Explanatory Memorandum to the Education (Student Loans) (Repayment) (Amendment) Regulations 2018

This Explanatory Memorandum has been prepared by the Higher Education Division and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Education (Student Loans) (Repayment) (Amendment) Regulations 2018. I am satisfied that the benefits justify the likely costs.

Kirsty Williams AM
Cabinet Secretary for Education
5 March 2018

1. Description

The Education (Student Loans) (Repayment) (Amendment) Regulations 2018 further amend the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470). The amendments increase the repayment threshold and interest rate thresholds for Welsh borrowers with undergraduate loans relating to courses started in or after academic year 2012/13.

2. Matters of special interest to the Constitutional and Legislative Affairs Committee

The Education (Student Loans) (Repayment) (Amendment) Regulations 2018 ("the 2018 Regulations") amend the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470) ("the 2009 Regulations"). The 2009 Regulations were made as composite regulations by the Welsh Ministers (in relation to Wales) and the Secretary of State and they govern repayments of student loans by borrowers who have taken out income-contingent loans for courses which began on or after September 1998. The 2009 Regulations contain provisions (not devolved to the Welsh Ministers) which are made by the Secretary of State in relation to England and Wales which concern the tax system operated by Her Majesty's Revenue and Customs (HMRC). Some other provisions are made by the Welsh Ministers in relation to Wales and the Secretary of State in relation to England.

This composite statutory instrument is subject to the negative resolution procedure in the National Assembly for Wales and in the UK Parliament. Given the composite nature of the 2009 Regulations and that no routine Parliamentary processes exist by which to lay bilingual regulations before Parliament, these Regulations will be made in English only.

3. Legislative background

The relevant legal powers to make these Regulations are set out in sections 22 and 42 of the Teaching and Higher Education Act 1998.

The functions of the Secretary of State under section 22 of the Teaching and Higher Education Act 1998 as regards to Wales were transferred to the National Assembly for Wales by section 44 of the Higher Education Act 2004, except for those functions under section 22(2)(a), (c), (j) and (k), 3(e) and (f) and (5). Functions under sub-sections 22(2)(a), (c) and (k) are exercisable by Welsh Ministers concurrently with the Secretary of State in relation to Wales. The functions in sections 22(2)(j), 22(3)(e) and (f) and section 22(5) remain Secretary of State functions in relation to Wales. The functions so transferred and which became exercisable concurrently subsequently became functions of the Welsh Ministers by virtue of section 162 of, and paragraph 30 of Schedule 11 to, the Government of Wales Act 2006.

This instrument will follow the negative resolution procedure.

4. Purpose & intended effect of the legislation

Loans are made available to support eligible students ordinarily resident in Wales undertaking designated courses of higher education. The 2009 Regulations provide for the repayment of those loans to Her Majesty's Treasury. The terms of the repayment are set in order to balance the need for adequate returns to the taxpayer while ensuring loans are not a disincentive to undertaking higher education. From time-to-time, the terms of repayment are assessed to ensure this balance is appropriate. The changes described below will ensure that loan repayments are affordable for those repaying them, while providing a reasonable return to the taxpayer.

A summary of the changes is set out below.

Income contingent student loans were introduced in 1998. Currently, the 2009 Regulations set an income threshold for repayment, below which borrowers are not required to make repayments of their loans. Borrowers earning above that repayment threshold are required to make repayments of a set percentage of the portion of their income that falls above that threshold. For undergraduate borrowers who started their courses in or after the 2012/13 academic year, the repayment threshold is currently £21,000.

The interest rates which apply to these undergraduate student loans differs according to whether the borrower is studying for their course, whether the borrower has finished studying on the course, and how much the borrower is earning. Currently, whilst a borrower is studying their loan accrues interest at a rate equal to the Retail Price Index ('RPI') plus three percent. When a borrower has finished their studies and their income if £21,000 or less, the loan accrues interest at RPI. Where the borrower's income is between £21,001 and £41,000 the loan accrues interest at between RPI and RPI+3% (rising as income rises). Where a borrower has finished their studies and is earning more than £41,000, the loan accrues interest at RPI+3%. Similar provisions apply to overseas borrowers.

