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Y Gweinidog Addysg a Sgiliau
Minister for Education and Skills



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MB/LA/2442/13

Nick Ramsay AM
Chair
Enterprise and Business
Committee

Nicholas.Ramsay@Wales.gov.uk

23 May 2013

Dear Nick,

At the Enterprise and Business Scrutiny Committee in October 2012, I agreed to make available to the Committee revised financial forecasts in respect of the higher education Tuition Fee Grant, together with an explanation for any major adjustments that have been made to the financial model since 2010.

I attach a detailed report for the Committee's information.

Yours sincerely,

A handwritten signature in black ink that reads "Leighton Andrews". The signature is written in a cursive, flowing style.

Leighton Andrews AC / AM
Y Gweinidog Addysg a Sgiliau
Minister for Education and Skills

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Higher Education Tuition Fee Grant (TFG) – Financial Modelling Update for the Enterprise and Business Scrutiny Committee

1. Purpose

- 1.1 Further to my appearance in October 2012, I agreed to ensure that revised forecasts for the tuition fee grant are made available to the Enterprise and Business Committee, alongside an explanation of any major adjustments that have been made to the model since 2010.

2. Background

- 2.1 In 2010, I announced the Welsh Government's response to the UK Government's decision to significantly increase tuition fees in England. I announced that the basic tuition fee in Wales would increase to £6,000 (since revised to £4,000) per annum from academic year 2012/2013 and higher education institutions (HEIs) should be able to charge tuition fees up to £9,000 per annum, providing they can demonstrate a commitment to widening access and other strategic objectives through fee plans approved by the Higher Education Funding Council for Wales (HEFCW). Welsh students would be eligible for a tuition fee grant to cover any real-terms increase in fees.

Governance and control

- 2.2 Student Finance policy is underpinned by a sophisticated financial model which takes into account the current financial provision set aside for higher education in Wales as well as other sources of institutional income such as tuition fees. Forecasts are reviewed regularly as new or more robust data becomes available. Updated forecasts are produced by the Knowledge and Analytical Services Department at regular points during the financial year to ensure that the latest information regarding student behaviour, demographic trends, take-up rates, socio economic factors and other relevant data are taken into account.
- 2.3 The decision to amend the assumptions contained in the model is taken by a Student Support Forecasting User Group (SSFUG) of officials which includes representatives from Higher Education Division, Knowledge and Analytical Services, Corporate Services Division and HEFCW.
- 2.4 In addition to discussions at the SSFUG, the high-level modelling assumptions are discussed at the Higher Education Funding and Student Finance Project Board and the Higher Education Delivery Programme Board. These Boards are made up of Welsh Government officials and



key delivery partners including the Student Loans Company, HEFCW, Higher Education Wales and the Welsh Local Government Association.

- 2.5 The revised assumptions, data and macro economic factors are entered into the student loan repayment model, which produces future forecasts.

3. Original tuition fee grant (TFG) financial modelling (2010/11)

- 3.1 To support the HE policy changes introduced in 2010, detailed financial modelling was carried out on the impact of increased tuition fees at universities and the additional funding that would be provided to Welsh domiciled full-time undergraduate students to cover any increase in fees.
- 3.2 In order to complete the initial modelling, a number of assumptions were made regarding expected student numbers, loan take up and a number of other factors. These assumptions were based on previous years' trend data as well as future estimates about student and institutional behaviour.
- 3.3 The original modelling for the TFG was carried out in autumn 2010 and various scenarios were modelled. The models have been released following Freedom of Information requests in February (ref Ed33) and March (ref Ed53) 2011. The modelling scenarios included maximum tuition fees of £7,000 and £9,000. The information can be found via the following link:
<http://wales.gov.uk/publications/accessinfo/disclogs/dr2011/addysg/?lang=en>
- 3.4 The policy announced in November 2010 was based on the following assumptions for academic year (AY) 2012/13:
- a maximum variable tuition fee of £7,000 per annum (pa) at Welsh and English HEIs;
 - a fee of £3,500 pa for Northern Irish HEIs; and a tuition fee of £2,190 pa at Scottish HEIs (2011/12 fee increased by inflation of 2.7%);
 - 100% of students taking up tuition fee grants;
 - financial year split: 51.5% previous AY and 48.5% current AY;
 - future years' forecasts were based on tuition fees, both loan and grant elements, increasing by inflation each year. Inflation was forecasted as 2.7% for 2012/13 onwards;
 - continuing students would not be eligible for the new support and would be subject to the existing package; and
 - table 3.1 shows the student numbers that would be eligible for support.



