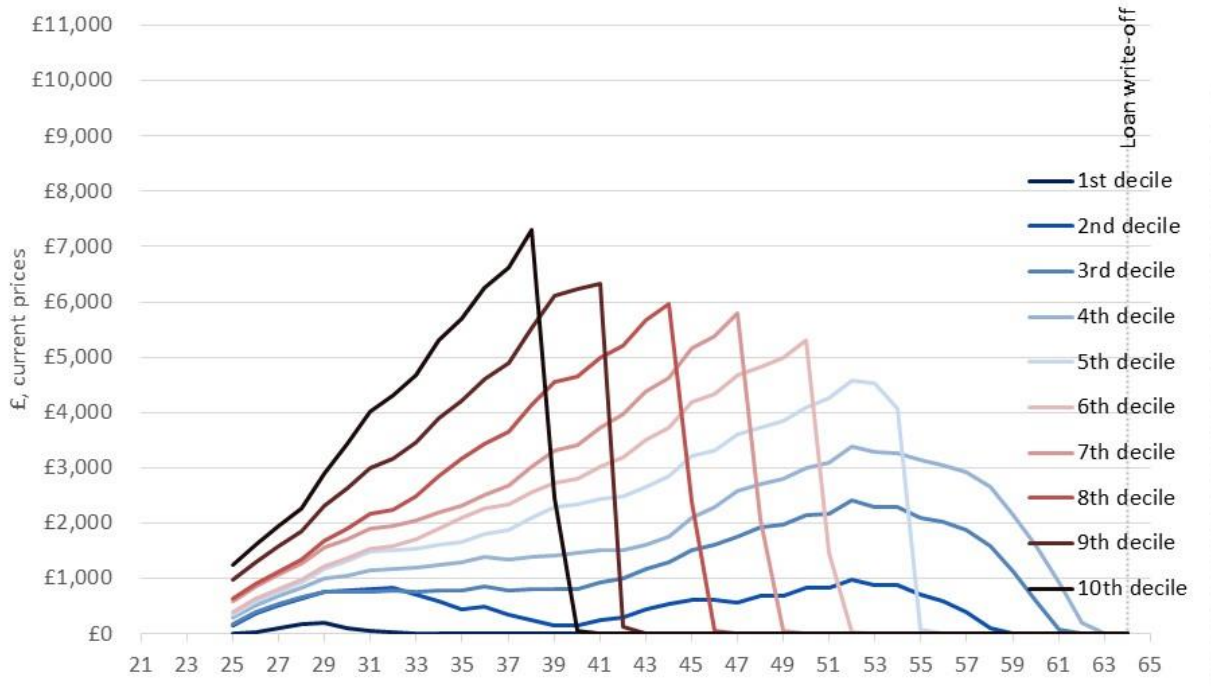
Scenario 4A: Loan repayment profiles (women)

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

Baseline



Scenario 4A: Same total with means-tested loans + 'old' grants



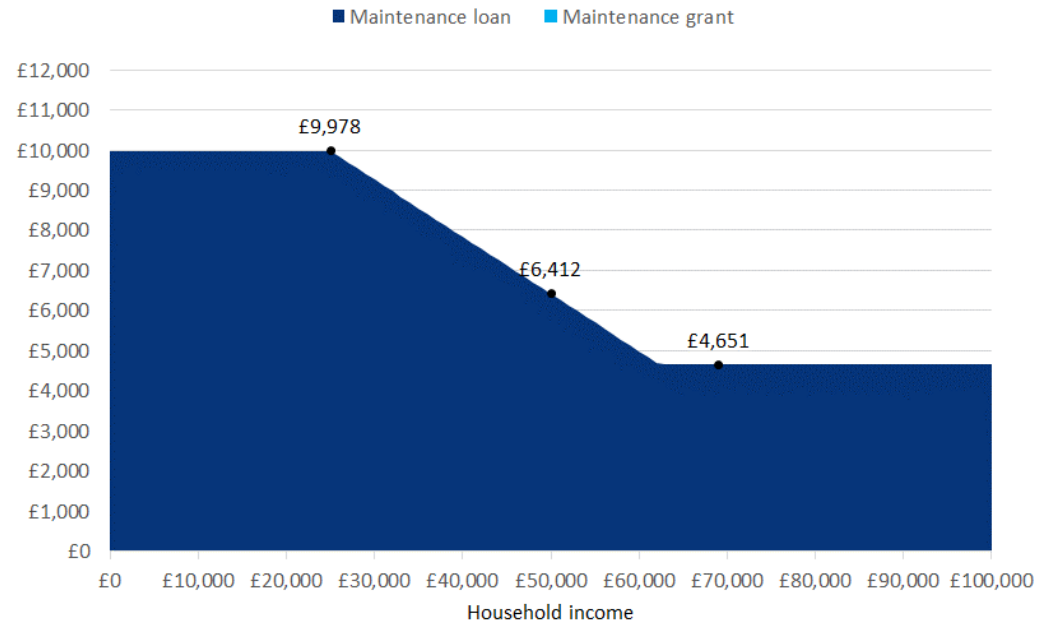
- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would benefit from the lower maintenance loans**, as they would repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

Scenario 4B: Maintenance support

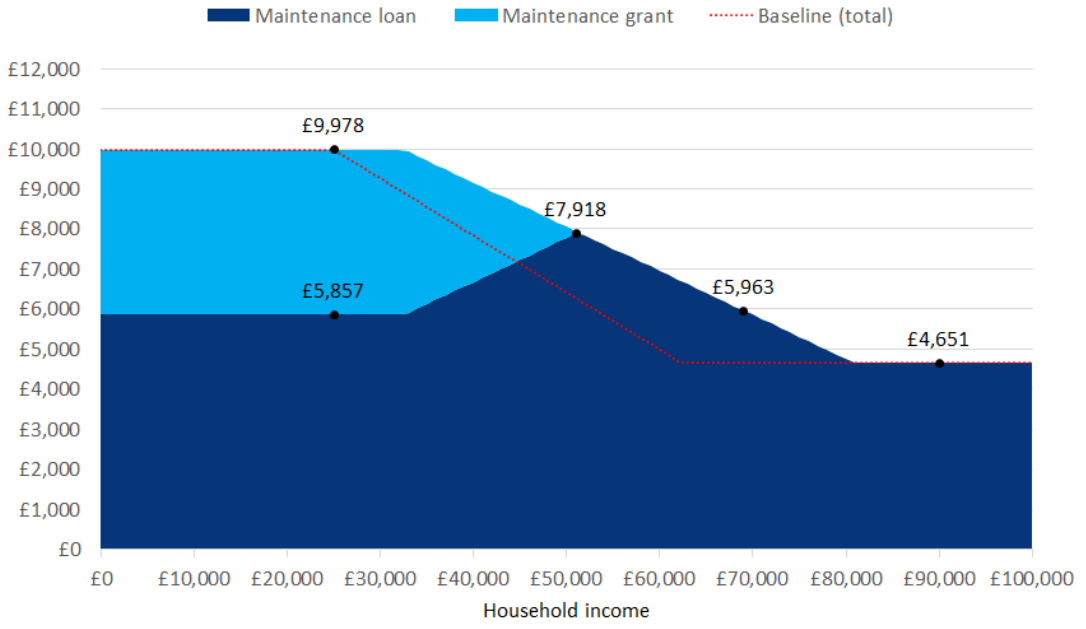
- Scenario 4B again involves the **same maximum grant and loan levels as Scenario 4A (and as the current system)**, but alongside the above-described **increase in the relevant household income thresholds for eligibility**. Here, note that this results in ***lower*** **levels of funding at each household income level than under Scenarios 1B, 2B, and 3B**.
- Scenario 4B implies that LAFHOL students with household income of **£32,535 or below** would be eligible for total support of **£9,978** (split into a **grant of £4,121** and a **loan of £5,857**), and students with household income of **more than £80,921** would be eligible for the minimum loan of **£4,651** (but again no grant).

Maintenance funding per full-time LAFHOL student, by household income

Baseline



Scenario 4B: Scenario 4A + higher thresholds



Scenario 4B: Total costs for cohort

Scenario 4B: Scenario 4A + higher thresholds

Resource flows (£/£m/%)	Baseline	Scenario 4B	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£1,915m)	(£1,915m)
Cost of maintenance loans	(£326m)	(£216m)	£110m
Cost of tuition fee loans	(£423m)	(£318m)	£105m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£3,706m)**	**(£1,700m)**
RAB charge (%)	**4.1%**	**3.1%**	**-1.0 pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£46,900**	**(£3,600)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£50,200/£39,700**	**(£3,600)/(£2,400)**

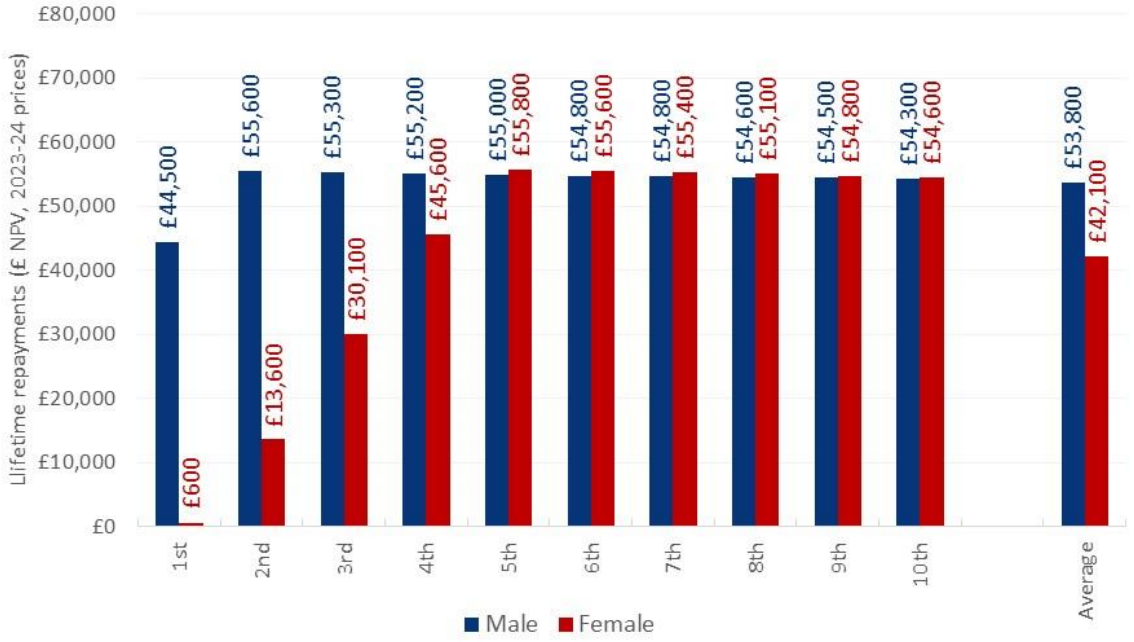
Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Scenario 4B would raise the public cost of the system per cohort by approximately £1.70bn**. Similar to Scenarios 1A to 2B, there would be a reduction in loan write-offs for fee loans (**£105m**) and maintenance loans (**£110**), but significant additional costs associated with the (re-)introduction of maintenance grants (**£1.92bn**).
- The RAB charge would decline by **1.0 percentage points**, to **3.1%**.
- The average Exchequer cost per full-time English domiciled student studying in England per year would rise to **£3,100** (**+£1,500** compared to the current system).
- **Again, there would be no impact on HEIs**.
- The average debt on graduation (per full-time first degree student studying in England) would decline by **£3,600** (to **£46,900**), and average lifetime repayments would decrease by **£3,600** for male graduates and by **£2,400** for female graduates.