The 2018 Regulations will make changes to the repayment and interest rate thresholds for borrowers with undergraduate loans taking out after 2012 ('post-2012 loans'). The changes will apply to those who have already taken and those who will take out such loans:

(a) <u>Interest rate on post-2012 loans</u> – changes to both the lower and higher interest thresholds. The lower interest rate threshold will increase from £21,000 to £25,000 and the higher interest rate threshold will increase from £41,000 to £45,000. The 2018 Regulations will also provide for these thresholds to be adjusted annually in line with average earnings for the year ending 5 April 2020 and years thereafter. The measure of average earnings will be taken from the Office for National Statistics Average Weekly Earnings EARN01 dataset. Provision will also be made to update both the lower and higher interest threshold bands for borrowers overseas accordingly. Student loan borrowers who are resident overseas are unable to repay their student loans through HMRC and instead make repayments directly to the student loans company through a repayment plan based on their income. The applicable interest thresholds for these borrowers vary according to where in the world the borrower resides. The 2009 Regulations prescribe seven applicable threshold bands into which borrowers are assigned based on their country of residence (countries are assigned to bands annually using World Bank data which takes into account the cost of living in different countries). The 2018 Regulations amend and include provision to update those interest thresholds in line with borrowers who are resident in the UK. The interest rate on postgraduate Master's degree loans will remain at RPI + 3%.

(b) Repayment thresholds: The repayment threshold will increase from £21,000 to £25,000. The 2018 Regulations will also provide for this threshold to be adjusted annually in line with average earnings for the year ending 5 April 2020 and years thereafter. As for interest rate thresholds described above, the measure of average earnings will be taken from the ONS dataset. The 2018 Regulations will make similar changes for overseas borrowers making income-related payments. The applicable repayment threshold for borrowers who are resident overseas varies according to where in the world the borrower resides. There are seven applicable threshold bands into which borrowers are assigned based on their country of residence. The 2018 Regulations amend and include provision to update those thresholds in line with borrowers who are resident in the UK. The repayment threshold for postgraduate Master's degree loans will remain £21,000.

5. Consultation

There is no statutory requirement to consult on these regulations. The number of changes are small and all benefit the borrower. Further, the window of opportunity to make the 2018 Regulations was limited. The UK Government, which is also introducing this change via these composite regulations, did not consult. It was decided, on balance, that making these Regulations was of clear benefit to the borrower and consultation was likely to only delay and complicate introduction as the opportunity to make composite regulations would risk being missed.

6. Regulatory Impact Assessment

Background

To offset the increase in tuition fees implemented in Wales in 2012 and a similar rise in England, the Welsh Government introduced new support arrangements from academic year 2012/13. From that academic year, new full-time undergraduate students ordinarily resident in Wales became eligible to receive a tuition fee grant to cover any increase in fees (up to a £9,000 maximum) beyond the level set in 2011/12, regardless of where in the UK they wished to study. EU students studying in Wales also became eligible for the grant if studying at Welsh higher education institutions. Maintenance support for living costs, in the form of grants and loans, continued to be made available. Tuition fee and living costs loans are repaid by the student once they leave their studies and begin earning over a certain income threshold level. Other changes made at that time included raising the income threshold for student loan repayments from £15,000 to £21,000.

A Revised Repayment Policy

On 9 October 2017, the UK Government's Department for Education announced changes to the student loan repayment system. The changes would apply to those who have taken out undergraduate loans for courses starting since 2012 and to those who will take out such loans. The policy rationale for applying the changes to all post-2012 borrowers (rather than, say, all new borrowers after the 2018 Regulations are made) is to ensure all borrowers who were subject to the fee increases in 2012 and face repayment over the coming years are treated equally. The Welsh Government is conscious of the burden of debt faced by students (as evidenced by its provision of grants for students, in comparison to England where grants are no longer available) and intends that all those with post-2012 debt are treated equally during the period of repayment, which can be up to 30 years. In addition, applying the changes differently to England would see Welsh borrowers disadvantaged compared to their English counterparts.

The changes are outlined below:

- an increase to the student loan repayment threshold (i.e. the earnings threshold above which student loan borrowers are required to make repayments on their student loans) from £21,000 to £25,000 for the 2018-19 financial year, to be adjusted annually in line with average earnings thereafter; and

- changes to how interest rates are applied to student loans – the table below provides explanation.

Interest rates applied to outstanding loan balances

While studying		
Retail Price Index (RPI) plus 3%.		
After leaving, earning		
Currently	**From April 2018**	**Interest rate**
£21,000 or less	£25,000 or less	RPI
Between £21,000 and £41,000	Between £25,000 and £45,000	RPI plus up to 3%, depending on income
£41,000 and over	£45,000 and over	RPI plus 3%

Options Appraisal

Option 1

Do nothing.

To do nothing in response to the changes announced in England for post-2012 student loan borrowers would have negative consequences for borrowers ordinarily resident in Wales. They would not benefit from the higher income threshold at which repayment begins and would not benefit from the adjustment to interest rates. They would be materially disadvantaged in comparison.