Table 3.1 Student numbers by Academic Year

Student number projections (thousands)	2012/13	2013/14	2014/15	2015/16	2016/17
Welsh in Welsh HEIs full fee-loans	11.991	21.982	30.433	32.837	34.182
Welsh in other UK HEIs full fee-loans	5.043	9.243	12.795	13.806	14.371
EU students	0.803	1.485	2.061	2.225	2.316
UK (non-Welsh) students in Wales	8.679	16.055	22.288	24.063	25.049

Table 3.2: Forecasts for financial year 2012-13 to 2016-17 (Based on above assumptions)

Grant/Loan (Millions)	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition Fee Loans	145.2	161.6	169.7	174.7	179.2
New Fee Grant	31.5	92.7	147.3	182.9	198.9
TFL@RAB*	47.0	53.4	58.0	61.4	62.9

* RAB – Resource Accounting Budget

3.5 The assumptions contained in the modelling were revised when institutions in Wales submitted their fee plans (to HEFCW) containing estimated fee levels. Whilst at that stage it was not possible to confirm the exact average fee level in Wales, it was decided that the modelling should take a prudent approach and assume an average fee of £9,000 pa. The revised modelling can be found in Table 3.3.

Table 3.3 Forecasts for financial Year 2012-13 – 2016-17

Grant/Loan (Millions)	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition Fee Loans	141.6	157.8	166.0	171.3	175.9
New Fee Grant	51.8	150.4	236.1	292.5	314.3
TFL@RAB	44.5	47.5	48.2	49.5	50.3

4. Tuition fee grant financial modelling (2012/13)

4.1 The final forecasts prior to academic year 2012/13 were produced in July 2012. The following assumptions were agreed:

- a maximum variable tuition fee of £9,000 pa;
- 100% of students taking up a tuition fee grant;
- financial year split: 51.5% previous AY and 48.5% current AY;
- future years' forecasts are based on tuition fees, both loan and grant elements, increasing by inflation each year. Inflation was forecast at 3.22% in 2013/14, 3.3% in 2014/15 and 3.3% in 2015/16; and

table 4.1 shows the student numbers that would be eligible for support.



Table 4.1 Student numbers by Academic Year

Student number projections (thousands)	2012/13	2013/14	2014/15	2015/16	2016/17
Welsh in Welsh HEIs full fee-loans	11.908	21.183	29.128	31.366	31.895
Welsh in other UK HEIs full fee-loans	6.149	11.148	15.397	16.580	16.860
EU students	1.079	1.962	2.730	2.948	3.000
UK (non-Welsh) students in Wales	10.614	18.753	25.601	27.501	27.953

Table 4.2: Forecasts for financial year 2012-13 to 2016-17 (as of July 2012)

Grant/Loan (Millions)	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition Fee Loans	138.9	155.3	164.3	170.8	176.1
New Fee Grant (a)	51.8	150.8	238.0	296.4	319.5
TFL@RAB	43.6	46.7	47.7	49.4	50.3

(a) £5,535 from 12/13 – difference between current fees and £9k

5. Current tuition fee grant financial modelling (2013/14)

5.1 Using up-to-date information provided by the Student Loans Company (SLC), HEFCW, UCAS and HESA and taking account of the Ministerial statement on the 13 September 2012, the following changes to the assumptions contained in the student finance model were agreed (at SSFUG meeting on 18 February 2013):

For 2012/13:

- a tuition fee of £8,680 pa for Welsh students at Welsh HEIs (HEFCW average);
- a tuition fee of £8,385 pa at English HEIs (OFFA average);
- a tuition fee of £9,000 pa at Scottish and Northern Irish HEIs;
- a tuition fee of £8,902 pa for other UK students at Welsh HEIs (HEFCW average);
- 98% of students taking up a tuition fee grant; and
- financial year split: 51.5% previous AY and 48.5% current AY.