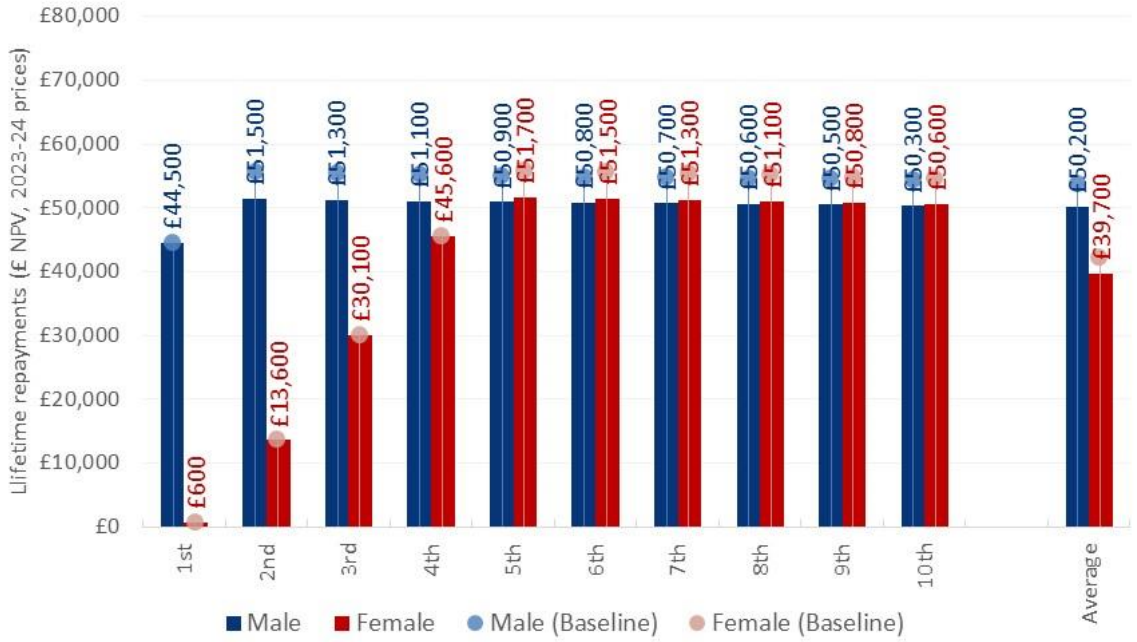
Scenario 4B: Graduate loan repayments

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

Baseline



Scenario 4B: Scenario 4A + higher thresholds

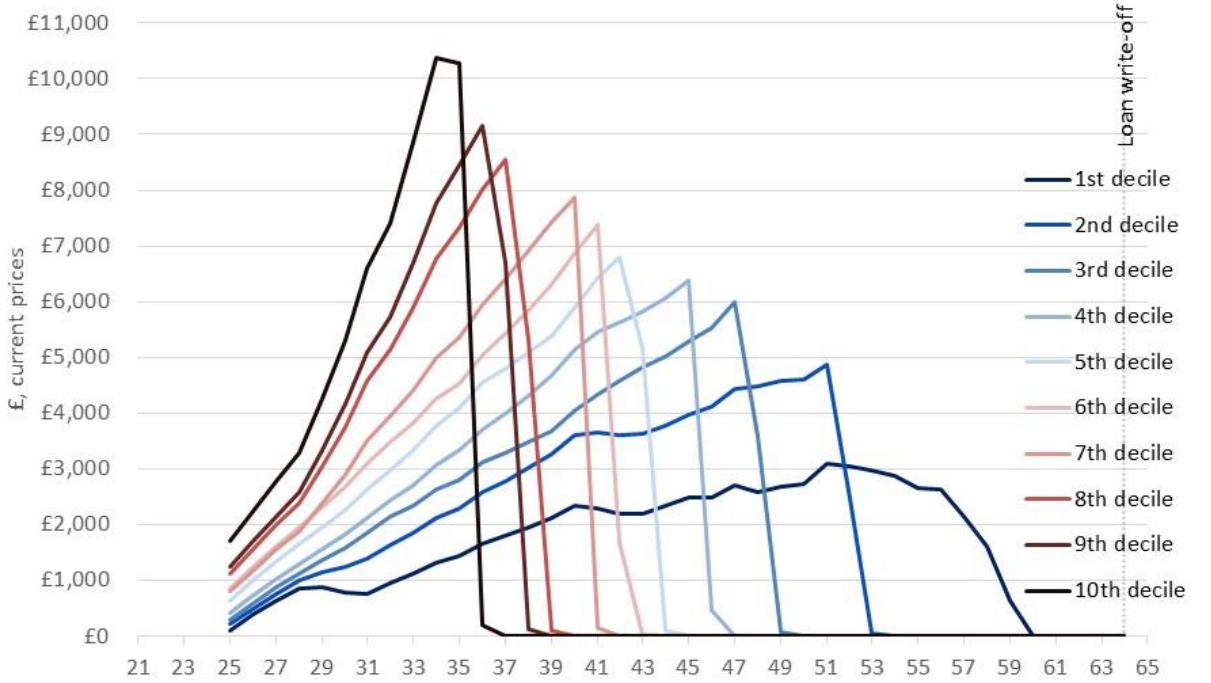


- Again, under Scenario 4B, **middle- and high-income graduates would make *lower* loan repayments (by approximately £4,000 in each instance)** than under the current system.
- **In contrast, graduates at the bottom of the income distribution** (1st decile for men, and 1st to 4th decile for women) **would be *unaffected* by the reduced loan balance** (i.e. repay the same as under the current system).

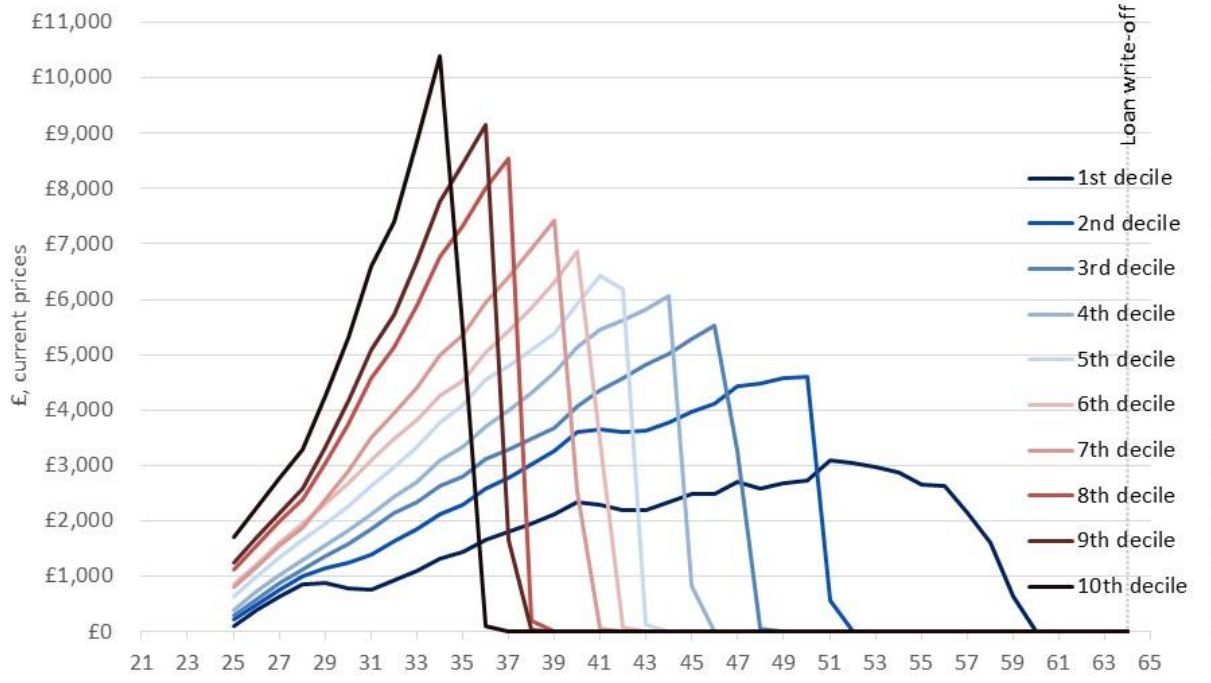
Scenario 4B: Loan repayment profiles (men)

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

Baseline



Scenario 4B: Scenario 4A + higher thresholds

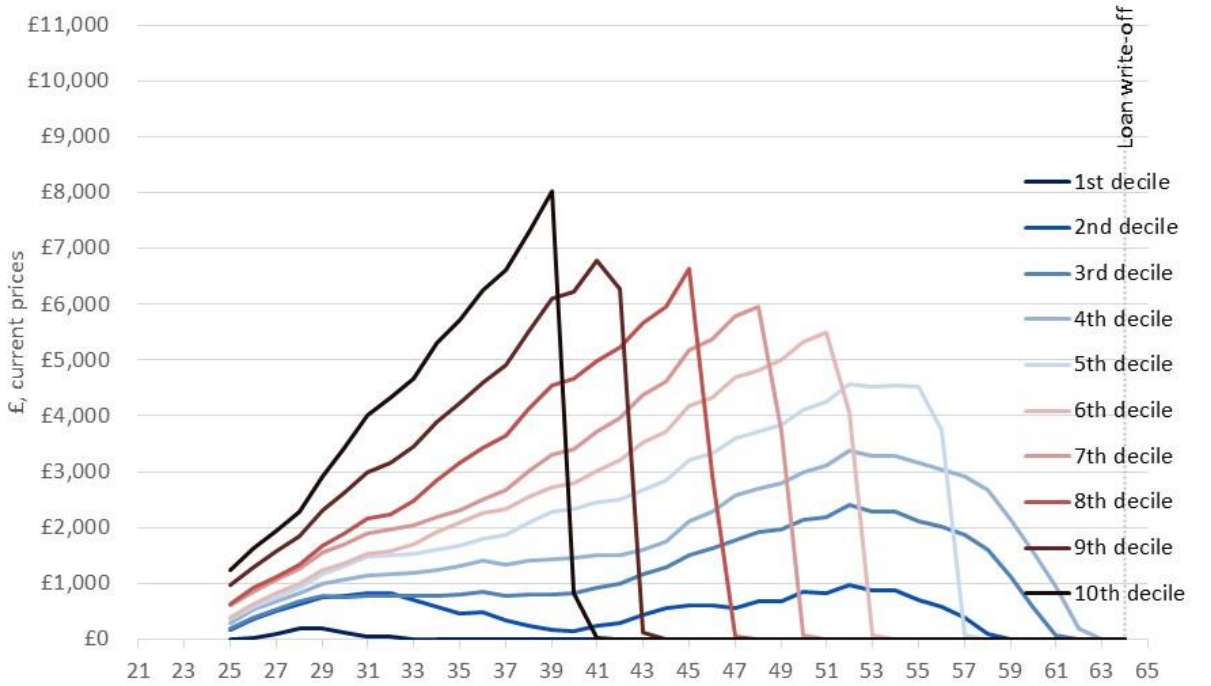


- **Middle- and high-earning graduates** (2nd decile and above for male graduates) **would again benefit from the lower maintenance loans**, as they would repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

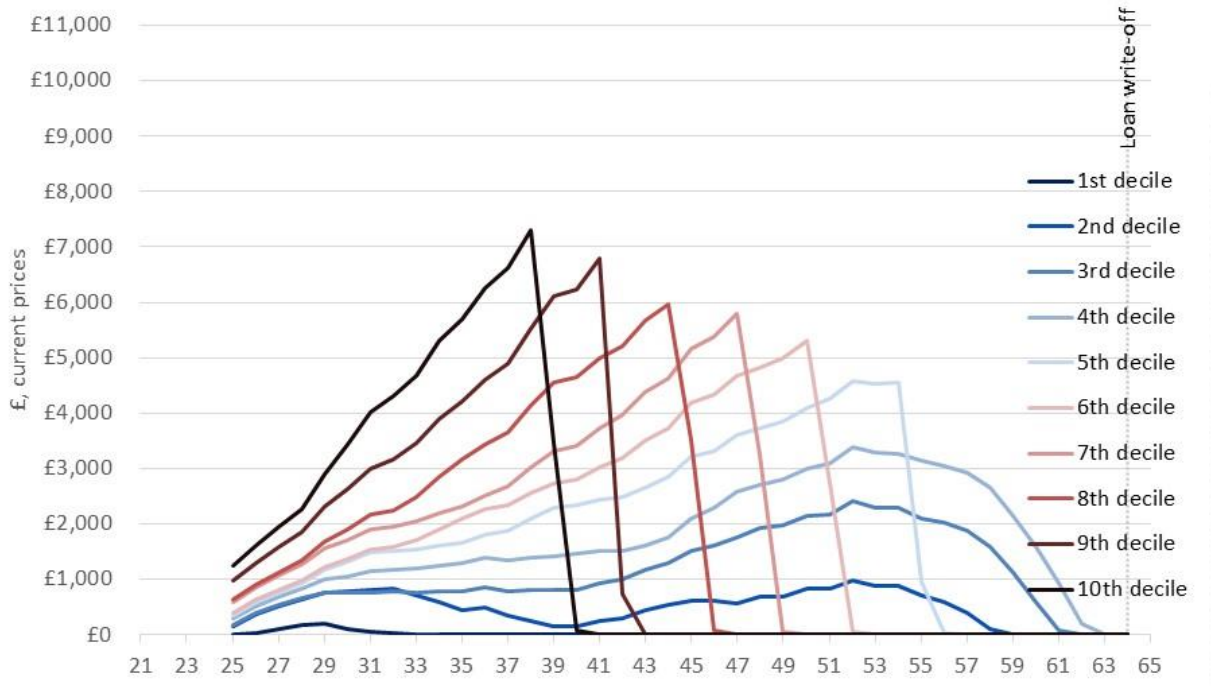
Scenario 4B: Loan repayment profiles (women)

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

Baseline



Scenario 4B: Scenario 4A + higher thresholds



- **Middle- and high-earning graduates** (5th decile and above for female graduates) **would again benefit from the lower maintenance loans**, as they would repay their loans more quickly.
- **Graduates at the bottom of the earnings distribution** would again make the same repayments as under the current system.