Option 2

Make the regulations.

To introduce the policy would see the continuation of a progressive and affordable repayment system and directly benefit borrowers.

The Welsh Government must consider the financial constraints imposed upon it by Her Majesty's Treasury in determining repayment policy. There is no scope to negotiate a different repayment policy in the timescales in which these regulations are to be made. In addition, repayments are operated as a single unified system for England and Wales by Her Majesty's Customs and Revenue, further constraining the ability to change repayment policy in the short and medium term. Therefore, the two options above are the only viable options.

Costs & benefits

Option 1

There is no change to the cost incurred by Welsh Government under this option. The cost to students is also unchanged. However, the obvious benefits to students of a more advantageous interest rate structure would not be realised, nor would the rise in the income threshold at which students must start to repay.

Option 2

There is an increased cost to the Welsh Government via the Resource Accounting and Budgeting charge ("the RAB charge", see below) – a potential reduction in the return via the interest paid on debt and a potentially lower overall repayment rate (as the threshold rises) means an increased cost to Government. These costs are passed on to the Welsh Government via the RAB charge. The RAB charge represents the Government subsidy on the provision of loans, and is a measure of the estimated cost to Government of borrowing to support the student finance system. It is the amount of loan outlay each year that is expected to never be paid back to Government. The RAB charge is calculated by converting forecasted future loan write-offs and interest subsidies to net present value terms.

Benefits, distributional impact and student debt

If these regulations are not made, Welsh borrowers will be worse-off than their English counterparts. Borrowers will benefit directly by the amounts presented in the analysis below.

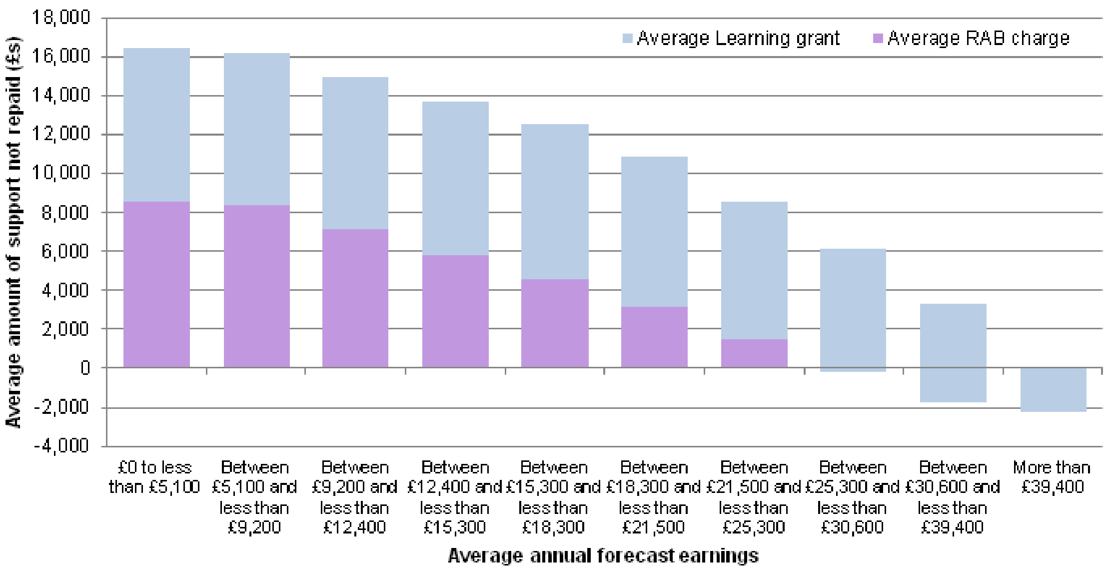
All else equal, these changes reduce the total debt owed by many students by reducing the interest rates charged on their outstanding balance. An increased number of students may never enter repayment as the threshold rises.

Whether this support policy changes the distribution of participation across lower income bands is uncertain. The more recent changes to student support, both here and across the UK, indicates there is limited affect. It is assumed the changes in part time support will increase participation, but the detail and distributional impact of this is not currently know and analysis is not available to use as a baseline. The uncertainty is where the any new part time students may come from e.g. from what would be the 'current' full time demographic, or new students out with the current student demographic.