5.2 Future years' forecasts are based on;

- a tuition fee of £8,291 pa for Welsh students at Welsh HEIs in 2013/14 (HEFCW average), 2014/15 and 2015/16;
- a tuition fee of £8,507 pa at English HEIs in 2013/14 (OFFA average) and frozen for a further year;
- a tuition fee of £9,000 pa at Scottish and Northern Irish HEIs in 2013/14;
- a tuition fee of £8,718 pa for other UK students at Welsh HEIs in 2013/14 (HEFCW average);



for Welsh domiciled students, the tuition fee loan would increase by inflation in 2013/14, 2014/15 and 2015/16, and the tuition fee grant element of fee support would decrease accordingly. Inflation was forecasted as 3.22% in 2013/14, 3.1% in 2014/15 and 3.2% in 2015/16; a tuition fee grant take-up rate of 98%; a financial year split: 51.5% previous AY and 48.5% current AY; and table 5.1 shows the number of students eligible for support.

Table 5.1

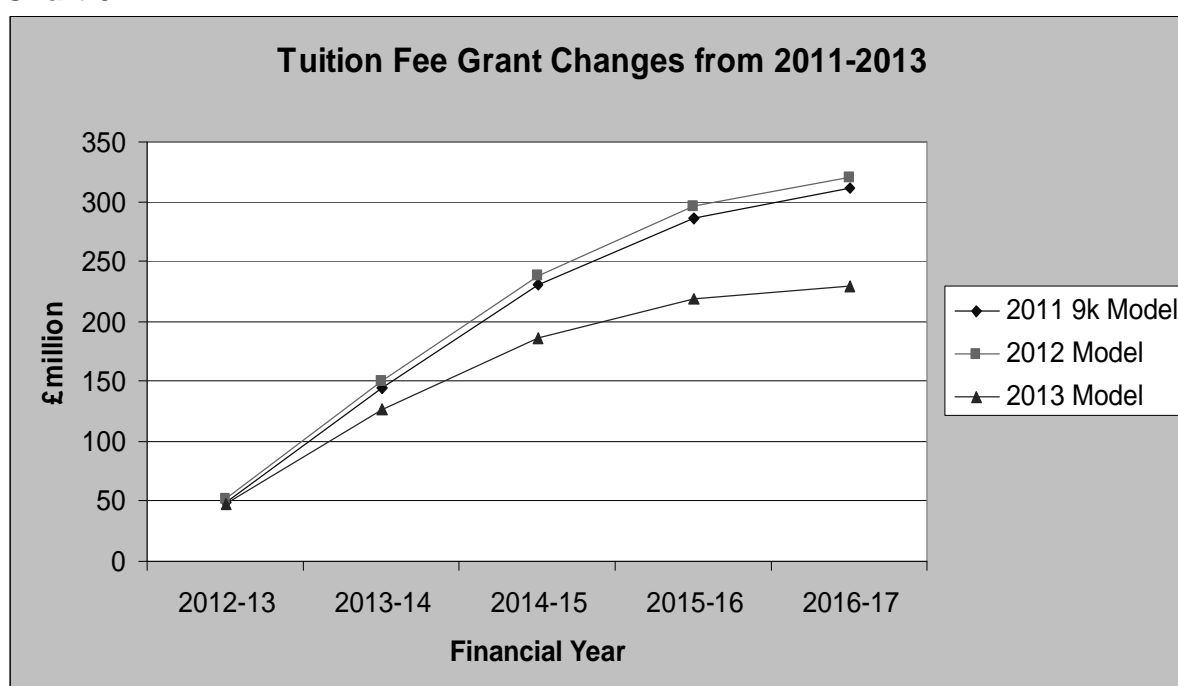
Student number projections (thousands)	2012/13	2013/14	2014/15	2015/16	2016/17
Welsh in Welsh HEIs full fee-loans	11.821	21.198	29.196	31.447	31.978
Welsh in other UK HEIs full fee-loans	6.056	11.058	15.294	16.473	16.751
EU students	1.006	1.835	2.554	2.760	2.808
UK (non-Welsh) students in Wales	11.006	19.606	26.297	28.117	28.537

Table 5.2: Forecasts for 2012-13 to 2016-17

Grant/Loan (Millions)	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition Fee Loans	139.8	155.6	164.4	171.4	176.7
New Fee Grant (a)	47.2	127.2	185.7	219.3	229.7
TFL@RAB	43.9	46.8	47.6	49.5	50.5