Scenario 5: Scenario 2B + stepped repayment system

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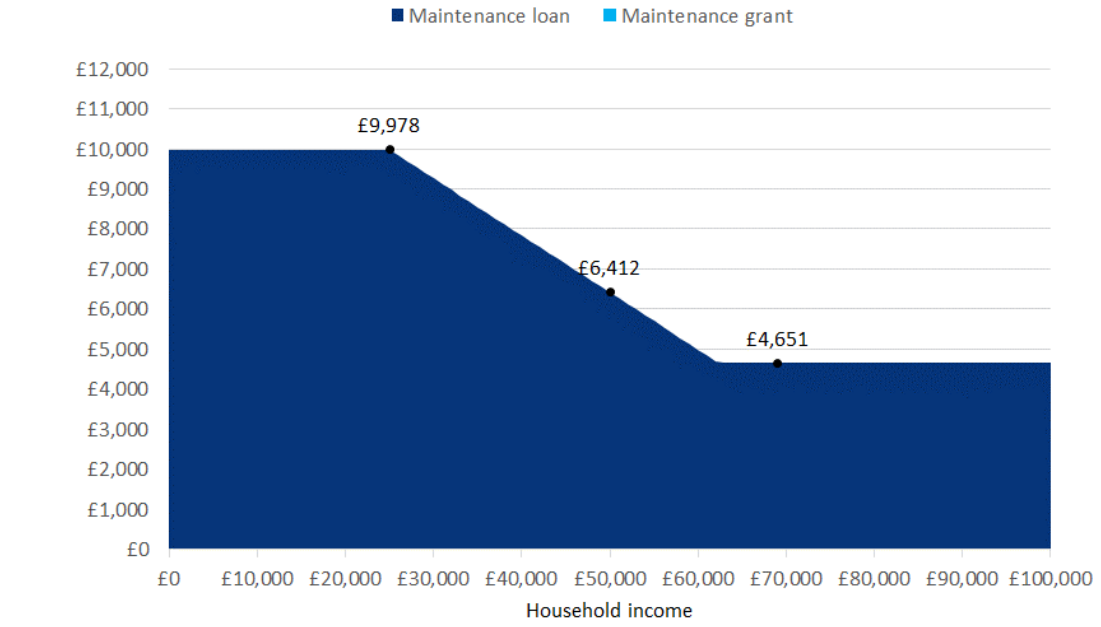
Scenario 5: Maintenance support

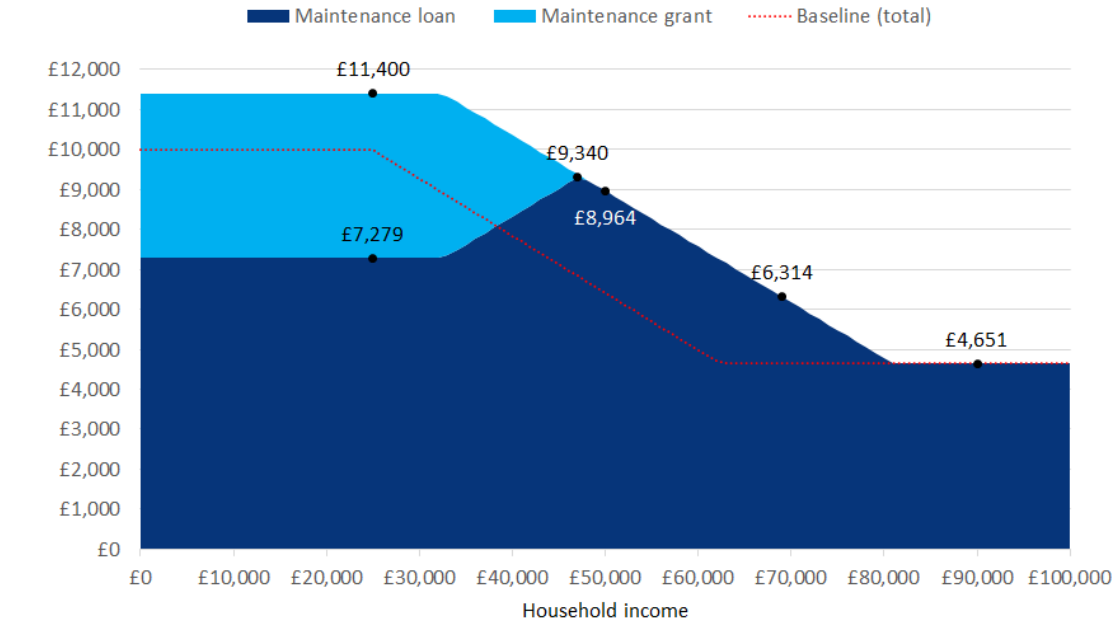
- Finally, Scenario 5 explores how the increase in maintenance support could be funded through changes in the loan repayment system. Specifically, we model **how the repayment terms could be changed to make the higher maintenance support under Scenario 2B (higher means-tested loans, 'old' grants, and higher thresholds) effectively cost-neutral from the Exchequer perspective**. In addition to achieving cost-neutrality, the changes to loan repayments (outlined on the next slide) are aimed at **improving the progressivity of the repayment system**.
- Scenario 5 thus assumes the **same maximum loan and grant levels as under Scenario 2B**. Hence, LAFHOL students with household income of **£32,535 or below** would receive maintenance funding of **£11,400** (split into a **grant of £4,121** and a **loan of £7,279**), and students with household income of **more than £80,921** would only be eligible for a **loan of £4,651**.

Maintenance funding per full-time LAFHOL student, by household income

Baseline



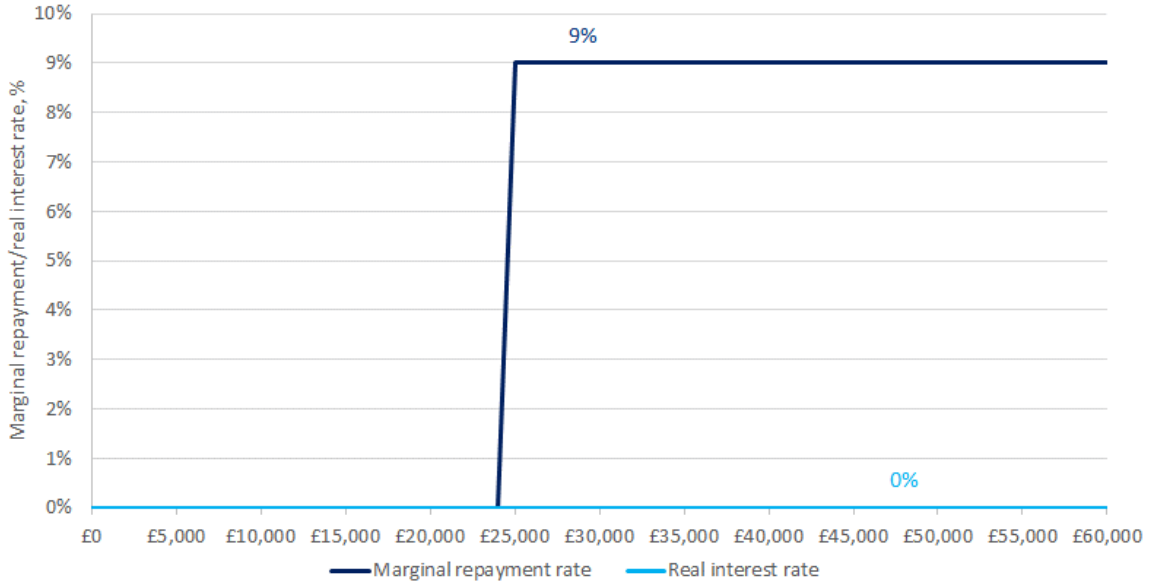
Scenario 5: Scenario 2B + stepped repayment system



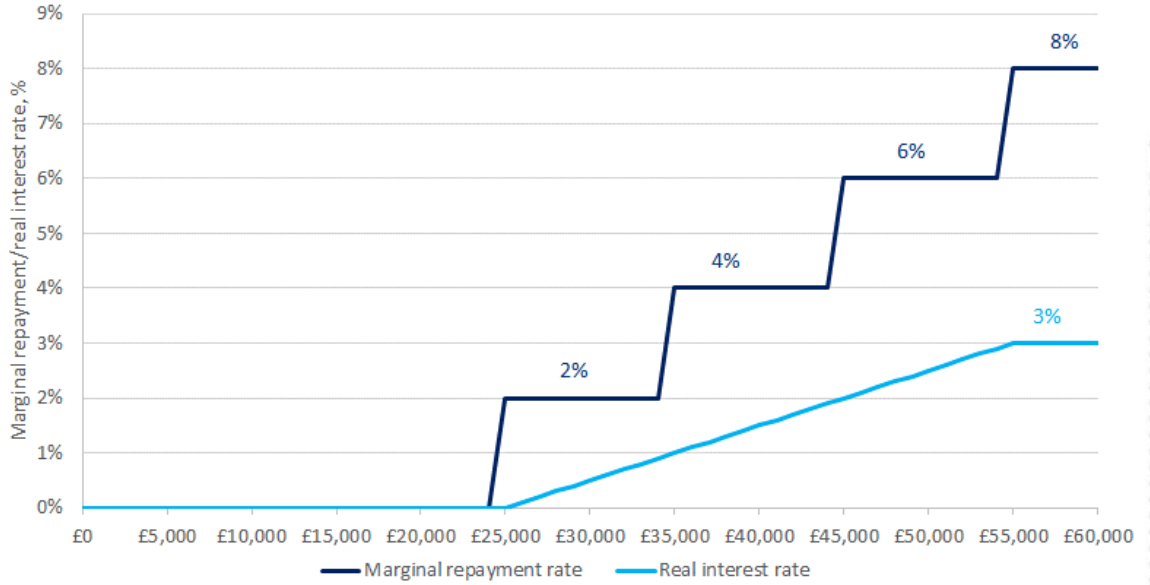
Scenario 5: Repayment and interest rates

Loan repayment and real interest rates by graduate income

Baseline



Scenario 5: Scenario 2B + stepped repayment system



- We then modelled a **very significant change in repayment rates**. We have assumed a stepped repayment profile, where graduates would repay **2% on earnings between £25,000 and £35,000**; **4% on earnings between £35,001 and £45,000**; **6% on earnings of £45,001 to £55,000**; **and 8% on earnings above £55,000**.
- **In addition, Scenario 5 re-introduces real interest rates**[1], assuming a **1.5% real interest rate during study**[2]; **0%-3%** post-study for graduates earning **between £25,000 and £55,000**[3]; and **3%** for graduates earning **more than £55,000**.

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

[2] i.e. before each graduate's Statutory Repayment Due Date (SRDD); under the 'old' repayment system pre-Augar-response, this real interest rate during study stood at 3% instead.