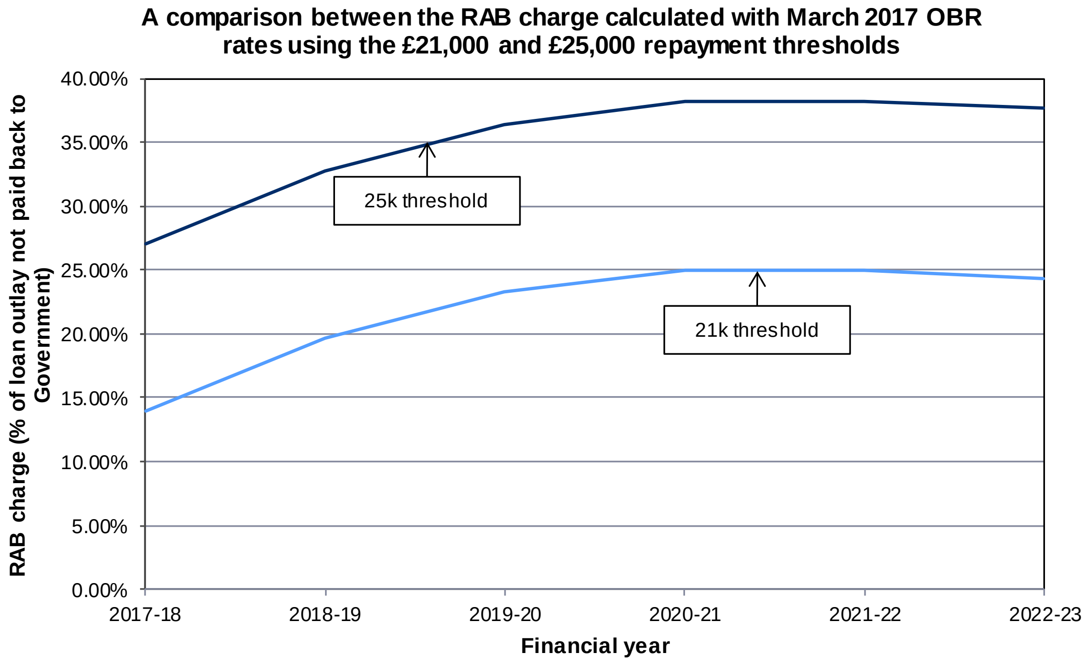
The amount of outstanding debt a student has is, like all debt, a function of the amount borrowed and the applicable rate of interest (in the case of student loans, and as explained above, various interest rates apply). The thresholds at which the rates of interest apply have been increased, which is equivalent to reducing the overall interest rate, reducing the overall burden of debt, and which, all else equal, will shorten the length of time a borrower is in repayment. The actual effect depends on a borrower's income over time. This is influenced by a number of things, including the general economic health of the UK (both in terms of wage inflation and interest rates) which is something we have little control over. The net gain to borrowers as a group is summarised by the change in the RAB charge (see below) which will rise as a result of these changes. This indicates that borrowers will, on average, repay less and thus the Welsh Government subsidy, captured by the RAB, will rise.

This is a cost to the Welsh Government. There is also a small distributional impact amongst borrowers. Those who earn between £21,000 and £25,000 will no longer be required to repay their debt, improving their position. Similarly, as the interest rate thresholds have been adjusted, some students (those who no longer pass the new upper thresholds) will see their relative position improve. For example, a borrower whose earnings peak at, say, £42,000 will not see the highest rate of interest apply to their debt as they would have under the 2009 Regulations, improving their position. The chart below illustrates the amount of support that will not be paid back under the new repayment policy by income level.

Student support not paid back by income level



The chart below shows the impact that the change in repayment and interest thresholds is expected to have on the RAB charge of post-2012 borrowers (the percentage of loan outlay each year that is expected to not be paid back to Government). Each income band has a similar number of borrowers in each. The total number of borrowers with outstanding loan amounts at the end of 2016-17 was around 305,000. The number of new borrowers each year is around 25,000. The calculations were carried out using the March 2017 economic determinants from the Office for Budget Responsibility (OBR). The RAB charge is expected to rise by a little over 13 percentage points. This means that an additional 13 per cent of the loan outlay each year is expected to be written off as a result of the change in repayment and interest thresholds.



The analysis above is part of detailed modelling of these changes, which is included as an annex to this Assessment. Despite this extensive modelling there remain some uncertainties around the distributional and other impacts of these changes, due to the overwhelming complexity of modelling these aspects, including:

- there may be wider benefits if students at the margins are encouraged to participate when they otherwise wouldn't. Evidence from elsewhere suggests this effect is likely to be relatively small;
- an overall reduced debt level may have a positive economic impact via increased expenditure;
- there are likely to be consequences from how the aggregate changes affect people from different backgrounds across the distribution of earnings and over time;
- there may be some deadweight loss where the changes do not affect student decisions and where students do not need assistance with repayments; and
- there are potential distributional and efficiency impacts of transferring taxpayer funds to borrowers, either where the graduates are higher than average earners or where they are unable to benefit from their degree.