6. Differences in the modelling from 2011 – 2013

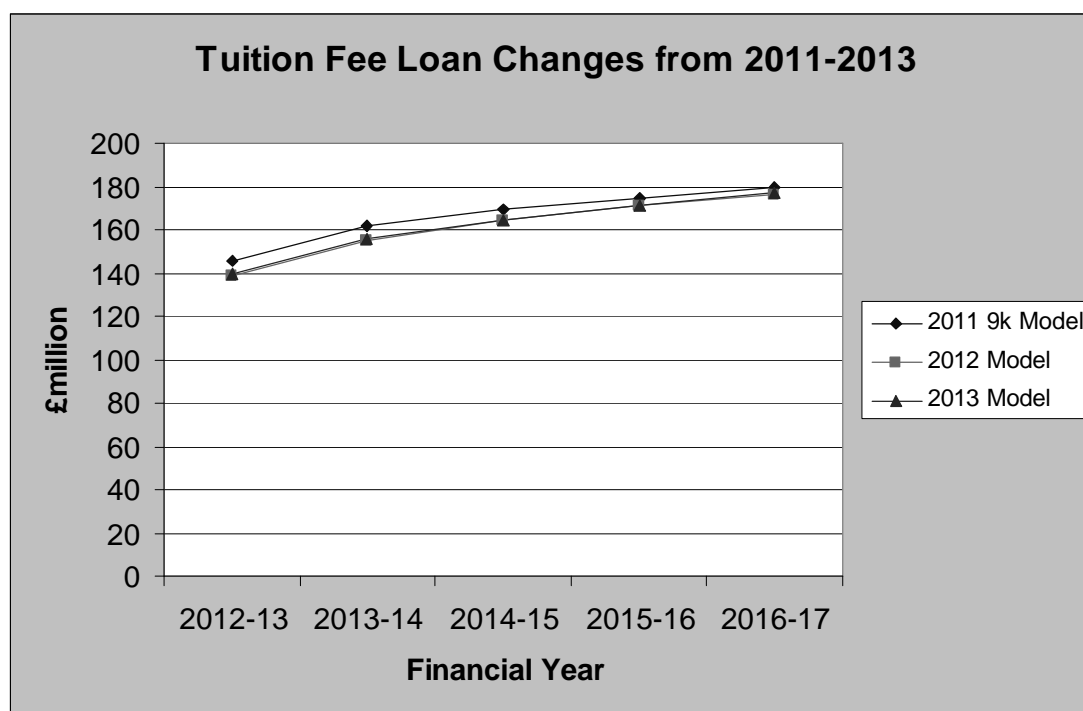
Chart 6.1





- 6.1 Since the initial forecasts the expected cost of the tuition fee grant (during the lifetime of this Government) has decreased from £1.2 billion over five years to £809 million.
- 6.2 One of the main reasons for the decrease in the forecast cost of the tuition fee grant is that the average tuition fee for Welsh students has reduced from £9,000 pa to £8,680 pa for 2012-13 and from £9,000 pa to £8,291 pa for future years.

Chart 6.2



- 6.3 There has been a slight reduction in the expected cost of the tuition fee loan, with the costs dropping from £830 million over five years to £808 million over the same period, this reflects a change in the expected take-up rate from 100% to 98% (from AY 2013/14).

7. Additional Income into HEIs

- 7.1 In addition to the tuition fee grant provided by the Welsh Government, HEIs also receive income from other sources, for example tuition fee income from non Welsh domiciled students studying in Wales and funding for research.



7.2 The following assumptions are contained in the modelling for tables 7.1 and 7.2 which assumes that:

the Welsh Government's allocation to HEFCW will be flat lined from 2015-16 but that tuition fees increase in line with inflation; and current levels of cross-border flows and student recruitment continue at current levels.

However, these figures will be dependent on the outcome of the next spending review and its impact on Welsh Government funding.

Table 7.1: forecasted additional income for HEIs in cash-terms (financial year)

£millions	2012-13	2013-14	2014-15	2015-16	2016-17
Funding body grants	269	221	180	160	160
Full-time undergraduate / PGCE fees:	304	414	494	544	565
<i>Current level of fees</i>	<i>240</i>	<i>239</i>	<i>240</i>	<i>245</i>	<i>252</i>
<i>Higher additional fee income</i>	<i>37</i>	<i>101</i>	<i>148</i>	<i>175</i>	<i>183</i>
<i>English contribution</i>	<i>27</i>	<i>74</i>	<i>107</i>	<i>124</i>	<i>130</i>
Other fees and education contracts	196	202	208	215	221
Research grants/ contracts	170	173	178	184	189
Other income	278	283	291	301	309
Total	1,217	1,292	1,352	1,403	1,444