[3] Note that these thresholds are different from the earnings thresholds for real interest rates that applied under the previous (pre-Augar) Plan 2 repayment system. As under the current Baseline system (and reflecting the current uplifting in repayment thresholds over time), both thresholds here are assumed to be frozen until 2026-27 inclusive and uprated with RPI inflation thereafter.

Scenario 5: Total costs for cohort

Scenario 5: Scenario 2B + stepped repayment system

Resource flows (£/£m/%)	Baseline	Scenario 5	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	-	(£1,841m)	(£1,841m)
Cost of maintenance loans	(£326m)	£449m	£775m
Cost of tuition fee loans	(£423m)	£643m	£1,066m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£2,006m)**	**(£0m)**
RAB charge (%)	**4.1%**	**-6.1%**	**-10.2 pp**
Net HEI income			
Gross fee income	£11,302m	£11,302m	-
Teaching Grant income	£1,257m	£1,257m	-
Cost of bursary provision	(£108m)	(£108m)	-
Total	**£12,451m**	**£12,451m**	**-**
Students/Graduates (FT first degree students from England studying in England)			
Average debt on graduation	**£50,500**	**£50,200**	**(£300)**
Average lifetime repayments (M/F)	**£53,800/£42,100**	**£68,200/£39,400**	**£14,400/(£2,700)**

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

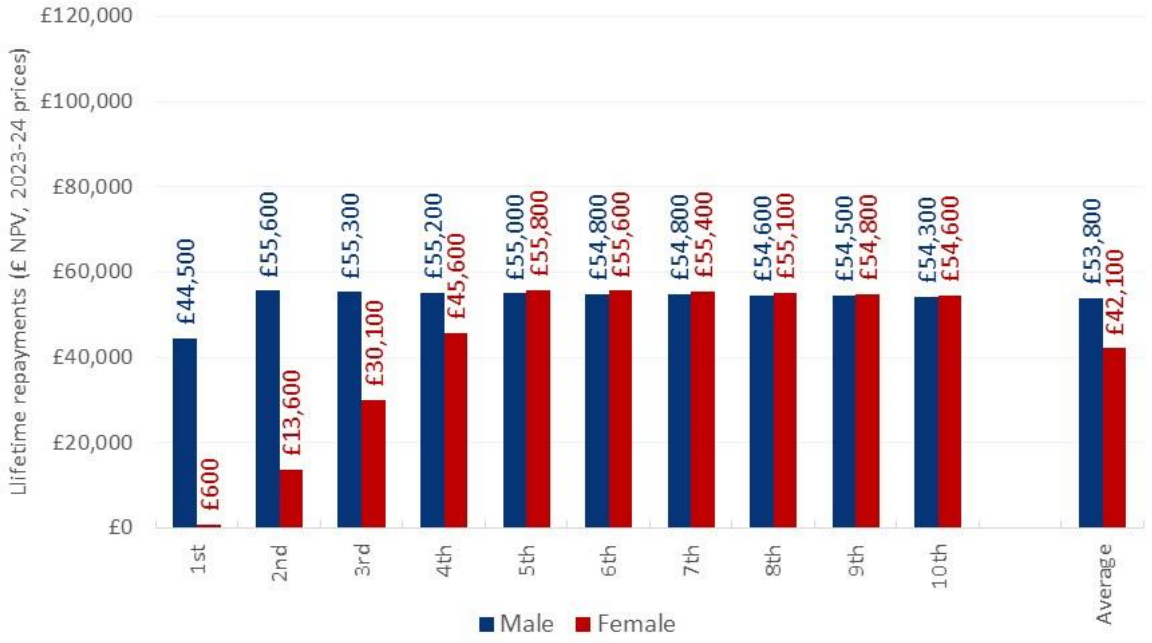
- Compared to the current system, **Scenario 5 would be (effectively) cost-neutral from the perspective of the Exchequer**. There would again be substantial additional costs associated with the (re-)introduction of maintenance grants (**£1.84bn**, same as Scenario 2B), but these would be almost exactly offset by the lower loan write-offs for fee loans (**£1.07bn**) and maintenance loans (**£775m**) due to the (re-) introduction of real interest rates[1].
- The RAB charge would decline by **10.2 percentage points**, to **-6.1%**. The negative RAB charge implies that, as a whole, the loan system would be revenue-generating for the Exchequer.
- The average Exchequer cost per full-time English domiciled student studying in England per year would be approximately the same as under the current system (**£1,600**).
- **Again, there would be no impact on HEIs**.
- The average debt on graduation (per full-time first degree student studying in England) would decrease by **£300** (to **£50,200** (as the negative effect of the lower maintenance outlay would outweigh the positive effect of the (re-) introduction of real interest rates during study). Average lifetime repayments would *increase* by **£14,400** for male graduates and *decrease* by **£2,700** for female graduates.

[1] As outlined in further detail in the Annex (here and here), the estimates are very sensitive to the assumed underlying discount rate, and this Exchequer cost neutrality between the current funding system and Scenario 5 likely would no longer apply under alternative discount rate assumptions.

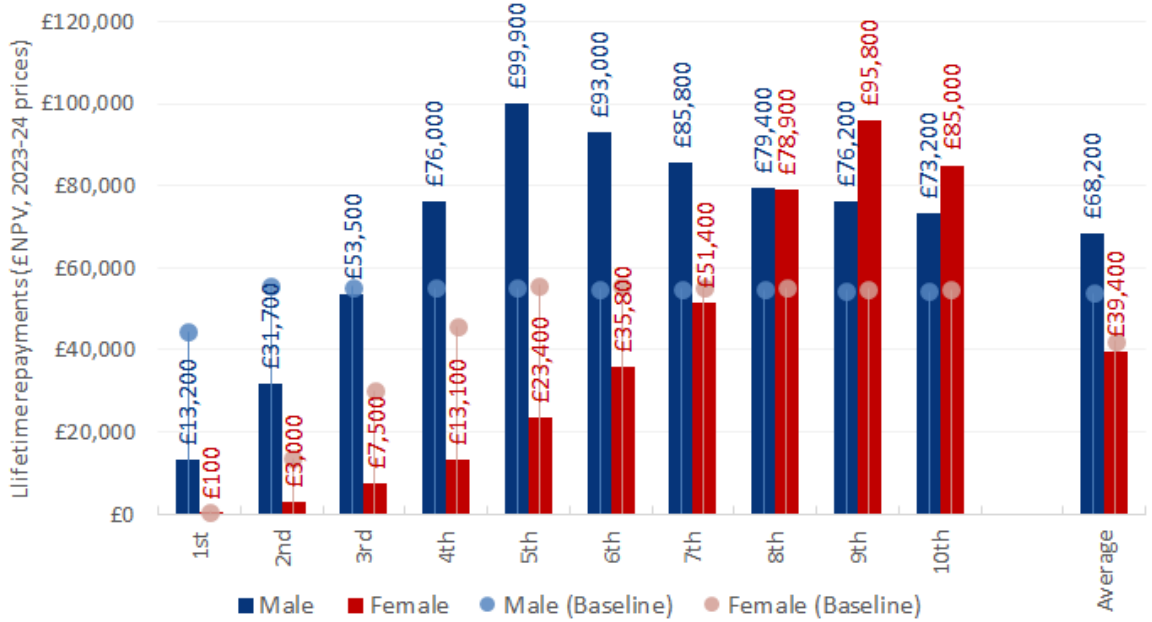
Scenario 5: Graduate loan repayments

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

Baseline



Scenario 5: Scenario 2B + stepped repayment system



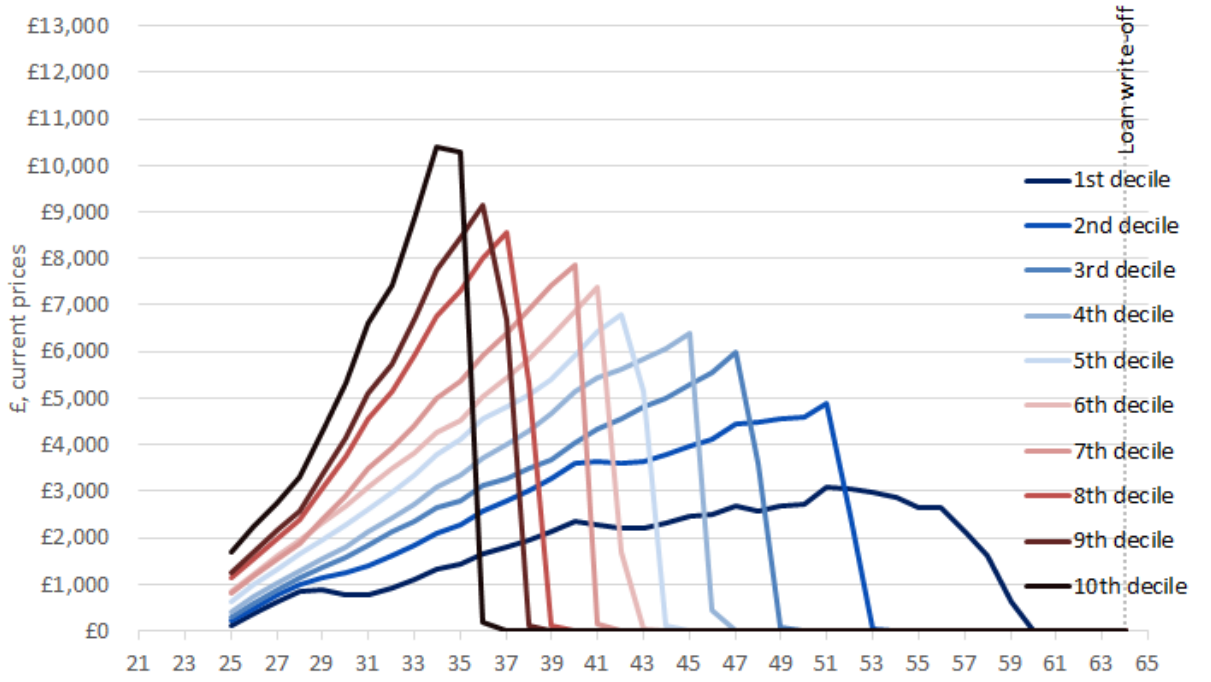
- The stepped repayment system under Scenario 5 would have significant impacts on graduates' expected lifetime loan repayments.
- **High-income graduates would make *larger* lifetime loan repayments**, as the combined re-introduction of real interest rates and lower repayment rates would keep these graduates in repayment for much longer (whereas they pay off their loans relatively quickly under the current system). In contrast, under the current system, **low- and middle-income graduates** (1st to 3rd decile for men, and 1st to 7th decile for women) would already make repayments for most of the 40-year repayment period. Hence, in Scenario 5, they would essentially make lower annual repayments over the same period, thus repaying **less** overall than under the current system[1].
- The stepped repayment system under Scenario 5 would thus make the graduate repayment profile **more progressive** than the current system (though still not fully progressive, as the relatively highest repayments would be made by male graduates on the 5th and female graduates on the 9th decile).

[1] For male graduates on the 3rd decile (and female graduates on the 7th decile), the reduction in total repayment is only relatively small, as the reduction in annual repayments would only just offset the fact that they would be kept in the repayment system for longer. Also see the next slide for further information.

