Annex

Methodology for Assessing Costs of Panel Recommendations

Summary

In Chapter 8 the independent panel for the Post-18 Review of Education and Funding provides an assessment of the likely costs of their key recommendations. An overview of how these costs are arrived at is provided within this supporting annex.

General Modelling Assumptions

1. All costs are presented in financial years, for the year 2024-25.

2. All Higher Education (HE) policies are assumed to reach steady state by academic year 2024-25. This is because it will take approximately three years for the policy changes to apply to the majority of students in study. Level 4 and 5 policy costs are shown for the same year, but we do not expect the costs to reach steady state until 2032-33, due to the length of time it will take to bed in.

3. All student finance policies are introduced for new starters to Level 4, 5 and 6 from academic year 2021/22. None of the policies are applied to starters in previous years, other than the fee freeze and repayment cap, as per the recommendations.

4. No major behavioural assumptions are assumed within these costs, other than the additional students entering Level 4-5.

5. HE student number forecasts are driven by Office for National Statistics (ONS) demographic forecasts, as published by the Office for Budget Responsibility (OBR) in their March 2019 Spring Statement[1]. In the year 2024-25, it is predicted that there will be around 1.1 million full-time prescribed HE students taking up student loans.

6. Level 4 and 5 student numbers are based on a scenario of reaching a similar proportion of students studying at this level as in France – equivalent to 310,000 students. Although other scenarios exist - higher scenarios including the same proportions as Germany; lower scenarios including small uplifts from the current level – this scenario is deemed an appropriate level of ambition for these costings.

7. All costs are shown as impacts on the deficit, based on the recent reclassification decision of student loans on the national accounts by the ONS. The methodology used here is consistent with that referenced in the OBR's Spring Statement (March 2019). The ONS will announce the final change on the methodology implementation later this year. This may cause cost estimates to change.

8. All costs shown are inherently uncertain, as they are based on forecasts of loan borrowers' future earnings over forty years in order to determine future repayments.

9. These costs have not been certified by the independent Office for Budget

[1]March 2019 Economic and fiscal outlook – supplementary fiscal tables: receipts and other, Table 3.8
https://obr.uk/efo/economic-fiscal-outlook-march-2019/

Responsibility (OBR). Future policy changes which affect Annual Managed Expenditure will need to be certified by the OBR as part of the policy costings process.

Table 1 – Model definitions and assumptions used in estimating costs

Policy & Cost Impacts	Source of Cost Estimates	Key Assumptions
Student finance Net savings from changes to repayment terms, reduction in tuition fees, freeze in per-student resources in HE, and re-introduction of maintenance grants	Student Loan Repayment Model[2]	Policy parameters were adjusted within the repayment model, according to the panel recommendations, and costs were compared against the established baseline. No behavioural change in student participation, although some students were removed separately as part of the removal of foundation year costings. For the maintenance element of the costings, we have assumed a maximum grant entitlement amount of £3,000 (for students living away from home and outside of London), tapering to £0 at a £50,000 household income threshold, with 100% take-up by all eligible students. Historical maintenance loan take-up was used to inform future loan take-up, with no changes in take-up of maintenance loans assumed.
HE Teaching grant Cost of maintaining student cash resource	DfE/OfS fundable population estimates	Student population estimates were multiplied against the estimated change in tuition fees.
Level 4 and 5 Additional investment in tuition and maintenance	FE Loan Repayment Model[2]	Policy parameters were adjusted within the Advanced Learner Loan (ALL) model, according to the panel recommendations as described for student finance above, and costs generated against the established baseline. 140,000 additional students were included in the estimates, to account for additionality due to improved qualifications and incentives, plus the assumption that a proportion of previously privately-funded learners would now take-up public funding. Lower bound estimates are based on a ten year roll-out to this level, as well as 10% fewer starts per year than in this

[2] DfE (2018) Student Loan Forecasts, England: 2017 to 2018. Accessed on 26/02/2019 via: https://www.gov.uk/government/statistics/student-loan-forecasts-england-2017-to-2018

Policy & Cost Impacts	Source of Cost Estimates	Key Assumptions
		scenario. Upper bound estimates are based on a five year roll-out to this level and the same additionality as this scenario. For the maintenance element of the costings, we have assumed that 90% of students will be entitled to the maximum loan available, and 10% of students averaging 50% of the minimum and maximum loan on offer. These estimates are based on published household income distributions at Level 3. It is assumed that 80% of the total available loan will be taken up across the board, with 100% of the available grant taken up by eligible students.
Foundation years Savings from removal of funding	Student Loan Repayment Model[2]	Based on HESA data, 27,000 loan borrowers are thought to be affected by this recommendation. We have assumed that: • 25% will go into work • 10% currently drop-out of a foundation year and are considered to end up behaving similarly in whatever they do instead • 20% go straight on to study a Level 6 qualification • 22.5% will study a Level 4/5 instead of a Foundation year or Level 6 • 22.5% will study an Access to HE course instead, of whom 18% then go onto complete a Level 6 Loan borrowers assumed to go into work or study a Level 4/5 instead result in savings. Loan borrowers who study an Access to HE will have small costs due to the ALL required to take this alternative course, but this cost will be offset by the savings of not having done a more expensive Foundation year. No assumptions are made about changes in earnings and tax revenues / benefit claims due to different educational routes taken.
FE Capital Cost of additional investment spread across a number of years.	Off-model estimates	Panel's estimate of requirement

Policy & Cost Impacts	Source of Cost Estimates	Key Assumptions
<u>Levels 2 and 3</u> Cost of extending entitlements	Off-model estimates	<u>Take-up assumptions were:</u> Level 2: 80% of the number of adults who enrolled on their first Level 2 course in 2013/14 (highest enrolment years of late). The 80% scalar was used to adjust the learner numbers for various reasons; for example, lower unemployment and the re-classification of first full Level 2 qualifications in 2016/17. Level 3: reversing the 26% fall (around 30,000 learners) in 24+ Level 3 learners caused by the switch from grant to loan in 2013. Unit costs were based on DfE internal unit cost information for these levels. Enrolment numbers were multiplied by unit costs to form estimates of steady-state in the year 2024-25.
<u>Net increase in spend on post-18 education in England</u>	**England Total** Estimated as the sum of the individual costs presented above	
Funding for devolved administrations under the Barnett formula is estimated to add an additional cost of approximately £900 million.	**Total UK Costs** The Barnett formula was applied to grant components in the above cost estimates to assess the approximate devolved population impact on the cost. This was added to the England total costs to assess the total UK costs.	