Chart 7.1

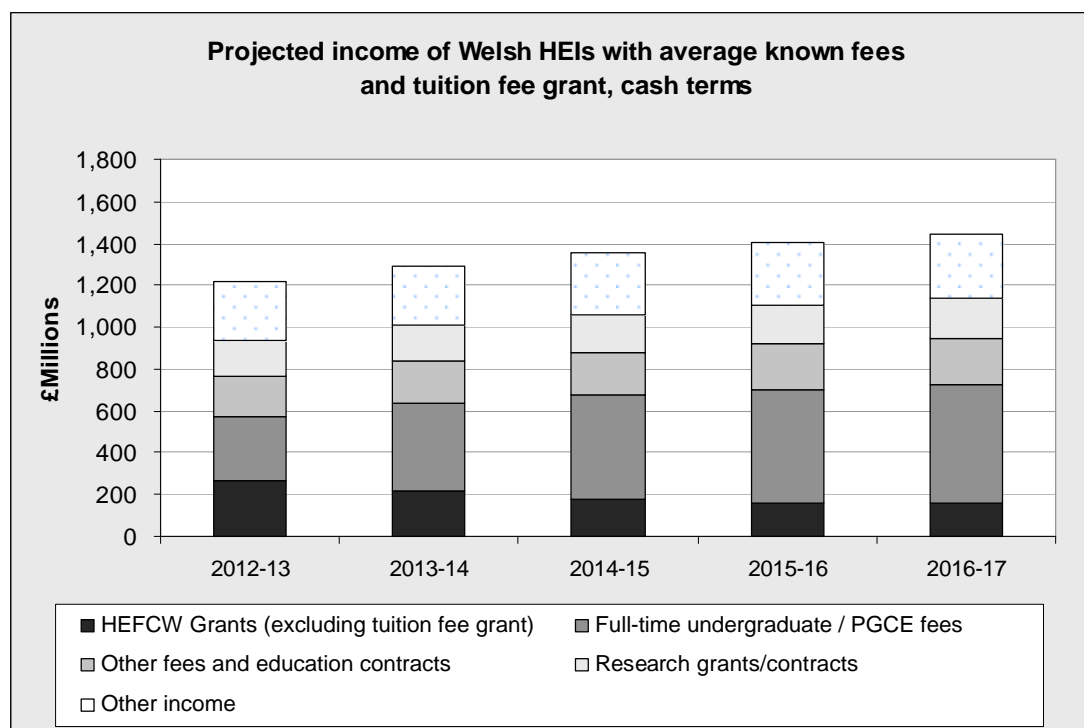
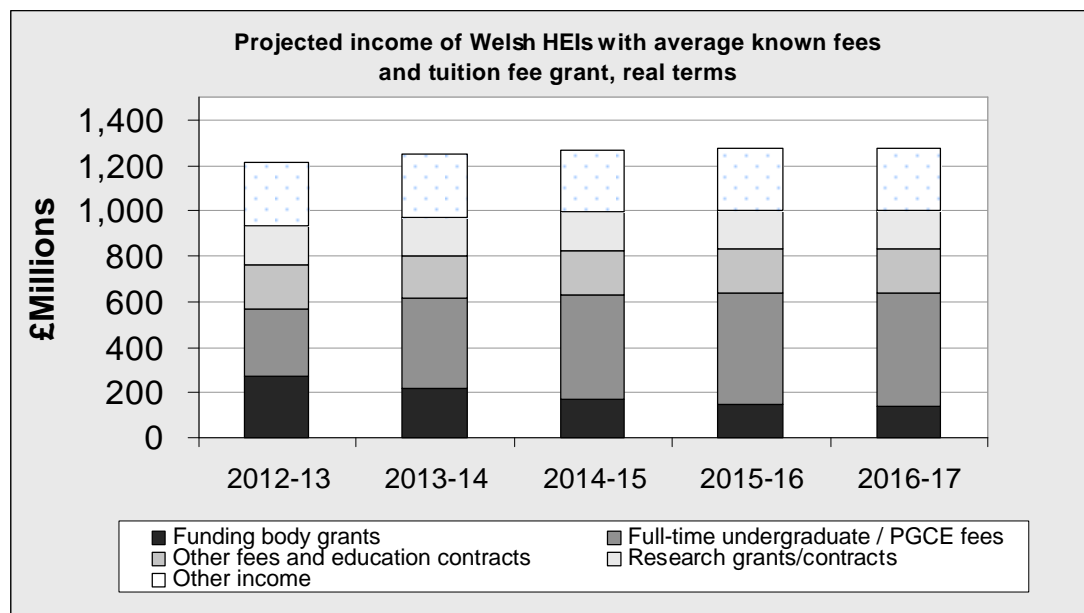