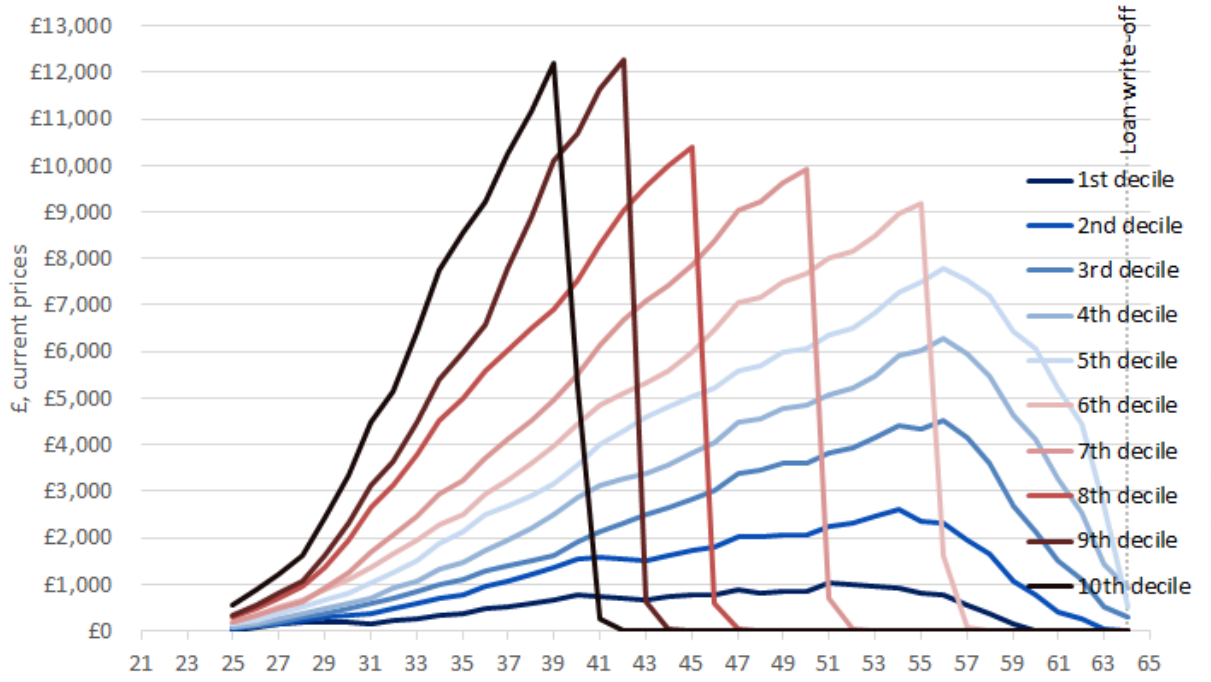
Scenario 5: Loan repayment profiles (men)

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

Baseline



Scenario 5: Scenario 2B + stepped repayment system

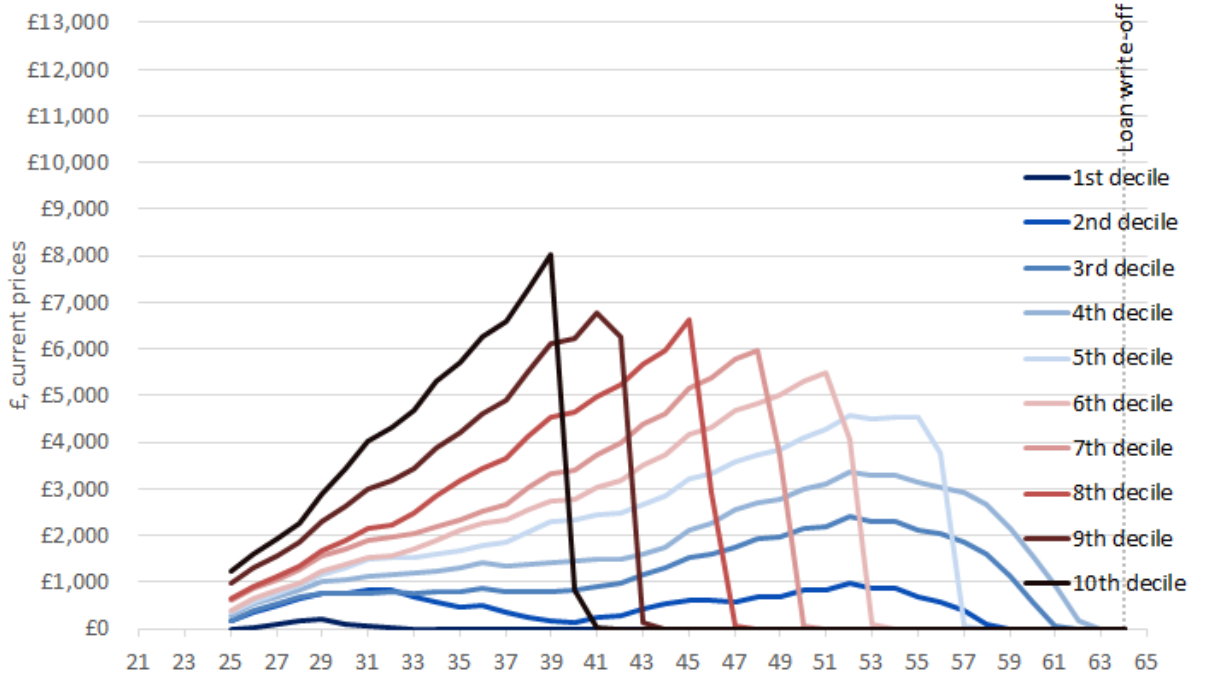


- In the short term, Scenario 5 would result in lower annual loan repayments for *all* graduates, as the reduced repayment rates essentially defer repayments into the future.
- In terms of total lifetime repayments, under Scenario 5, **high-earning graduates** (4th decile and above for male graduates) would pay **more** than under the current system, as they would continue making repayments for much longer.
- In contrast, low- and middle-income graduates currently already make repayments for most of the repayment period. In Scenario 5, they essentially make lower annual repayments over the same period, so that they repay **less** overall.

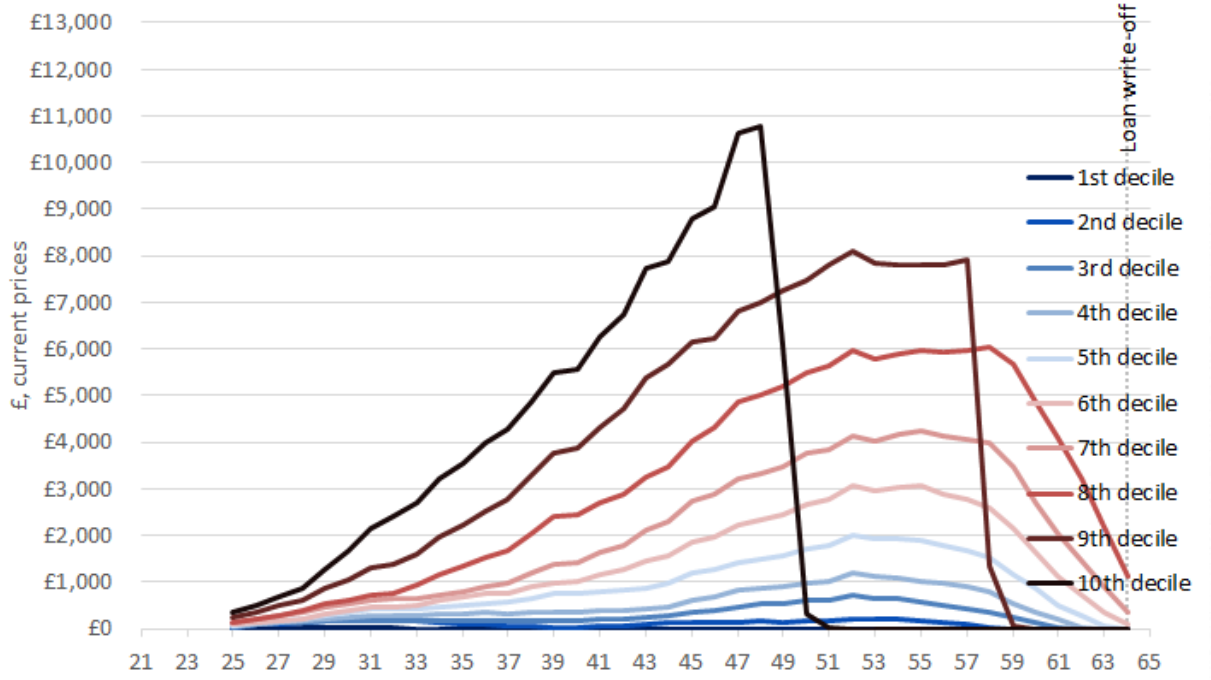
Scenario 5: Loan repayment profiles (women)

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

Baseline



Scenario 5: Scenario 2B + stepped repayment system



- In the short term, Scenario 5 would result in lower annual loan repayments for all graduates, as the reduced repayment rates essentially defer repayments into the future.
- In terms of total lifetime repayments, under Scenario 5, **high-earning graduates** (8th decile and above for female graduates) would pay **more** than under the current system, as they would continue making repayments for much longer.
- In contrast, low- and middle-income graduates currently already make repayments for most of the repayment period. In Scenario 5, they essentially make lower annual repayments over the same period, so that they repay **less** overall.

Comparison across all scenarios

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Comparison across all scenarios

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

Resource flows (£m/%)	'Net' Exchequer cost (adjusted for RAB)		'Net' cost to students/graduates (adjusted for RAB)		Net HEI income	
	Total	Diff. to Baseline	Total	Diff. to Baseline	Total	Diff. to Baseline
Baseline (current system)	(£2,006m)	-	(£10,445m)	-	£12,451m	-
Scenario 1A ('Flat' loans + high top-up grants)	(£4,938m)	**-£2,933m**	(£7,513m)	**+£2,933m**	£12,451m	-
Scenario 1B (Scenario 1A + higher thresholds)	(£5,706m)	**-£3,700m**	(£6,745m)	**+£3,700m**	£12,451m	-
Scenario 2A (Higher loans + 'old' grants)	(£3,376m)	**-£1,371m**	(£9,075m)	**+£1,371m**	£12,451m	-
Scenario 2B (Scenario 2A + higher thresholds)	(£3,783m)	**-£1,777m**	(£8,668m)	**+£1,777m**	£12,451m	-
Scenario 3A (Higher loans only)	(£2,119m)	**-£113m**	(£10,332m)	**+£113m**	£12,451m	-
Scenario 3B (Scenario 3A + higher thresholds)	(£2,239m)	**-£233m**	(£10,212m)	**+£233m**	£12,451m	-
Scenario 4A (Same total with loans + 'old' grants)	(£3,310m)	**-£1,305m**	(£9,141m)	**+£1,305m**	£12,451m	-
Scenario 4B (Scenario 4A + higher thresholds)	(£3,706m)	**-£1,700m**	(£8,745m)	**+£1,700m**	£12,451m	-
Scenario 5 (Scenario 2B + stepped repayments)	(£2,006m)	**-£0m**	(£10,445m)	**+£0m**	£12,451m	-

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

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ANNEX
Methodology and assumptions

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Assumptions and methodology

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

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

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

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

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

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

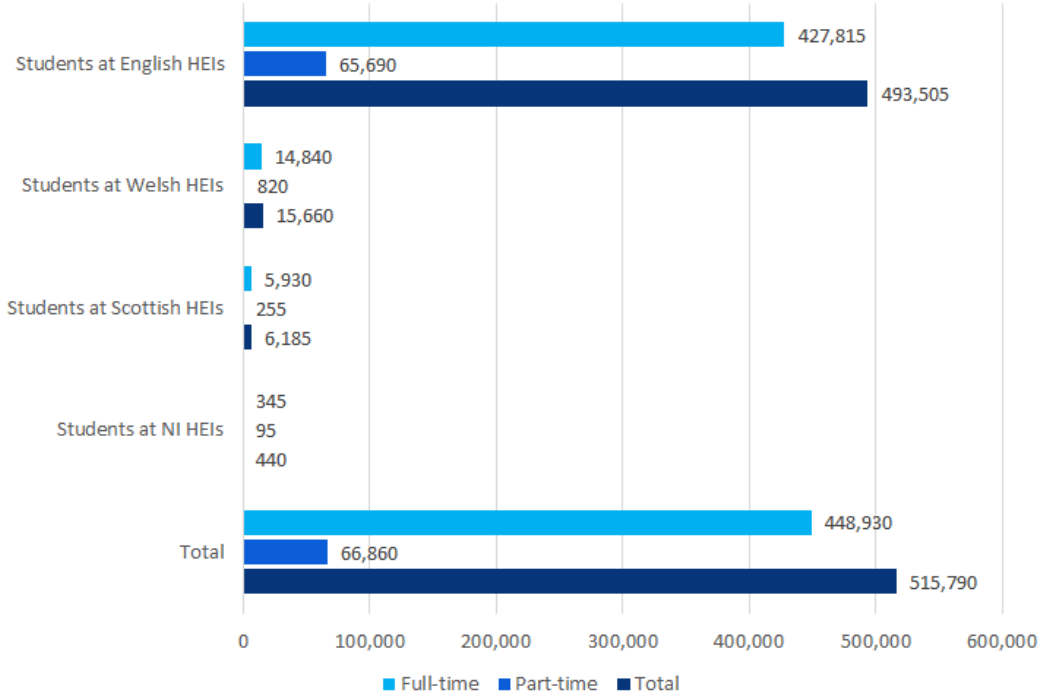
[2] Based on data provided to us by HESA on the average study intensity among all UK domiciled first-year part-time students in 2021-22 (separately by study level, and again excluding students studying for credit only).