Table 7.2: forecasted additional income for HEIs in real-terms (financial year)

	2012-13	2013-14	2014-15	2015-16	2016-17
Funding body grants	269	214	169	145	142
Full-time undergraduate / PGCE fees:					
<i>Current level of fees</i>	237	230	223	221	220
<i>Higher additional fee income</i>	36	96	137	158	160
<i>English contribution</i>	27	71	99	112	113
Other fees and education contracts	193	193	193	193	193
Research grants/contracts	170	170	170	170	170
Other income	278	278	278	278	278
Total	1,209	1,252	1,270	1,277	1,277



Chart 7.2



- 7.3 In real-terms, income to Welsh HEIs is projected to increase over the next five financial years.
- 7.4 Income from funding body grants is projected to decrease over the next few years. However, the contribution from non Welsh domiciled students' fees is expected to increase. All other sources of income are likely to remain at a relatively similar level.

8. Cross-border flows

- 8.1 Wales is a net importer of students from other parts of the UK, and as a result institutions in Wales receive far more fee income from those students than HEFCW pays in fee grant to institutions outside Wales.
- 8.2 Chart 8.1 shows the value of fees projected to be paid by HEFCW to HEIs outside Wales and the value of fees projected to be received by Welsh HEIs from outside Wales.



Chart 8.1

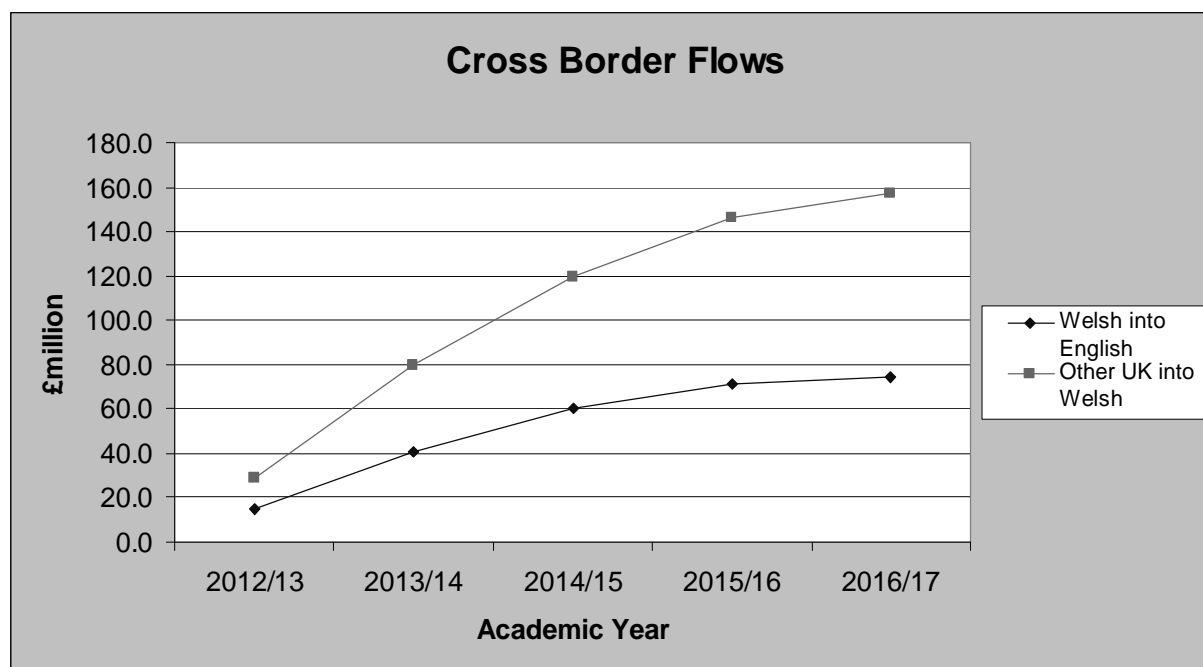


Table 8.1 Student numbers by academic year

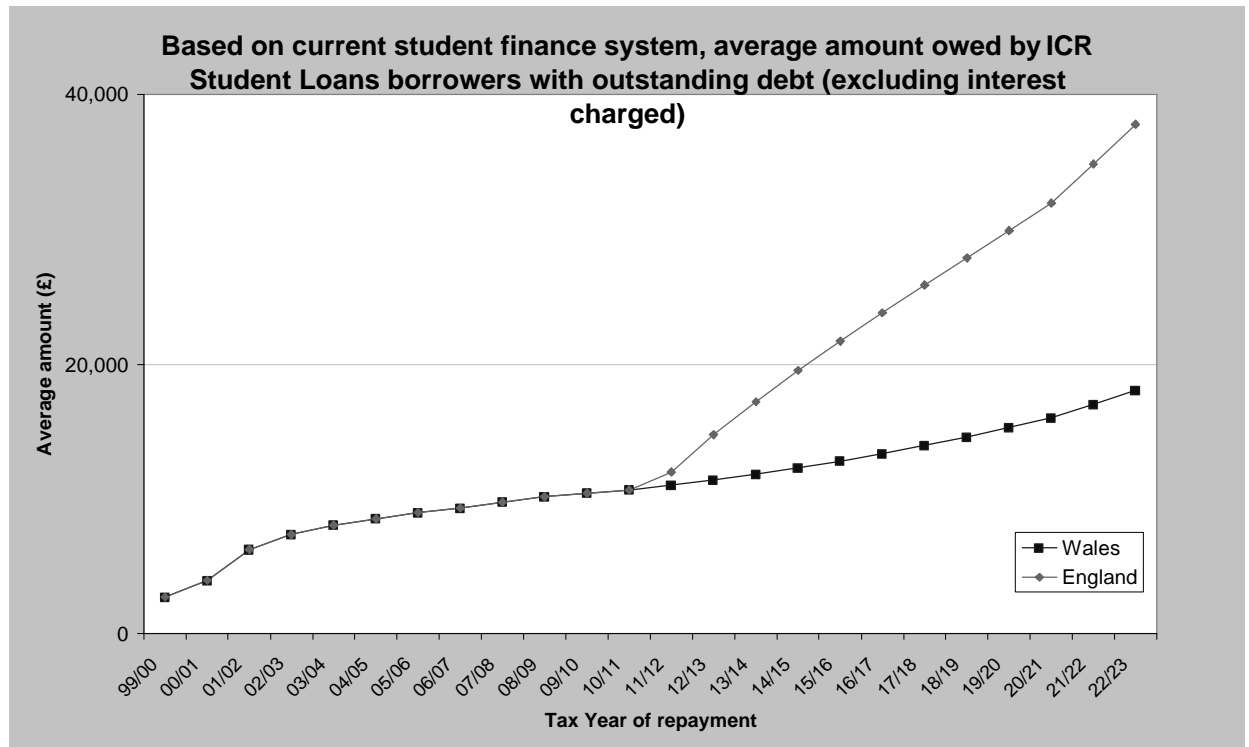
£million	2012/13	2013/14	2014/15	2015/16	2016/17
Welsh into English	15.1	41.1	60.3	71.3	74.7
Other UK into Welsh	29.0	79.7	119.5	146.4	157.0

9. Student Debt