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

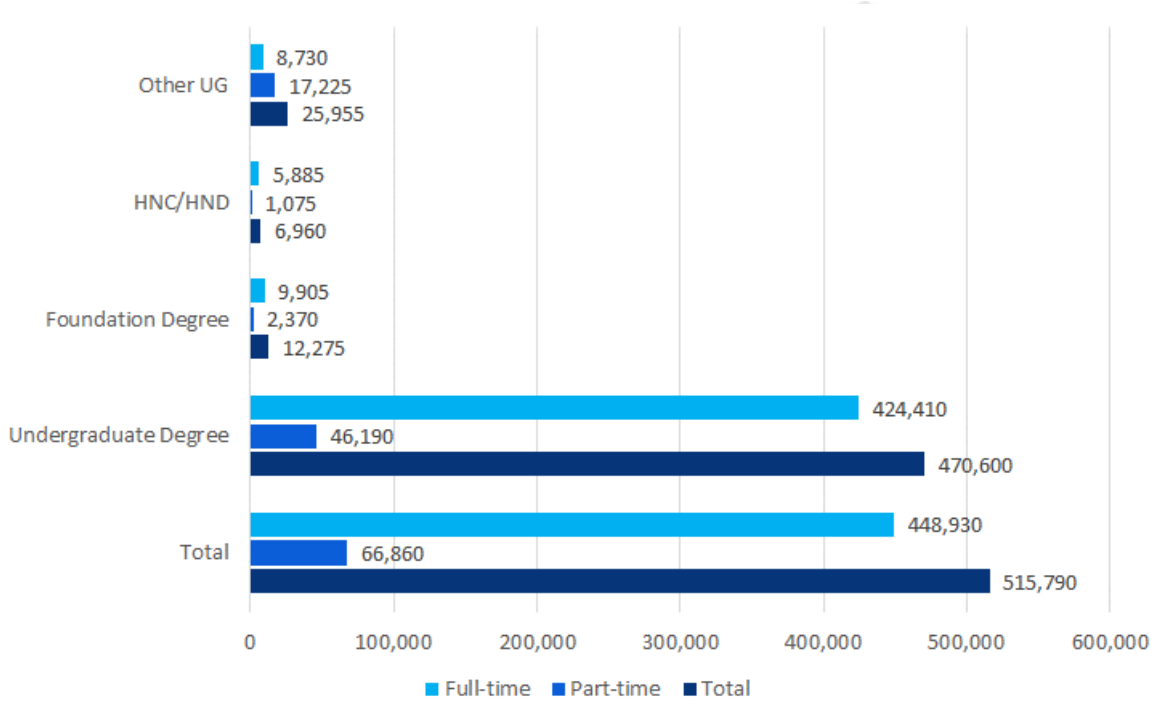
Assumptions and methodology

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

By location of study and study mode



By study level and mode



Note: All student numbers are rounded to the nearest 5. The information is based on the 2021-22 academic year, and, in the absence of more recent data, we assume the same size and characteristics for the 2023-24 cohort as for the 2021-22 cohort. The analysis generally includes students studying at higher education institutions only (excluding further education colleges, apart from a very small number of students studying at Welsh further education colleges), and excludes students studying for institutional credits at undergraduate level (i.e. students who are not studying for a qualification).
Source: London Economics' analysis based on data published by the Higher Education Statistics Agency (here)

Assumptions and methodology

Fees, fee loans, and bursaries

- For the **current funding system (Baseline)**, the analysis assumes a **(gross) tuition fee charged** to English domiciled **full-time students studying anywhere in the UK** in 2023-24 of **£9,250**, and **£4,625** for part-time students (pro-rata, based on the corresponding full-time fee adjusted for part-time study intensity).
- The above fees constitute *gross* fees before the deduction of any fee waivers. In terms of these **fee waivers as well as other (non-fee) bursaries** provided to students, based on Office for Student data from its access and participation plans monitoring exercise (last undertaken in 2020-21, here), according to institutions' access plans for 2023-24, we assume that approximately **0.3%** of the tuition fee charged in excess of the Basic Fee (of **£6,165** per annum for full-time students) is handed back to students in the form of **fee waivers/bursaries**, with an additional **9.6%** provided through **maintenance bursaries**. Mirroring the current household income thresholds associated with maintenance loans for English domiciled undergraduate students, we assume that these bursaries are only available to students with a household income of **£25,000** or less. In the absence of corresponding bursary data for RUK institutions, we assume that these bursaries available in England also apply to English domiciled students studying in **Wales**, **Scotland**, and **Northern Ireland**.
- We deduct the resulting estimated fee bursary/waiver from the above average fees per student per year (though note again that the relatively low estimated fee bursary has a negligible impact on the assumed 'net' fee, as the resulting average fee bursary per student is very small).
- We assume that both full-time and part-time students cover the resulting average net fees by taking out a (non-means-tested) **tuition fee loan** of the same amount from the Student Loans Company. Based on SLC data on student support provided to English students in 2021-22, we assume a **fee loan take-up rate of 96% for full-time students**[1] (i.e. that 96% of all full-time students in the relevant student body avail of this fee loan), and **44% for part-time students**.
- In terms of growth in subsequent academic years, we assume that the resulting fees and fee loans will continue to **remain frozen** in every subsequent year of study for the cohort (i.e. 2024-25 onwards).
- In *all* of the alternative scenarios modelled here (**Scenarios 1A to 5**), we assume the **same levels of fees, bursaries, and public fee support as under the current system**.

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

Assumptions and methodology

- In terms of **maintenance funding**, under the **current funding system** (in 2023-24)[1]:
  - **Full-time students** living away from home outside of London (**LAFHOL**) are eligible for a maximum maintenance loan of **£9,978** (for household income **up to £25,000**), declining to a minimum of **£4,651** (for household income of **more than £62,343**). Students living away from home in London (**LAFHIL**) are eligible for a maximum loan of **£13,022** (for household income **up to £25,000**), declining to a minimum of **£6,485** (for household income of **more than £70,040**); and students living at home (**LAH**) are eligible for a maximum loan of **£8,400** (for household income **up to £25,000**), declining to a minimum of **£3,698** (for household income of more than **£58,291**).
  - **Part-time students** are eligible for the same maintenance loans as full-time students but on a pro-rata basis, and using the same household income thresholds (so that, based on the assumed 50% study intensity, we assume that LAFHOL part-time students are eligible for a maximum maintenance loan of **£4,989** (again for household income **up to £25,000**)).
- We have modelled full-time students' maintenance loan eligibility by **students' living conditions**, separately for full-time students living at home (LAH, **23%** of students), living away from home outside of London (LAFHOL, **63%** of students) and living away from home in London (LAFHIL, **14%** of students)[2]. For part-time students, based on the same sources, we assume that **25%** live at home (LAH), **68%** live away from home outside of London (LAFHOL), and **7%** live away from home in London (LAFHIL).
- In terms of **maintenance loan take-up rates**, again based on SLC data on student support for English domiciled undergraduate students in 2021-22, we assume a **maintenance loan take-up rate of 94% for full-time students**, and **44% for part-time students**[3].
- Students' eligibility for maintenance loans is based on their **household income**:
  - As there is no comparable information on students' household income levels available for English domiciled students, we combine the above-described household income thresholds with separate information from the Student Loans Company (SLC, here) on the distribution of *Welsh* domiciled undergraduate students by household income. Specifically, our assumptions are based on the proportion of Welsh domiciled students in receipt of full, partial, or nil maintenance grants from Student Finance Wales in 2021-22 (and the associated household income thresholds applicable to Welsh maintenance grants in that year) – separately for full-time students and part-time students.
  - We then adjust the information to 2023-24 values to reflect the fact that average household income is expected to grow over time, by applying OBR estimates of UK annual average earnings growth in 2022-23 and 2023-24 (here).
  - In addition, as the information is based on Wales, we adjust the assumptions for differences in average household income between England and Wales. Specifically, we adjust the assumptions for the ratio of median gross weekly earnings in England vs. Wales, based on 2022 data from the Annual Survey of Hours and Earnings published by StatsWales (here; note that 2022 is the latest year for which this information is currently available).

[1] For more information on these current funding rates, see Student Loans Company (2023). 'Student finance: how you're assessed and paid 2023 to 2024' (here).

[2] The distribution of students across these different living conditions is based on information from the 2014-15 Student Income and Expenditure Survey for England (on the proportion of full-time students living at home vs. living away from home; here), combined with HESA data on the number of first-year English domiciled full-time undergraduate students living in London vs. elsewhere in the UK, in 2021-22 (here). The 2014-15 Student Income and Expenditure Survey was the most recent iteration of the survey available at the time that the analysis was undertaken.

[3] The full-time take-up rate was calculated by dividing the number of English domiciled full-time undergraduate students in receipt of SLC maintenance loans in 2021-22 (i.e. *funded* students from SLC data, here) by the *total* number of English domiciled full-time undergraduate students studying at UK HEIs in 2021-22 (from HESA data, here). Part-time maintenance loans were only introduced for new students starting from 2018-19 onwards, so it was not sensible to undertake a similar calculation for these students here; therefore, we instead assume that the part-time maintenance loan take-up rate is the same as the above-discussed part-time fee loan take-up rate (44%).

Assumptions and methodology

- In **Scenario 1A ('flat' loans + high top-up grants)**, for full-time students, we assume that:
  - **LAFHOL** students would be eligible for total maximum maintenance funding of **£11,400**. This includes a non-means-tested 'flat' maintenance loan of **£4,651**, and a maintenance grant of **£6,749** for students with household income of **£25,000 or below**, declining to **£0** for students with household income of **more than £62,343**[1].
  - **LAFHIL** students would be eligible for total maximum maintenance funding of **£14,878**[2]. This includes a non-means-tested 'flat' maintenance loan of **£6,485**, and a maintenance grant of **£8,393** for students with household income of **£25,000 or below**, declining to **£0** for students with household income of **more than £70,040**.
  - **LAH** students would be eligible for total maximum maintenance funding of **£9,597**. This includes a non-means-tested 'flat' maintenance loan of **£3,698**, and a maintenance grant of **£5,899** for students with household income of **£25,000 or below**, declining to **£0** for students with household income of **more than £58,291**.

- In **Scenario 1B (Scenario 1A + higher thresholds)**, we assume the same maximum maintenance funding rates as under Scenario 1A, but alongside an increase in all relevant household income thresholds for maintenance funding eligibility, so that:
  - **LAFHOL** students would be eligible for total maximum maintenance funding of **£11,400**, including a non-means-tested 'flat' maintenance loan of **£4,651**, and a maintenance grant of **£6,749** for students with household income of ***£32,535*** **or below**, declining to **£0** for students with household income of **more than *£80,921***[3].
  - **LAFHIL** students would be eligible for total maximum maintenance funding of **£14,878** , including a non-means-tested 'flat' maintenance loan of **£6,485**, and a maintenance grant of **£8,393** for students with household income of ***£32,535*** **or below**, declining to **£0** for students with household income of **more than *£90,841***.
  - **LAH** students would be eligible for total maximum maintenance funding of **£9,597** , including a non-means-tested 'flat' maintenance loan of **£3,698**, and a maintenance grant of **£5,899** for students with household income of ***£32,535*** **or below**, declining to **£0** for students with household income of **more than *£75,743***.

[1] This is the threshold for minimum maintenance loan eligibility for LAFHOL students under the current system; i.e. maintenance grants would taper out to £0 at the same threshold beyond which students are currently only eligible for the minimum maintenance loan

[2] The maximum total LAFHIL funding rate here is calculated by multiplying the assumed LAFHOL rate (**£11,400**) under this Scenario by the ratio of the LAFHIL to LAFHOL rate under the current system (i.e. **£13,022** divided by **£9,978**). We proceed similarly to derive the rate for LAH students under this Scenario.