- 9.1 The Programme for Government commitment (and in its predecessor “One Wales”) to students to mitigate the cost of any increase in tuition fees introduced by the UK Government has been driven by our belief that that access to higher education in Wales should be on an individuals ability not what they can afford to pay.
- 9.2 Chart 9.1 forecasts the projected debt level for Welsh domiciled students when compared to their English counterparts during the next 10 years (based on the current student finance systems in both countries, excluding interest charges). It demonstrates the impact that the tuition fee grant and the partial cancellation of maintenance loans policies have had on Welsh students.



Chart 9.1



Notes:

- i. For illustrative purposes only. Exact figures for projections should not be used.
- ii. Historic data up to present (including 2011/12 totals) is based on Student Loan Company data on numbers of borrowers and total amount owed.
- iii. Projections based on most recent 4 year average of changes in numbers of borrowers and amount owed.

10. Conclusion

- 10.1 The tuition fee policy introduced in 2012/13 will remain in place for the term of this Government. The policy has been fully costed and remains sustainable.
- 10.2 Even in the current economic climate and with significant pressures on government funding, income to the HE sector in Wales remains strong and is forecast to increase over time without significantly increasing debt on the part of Welsh domiciled students.
- 10.3 The financial model that supports this policy is reviewed on a monthly basis by officials and updated when new information is obtained.