[3] The household income thresholds under Scenario 1B (as well as Scenarios 2B, 3B, and 4B) here reflect what the original 2016-17 maintenance loan eligibility thresholds would be in 2023-24 if they had been uprated with CPI inflation each year (i.e. 2016-17 thresholds in 2023-24 prices). Specifically, to convert these thresholds into 2023-24 values, we applied cumulative CPI inflation between April 2016 and April 2023 (approximately **30.1%**), using CPI data published by the Office for National Statistics (here).

Assumptions and methodology

- In **Scenario 2A (higher means-tested loans + 'old' grants)**, we assume that:
  - **LAFHOL** students would again be eligible for total maximum maintenance funding of **£11,400**. This includes a grant of **£4,121**[1] and a loan of **£7,279** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **£9,340**) for household income of **£36,401**. Students with household income of **more than £62,343** would again only be eligible for a **loan of £4,651** (and no grant).
  - **LAFHIL** students would be eligible for total maximum maintenance funding of **£14,878**. This includes a grant of **£4,121** and a loan of **£10,757** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **£12,817**) for household income of **£36,058**. Students with household income of **more than £70,040** would again only be eligible for a **loan of £6,485** (and no grant).
  - **LAH** students would be eligible for total maximum maintenance funding of **£9,597**. This includes a grant of **£4,121** and a loan of **£5,476** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **£7,537**) for household income of **£36,628**. Students with household income of **more than £58,291** would again only be eligible for a **loan of £3,698** (and no grant).

- In **Scenario 2B (Scenario 2A + higher thresholds)**, we again assume the same maximum maintenance funding rates as under Scenario 2A, but with an increase in all relevant household income thresholds for maintenance funding eligibility, so that:
  - **LAFHOL** students would be eligible for total maximum funding of **£11,400**, including a grant of **£4,121** and a loan of **£7,279** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **£9,340**) for household income of ***£47,307***. Students with household income of **more than** ***£80,921*** would again only be eligible for a **loan of £4,651** (and no grant).
  - **LAFHIL** students would be eligible for total maximum funding of **£14,878**. This includes a grant of **£4,121** and a loan of **£10,757** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **£12,817**) for household income of ***£46,851***. Students with household income of **more than** ***£90,841*** would again only be eligible for a **loan of £6,485** (and no grant).
  - **LAH** students would be eligible for total maximum funding of **£9,597**. This includes a grant of **£4,121** and a loan of **£5,476** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **£7,537**) for household income of ***£47,626***. Students with household income of **more than** ***£75,743*** would again only be eligible for a **loan of £3,698** (and no grant).

[1] This reflects the maintenance grant that is currently available to *continuing* English domiciled undergraduate students who started their courses prior to 2016-17 (i.e. prior to the abolition of maintenance grants). This 'old' maintenance grant level is irrespective of students' living circumstances.

Assumptions and methodology

- In **Scenario 3A (higher means-tested loans only)**, we assume that:
  - **LAFHOL** students would be eligible for a loan of **£11,400** for students with household income of **£25,000 or below**, declining to **£4,651** for students with household income of **more than £62,343** (and no maintenance grant).
  - **LAFHIL** students would be eligible for a loan of **£14,878** for students with household income of **£25,000 or below**, declining to **£6,485** for students with household income of **more than £70,040** (and no maintenance grant).
  - **LAH** students would be eligible for a loan of **£9,597** for students with household income of **£25,000 or below**, declining to **£3,698** for students with household income of **more than £58,291** (and no maintenance grant).
- In **Scenario 3B (Scenario 3A + higher thresholds)**, we again assume the same maximum maintenance funding rates as under Scenario 3A, alongside higher eligibility thresholds:
  - **LAFHOL** students would be eligible for a loan of **£11,400** for students with household income of ***£32,535*** **or below**, declining to **£4,651** for students with household income of **more than** ***£80,921*** (and no maintenance grant funding).
  - **LAFHIL** students would be eligible for a loan of **£14,878** for students with household income of ***£32,535*** **or below**, declining to **£6,485** for students with household income of **more than** ***£90,841*** (and no maintenance grant funding).
  - **LAH** students would be eligible for a loan of **£9,597** for students with household income of ***£32,535*** **or below**, declining to **£3,698** for students with household income of **more than** ***£75,743*** (and no maintenance grant funding).
- In **Scenario 4A (same total support with means-tested loans + 'old' grants)**, in contrast to Scenarios 1A to 3B, we model **no change to the total maximum maintenance funding available**, but a **re-introduction of the 'old' system of maintenance grants**. Hence, here, we assume that:
  - **LAFHOL** students would be eligible for total maximum funding of **£9,978**, including a grant of **£4,121** and a loan of **£5,857** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **£7,918**) for household income of **£39,444**. Students with household income of **more than £62,343** would again only be eligible for a **loan of £4,651** (and no grant).
  - **LAFHIL** students would be eligible for total maximum funding of **£13,022**. This includes a grant of **£4,121** and a loan of **£8,901** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **£10,962**) for household income of **£39,197**. Students with household income of **more than £70,040** would again only be eligible for a **loan of £6,485** (and no grant).
  - **LAH** students would be eligible for total maximum funding of **£8,400**. This includes a grant of **£4,121** and a loan of **£4,279** for students with household income of **£25,000 or below**. The grant would then taper to **£0** (and the loan would increase to **6,340**) for household income of **£39,588**. Students with household income of **more than £58,291** would again only be eligible for a **loan of £3,698** (and no grant).

Assumptions and methodology

- In **Scenario 4B (Scenario 4A + higher thresholds)**, we again assume the same maximum maintenance funding rates as under Scenario 4A, but with an increase in the relevant household income thresholds, where:
  - **LAFHOL** students would be eligible for total maximum funding of **£9,978**, including a grant of **£4,121** and a loan of **£5,857** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **£7,918**) for household income of ***£51,251***. Students with household income of **more than** ***£80,921*** would again only be eligible for a **loan of £4,651** (and no grant).
  - **LAFHIL** students would be eligible for total maximum funding of **£13,022**. This includes a grant of **£4,121** and a loan of **£8,901** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **£10,962**) for household income of ***£50,913***. Students with household income of **more than** ***£90,841*** would again only be eligible for a **loan of £6,485** (and no grant).
  - **LAH** students would be eligible for total maximum funding of **£8,400**. This includes a grant of **£4,121** and a loan of **£4,279** for students with household income of ***£32,535*** **or below**. The grant would then taper to **£0** (and the loan would increase to **6,340**) for household income of ***£51,469***. Students with household income of **more than** ***£75,743*** would again only be eligible for a **loan of £3,698** (and no grant).
- In **Scenario 5**, we model the **same maintenance funding rates and thresholds as under Scenario 2B**.
- All of the above maintenance levels modelled under the different alternative scenarios relate to full-time students only. Throughout all scenarios, we assume that there would be **no change to the maintenance funding available to part-time students** (i.e. we assume that they would be eligible for the same maximum level of maintenance loans (and no maintenance grants, as under the current system)).
- In terms of **growth over time**, for all scenarios, we assume that:
  - **Students' household income** increases with UK-wide nominal average earnings growth in each year;
  - **Maximum maintenance loans** grow with forecast RPIX inflation in each year (as under the current system). Similarly, we assume that the maintenance grants modelled under Scenarios 1A, 1B, 2A, 2B, 4A, 4B, and 5 all increase with RPIX inflation each year; and
  - The **household income thresholds associated with maintenance loans and grants** (where applicable) remain constant in all years of study for the cohort.

Assumptions and methodology

Loan repayment terms

- In terms of student loan repayment terms, based on the new Plan 5 loan repayment terms (here) introduced for English domiciled students starting undergraduate qualifications from 2023-24 onwards (as part of the DfE's response to the Augar Review), under the **current funding system**:
  - Student loans accumulate **0% real interest**; instead, outstanding loan balances are only indexed against **RPI inflation** (i.e. adjusted with inflation each year), so that all graduates (irrespective of income) are charged the same interest rate[1, 2].
  - Loans are repaid at a rate of **9% of earnings in excess of £25,000** per annum (with the earnings threshold frozen until 2026-27 inclusive, and uprated with RPI inflation thereafter (also see the next slide for more information)); and
  - All loans are written off **40 years** from the Statutory Repayment Due Date (SRDD).
- Under **all alternative scenarios *except* Scenario 5**, we assume the same loan repayment terms as under the current system.
- Under **Scenario 5**, we have modelled a **stepped repayment system**, where:
  - Graduates would repay **2%** on earnings **between £25,000 and £35,000**; **4%** on earnings **between £35,001 and £45,000**; **6%** on earnings **between £45,001 and £55,000**; and **8%** on earnings of **£55,001 or more**. As in the current system, these earnings thresholds are frozen until 2026-27 (inclusive) and uprated with RPI thereafter.
  - **Interest rates** would be charged at **1.5% + RPI during study.** After graduation, individuals earning up to **£25,000** would incur interest at **0% + RPI**, increasing to **3% + RPI** for individuals with earnings of **£55,001** or above (with both thresholds again frozen until 2026-27 inclusive and uprated with RPI inflation thereafter).
  - As under the current system, the loan repayment period would stand at **40 years**.

Calculating the RAB

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

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

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

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

Assumptions and methodology

- We use the most recent OBR medium- and long-term forecasts in relation to the expected **RPI** per annum as well as expected **nominal average earnings growth** per annum (see here (for medium-term projections from the OBR's November 2023 Economic and Fiscal Outlook), and here (for long-term projections from the OBR's March 2023 Economic and Fiscal Outlook, which are the most recent long-term forecasts currently available from the OBR)). Where applicable, we also rely on historical RPI data published by the Office for National Statistics (ONS; here)[1].
- Specifically, the **loan interest rate** is usually set in September each year, based on the RPI of *March in that same year*. Hence, the RPI figure used in calculating the interest rate for academic year 2023-24 is based on March 2023 RPI data from the ONS[2]. For subsequent academic years, the OBR only publishes quarterly medium-term forecasts, and only annual forecasts (for each fiscal year) in the long-term. We therefore use the forecast for the corresponding first quarter (January to March) of each year from the OBR's medium-term projections (e.g. we use forecasts for Q1 2025 for the assumed interest rate in 2025-26), and the annual figure for the corresponding previous financial year from the long-term projections (e.g. we use forecasts for financial year 2030-31 for the assumed interest rate in 2031-32) .
- **Maximum maintenance loan levels** are uprated each year based on OBR RPIX *forecasts*. Specifically, again using the OBR's medium-term projections, we assume that maintenance loans increase with RPIX for the corresponding first quarter (January to March) of the next full calendar year (e.g. we use predicted RPIX for 2025 Q1 to forecast maintenance loan levels in academic year 2024-25). For any scenarios that include **maintenance grants**, we similarly assume that these grants increase with RPIX in each year.
- Under the new Plan 5 loan repayment terms, the **loan repayment threshold** is frozen until 2026-27 inclusive. In subsequent years, we assume that the loan repayment threshold will increase in April each year in line with RPI in the year to the *previous March* (e.g. we assume that the threshold in 2027-28 will increase in line with March 2026 RPI, again using OBR RPI forecasts for Q1 2026 as a proxy in this case[3]).
- In relation to **discount rates for the estimation of aggregate financial flows across the cohort**, for the first 30 years, we assume the standard HMT Green Book real discount rate of **3.5%** (see here), with the nominal discount rate amounting to **3.5% + RPI.** The assumed rates for Year 31 onwards stand at **3.0%** in real terms, and **3.0% + RPI** in nominal terms.
- In terms of **discount rates used to calculate the RAB charge** (which is based on expected loan repayments and loan outlay in NPV terms in constant prices, see above), we assume a discount rate of **-1.3% + RPI** up to and including 2029-30, and **-0.2% + RPI** from 2030-31 onwards (based on official HM Treasury discount rates for financial instruments to be applied as of 31st March 2023, see here and here). These discount rates match the assumptions used by the Department for Education in its forecasts of the RAB charge and the associated long-run cost of student loans (here). **Importantly, these real discount rates are lower than the current long-term real Government cost of borrowing** (i.e. Government gilt yields), since the official discount rates applied to student loans predominantly reflect *historical* rather than current gilt yields (e.g. see a recent report by the Institute for Fiscal Studies (here)). This results in a significant *underestimation* of the true Exchequer cost of providing student loans, and, therefore, an effective implicit public subsidy for these loans. While our use of the above discount rates reflects the Government's own approach to measuring the cost of student loans, this constitutes one of the key caveats associated with our estimates, as further discussed below (see this slide).

[1] Note that the Retail Price Index will be effectively abolished from 2030 onwards, after which it will equal the (lower) measure of Consumer Price Index inflation.
[2] According to the ONS data, March 2023 RPI inflation stood at **13.5%** (i.e. the Retail Price Index was 13.5% higher in March 2023 than in March 2022). As noted on the previous slide, given this exceptionally high level of inflation, the Plan 5 interest rate is currently capped at **7.5%** (as of 1st December 2023).
[3] This is the same approach to forecasting the Plan 5 loan repayment threshold that is used by the Department for Education in its own student loan forecasts for England (see here (Table 6b)).

Assumptions and methodology

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

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

- Combining this with the average 'other targeted allocations' funding per student in England (e.g. including premium funding to support successful student outcomes), the average total Teaching Grant per full-time student studying in **England** was estimated at approximately **£1,060** per year. Based on average study intensity, the corresponding average funding per part-time student was estimated at **£530**.
- To estimate the average level of Teaching Grant per student per year for students studying in **Wales**, we use HESA financial data (here) and student data (here) for the 2021-22 academic year (in the absence of more recent information). We divide the total Teaching Grant income received by institutions in Wales by the total number of relevant students to whom these Teaching Grants typically apply (where we exclude any non-EU domiciled students and higher degree research students, as well as EU first-year students (since, from 2021-22 onwards, these students are typically no longer eligible for Teaching Grant funding due to the significant changes to funding rules for EU students post-Brexit)). We again adjusted for the assumed average study intensity among full-time students vs. part-time students, to arrive at separate rates of Teaching Grant funding per student per year by study mode.
- Using this approach, we assume the following **average Teaching Grant funding rates per student per year** in other Home Nations (rounded to the nearest £10) :

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

- We assume that these Teaching Grant funding rates do *not* increase over time (i.e. we assume the same amount per student per year in every year of interest throughout the analysis here).
- The Teaching Grant funding rates are assumed to be the same across all alternative scenarios modelled here.

Assumptions and methodology

Graduate earnings

- The estimation of student loan outcomes (such as the RAB charge) relies on **forecasting the student cohort's predicted lifetime earnings** by qualification level (again broken down into first degrees, Foundation Degrees, HNCs/HNDs and other undergraduate qualifications), gender, study mode, and lifetime income decile. To estimate these lifetime earnings profiles, we make use of **pooled UK Quarterly Labour Force Survey (LFS) data for the period 2010 Q1 to 2023 Q2**, combined with information from the **1970 British Cohort Study (BCS)** (which follows a cohort of individuals born in a single week of April 1970 (in England, Wales, and Scotland), with the most recent data available for age 46 of the cohort).
- Using the **Labour Force Survey** data, we first assessed the annual salaries (expressed in June 2023 prices, inflated using Consumer Price Index (CPI) data) of individuals in possession of each of the different higher education qualifications[1]. For each type of qualification, the earnings were assessed separately by income decile (including the 1st to 9th income deciles and the 95th percentile[2]), gender, and age (for first degrees) or age band (for qualifications below degree level (due to sample size)). To generate 'smoothed' age-earnings profiles for sub-degree qualifications, the original results by age band were assigned to the mid-point of the given band (e.g. age 28 for age band 26-30), and we then assumed constant annual growth between two given mid-points (e.g. we assumed constant annual growth between age 28 (the mid-point of band 26-30) and 33 (the mid-point for band 31-35)).
- To assess the expected loan repayments for part-time students specifically (who typically start repaying their loans *during study*), we further calculated earnings by decile (and the 95th percentile) for individuals in possession of Level 3 qualifications as their highest level of attainment (used as part-time students' assumed earnings during study), again separately by age and gender.
- The LFS analysis provided us with earnings estimates by decile (and qualification level, mode, and gender), where the earnings deciles are defined *at each individual age* (e.g. the 1st decile at age 30 means that 10% of individuals in the data have earnings smaller than or equal to the given earnings *at that age*). However, to take account of graduates' income mobility over their lifetime (i.e. the extent to which graduates move across the income distribution over time), we then **combined the LFS results with an analysis of data from the BCS** (focusing on data for ages 26 to 46 of the 1970 cohort) to generate **age-earnings profiles by lifetime earnings decile**.
- Specifically, based on weekly earnings information available within the BCS data, we again divided individuals within the distribution into 10 income deciles *at each individual age* observed in the study[3]. Again, the analysis was undertaken separately by gender and qualification level attained, where we distinguished between individuals in possession of first degrees vs. all other undergraduate qualifications (note that a further disaggregation into different types of sub-degree qualifications was not possible within the BCS data).
- From the LFS analysis, we then imported the estimated annual earnings value (in June 2023 prices) corresponding to each age and income decile (again separately by qualification level[4]).

[1] This includes all individuals in possession of the given qualification, *irrespective of* whether that qualification was their highest educational attainment or not (e.g. the average earnings for individuals in possession of first degrees includes individuals who subsequently completed a Master and/or Doctorate degree).
[2] The 95th percentile here was used to approximate the earnings for individuals on the 10th decile (i.e. rather than using the actual value for the 10th (i.e. 100th percentile) within the LFS data, since this captures the maximum earnings value observed in the data in each instance and is likely to include significant outliers).
[3] Note that the BCS data is not available for each separate age but is instead based on multiple 'sweeps' of data collections undertaken at specific ages for the cohort (e.g. age 26, 30, 34, 38, 42, and 46; see here for more information). We assume here that individuals stay in the same decile between two sweeps (and stay in the last recorded decile after the age of 46). In addition, to boost sample size, imputation was undertaken in case of a respondent not being available at a given age (or missing information more generally).
[4] Again, separately for first degrees, Foundation Degrees, HNCs/HNDs, and other undergraduate qualifications.

Assumptions and methodology

Graduate earnings

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

Graduate employment probabilities

- Again using LFS data, we also calculated the **employment rate** (i.e. the proportion of individuals in employment) for individuals in possession of the different qualification levels of interest, by age/age band, and gender.
- To reflect the fact that the age of retirement is planned to be increased to age 68 (compared to 65 for most respondents in the historical LFS data), we assume that the trend in employment rates observed from the age of 55 onwards will reflect the trend currently observed from age 52 onwards (in other words, the analysis 'shifts' the decline in employment rates due to approaching the age of retirement back by 3 years). As a result, the decline in employment rates occurs at a slower rate than what is observed in the historical LFS data[2], so that our estimated employment rates at age 68 are in line with what is currently observed at age 65.
- Combining the resulting age-earnings and age-employment profiles, we then estimate the **employment-adjusted annual age-earnings profiles** of individuals in possession of each qualification, by study mode, gender, and lifetime earnings decile. We **adjust these age-earnings profiles for expected future growth, i.e. to account for the fact that earnings are expected to increase over time** (using the above-mentioned Office for Budget Responsibility forecasts of average nominal earnings growth per year (see this slide)).

[1] See this slide for more information on the assumed age at graduation by qualification level and mode among the 2023-24 student cohort.
[2] We use a 2-year annualised change to determine these new rates of decline (to provide a smoother evolution).

Assumptions and methodology

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 under each scenario. These estimates are highly uncertain, and rely on (and are sensitive to) forecasts of average earnings growth and inflation many years into the future.
  - We implicitly assume that there will be no change in HE fees and funding policy for many decades into the future (i.e. apart from any changes to loan repayment conditions modelled under the different scenarios here, we assume that there will be no further change in repayment terms for the relevant cohort going forward).
  - All our estimates are based on the 2023-24 entry cohort and are 'static' in the sense that we do *not* take account of the impact of potential funding changes on the size or characteristics of this cohort. Instead, we assume that there are no changes in the number or characteristics of students in the cohort under each scenario.
  - We also assume that the HE funding system (including loan repayment conditions) does *not* affect graduates' gross lifetime earnings.
  - To avoid excessive complexity, our estimates of graduates' lifetime loan repayments do *not* adjust for potential graduate income from investments; early or voluntary repayments; early loan cancellation (e.g. due to death or disability); or loan repayments by drop-outs.
- **Another important caveat relates to our use of official discount rates to estimate the cost of student loans.** As noted above, the official HM Treasury discount rates applied by the DfE to estimate the RAB charge and the long-run cost of student loans are substantially lower than the current Government cost of borrowing.

  Specifically, as detailed in a recent report by the Institute for Fiscal Studies (IFS, here):

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

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

Assumptions and methodology

Specifically, the Government's borrowing costs have increased significantly over the last two years, with the annual yield on 15-year gilts standing at 4.0% at the end of 2023[1], which is 1.6 percentage points higher than projected RPI (2.4%) over the next 15 years. In other words, the gilt yield equals **RPI+1.6%**. In contrast, the official discount rates for student loans stand at **RPI-1.3%** pre-2030 and **RPI-0.2%** from 2030 onwards, which are substantially lower than the current gilt yield. At the same time, with the student loan interest rate now equal to RPI under the post Augar system (rather than up to RPI+3% under the pre Augar system), student loan interest rates are now 1.6 percentage points *lower* than the current gilt yield – so that, in addition to the loss of loan write-offs, the Government now *also* makes an expected loss on loans that are fully repaid.

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

Since expected loan repayments reach far into the future, the results are very sensitive to the discount rate, so the impact of these assumptions on the size of the estimates is substantial. For example, if we instead assumed a discount rate of **RPI+1.6%** to estimate the RAB charge (to mirror the above 15-year gilt yield)[2], the estimated Exchequer cost of the current funding system associated with the 2023-24 entry cohort would increase from **£2.01bn** to **£6.77bn** (**+£4.76bn**).

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

Net Exchequer cost (adjusted for RAB)	Baseline	Scenario 1A	Scenario 1B	Scenario 2A	Scenario 2B	Scenario 3A	Scenario 3B	Scenario 4A	Scenario 4B	Scenario 5
Original estimates (discount rate of RPI-1.3%/RPI-0.2%)										
Cost of maintenance grants	-	(£3,359m)	(£4,127m)	(£1,502m)	(£1,841m)	-	-	(£1,559m)	(£1,915m)	(£1,841m)
Cost of maintenance loans	(£326m)	(£125m)	(£125m)	(£257m)	(£292m)	(£390m)	(£462m)	(£198m)	(£216m)	£775m
Cost of tuition fee loans	(£423m)	(£198m)	(£198m)	(£361m)	(£393m)	(£472m)	(£520m)	(£297m)	(£318m)	£1,066m
Cost of Teaching Grants	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	-
Total	**(£2,006m)**	**(£4,938m)**	**(£5,706m)**	**(£3,376m)**	**(£3,783m)**	**(£2,119m)**	**(£2,239m)**	**(£3,310m)**	**(£3,706m)**	**(£0m)**
Revised estimates (discount rate of RPI+1.6%)										
Cost of maintenance grants	-	(£3,359m)	(£4,127m)	(£1,502m)	(£1,841m)	-	-	(£1,559m)	(£1,915m)	(£1,841m)
Cost of maintenance loans	(£2,379m)	(£1,498m)	(£1,498m)	(£2,095m)	(£2,242m)	(£2,629m)	(£2,907m)	(£1,839m)	(£1,923m)	(£2,298m)
Cost of tuition fee loans	(£3,134m)	(£2,868m)	(£2,868m)	(£3,058m)	(£3,098m)	(£3,197m)	(£3,261m)	(£2,982m)	(£3,007m)	(£3,170m)
Cost of Teaching Grants	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)	(£1,257m)
Total	**(£6,770m)**	**(£8,982m)**	**(£9,750m)**	**(£7,912m)**	**(£8,438m)**	**(£7,083m)**	**(£7,424m)**	**(£7,637m)**	**(£8,102m)**	**(£8,565m)**

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

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