Costs

The table below shows the effect that the rise in the repayment threshold to £25,000 and interest thresholds to £25,000 and £45,000 will have on the cost to Government. The cost to Welsh Government of loans given out to post-2012 borrowers in 2017-18 is expected to rise by £57.0million to £117.5million. The cost to Government is predicted to increase over the following few years.

A comparison between the cost to government of post-2012 (undergraduate) borrowers with the 21k and 25k thresholds, using March 2017 OBR rates

£000,000s

	2017-18	2018-19	2019-20	2020-21
Cost to government				
with the £21,000 threshold	60.5	109.8	154.8	187.9
with the £25,000 threshold	117.5	183.2	241.5	286.4
Difference	57.0	73.4	86.7	98.5

Predictions for student loan repayments, and in turn the RAB charge and cost to Government of student loans, are dependant on various economic determinants. When the Office for Budget Responsibility (OBR) publish forecasts for these economic determinants in November and March each year the RAB charges and cost to Government can change.

For example, if earnings growth, the discount rate or the base rate were to increase, the RAB charge would decrease. On the other hand, if RPI were to increase, the RAB charge would increase.

The table and chart above were created using the March 2017 OBR forecasts. The values they show could either rise or fall depending on how the OBR forecasts change.

Competition assessment

The making of these Regulations has no impact on the competitiveness of businesses, charities or the voluntary sector.

Post implementation assessment

The repayment regulations are revised from time-to-time and are subject to review, both by policy officials and delivery partners in their practical implementation.

Summary

The making of these Regulations is necessary to establish the basis for, and update aspects of, the repayment of loans for student support in higher education for borrowers ordinarily resident in Wales.

Appendix

Detailed cost modelling

1. A comparison between the results of Plan 2 and Plan 2 Diamond

This paper provides an overview of the forecast impact of recent policy changes on the cost of providing student loans. The focus is on the forecast impact of Diamond. Recent changes to the lower and upper earnings and interest thresholds (changing from £21,000 to £25,000 and £41,000 to £45,000 respectively) and revised maximum tuition fee levels are considered. Once finalised and agreed the methods and assumptions for modelling Diamond will be used for HE finance returns.

Introduction

This document provides an overview of the impact of the Diamond reforms; comparing Diamond assumptions to status-quo (do nothing). Future borrowers are identified in the Plan 2 borrower data (received from DfE, Nov 2016).

Assumptions

- A summary of the loan outlay for individual borrowers in AY2015/16 is used to estimate the grant allocated and likely loan amounts under Plan 2 Diamond.
- The proportion of borrowers living at Parental Home, Elsewhere or Elsewhere (London) in 2018/19 onwards (for Plan 2 Diamond) remain the same as observed in 2015/6 borrower data. The likelihood of borrowers taking out a tuition fee or living costs loan (by residence category) in 2018/19 onwards remains the same as observed in 2015/6 borrower data
- To compare Plan 2 Diamond to the status quo (Plan 2), the average grant per borrower given out for Plan 2 is the same in 2018/19 as in the 2015/16 data. The average grant per borrower given out for Plan 2 Diamond is calculated using the 2015/16 data.

Results

The allocation of student support to borrowers for Plan 2 Diamond forecast is based on a generated cohort of borrowers from 2015/16 SLC data, where household income is known. This cohort is entered into the StEP Plan 2 model to forecast borrower earnings and repayments for Plan 2 and Plan 2 Diamond respectively. For summarising the analysis, the average lifetime earnings of the cohort are split into 10 equally sized categories. These 10 categories are then used to report the average grant and loan amounts issued by reported household earnings (note that the categories are not equal sized for charts 2 a and 2b), and repayment expected of loans by borrower earnings (charts 3a,b, 4a,b, and 5 contain 10 equal sized categories of borrower earnings).

Change in RAB charge

The impact on the RAB charge of Diamond is substantial. Moving from all future borrowers receiving pre-Diamond support levels (P2) to all future borrowers receiving Diamond support levels incurs a ~14 percentage point increase in RAB. Because the Diamond support levels also increase the average loan amount per borrower, this translates into an even larger amount of financial cover being required.

Recent policy changes require additional modelling of P2 phased out and Diamond implemented in 2018/19, which is illustrated in Table 1 (see annex for charts explaining the effect of the threshold change).

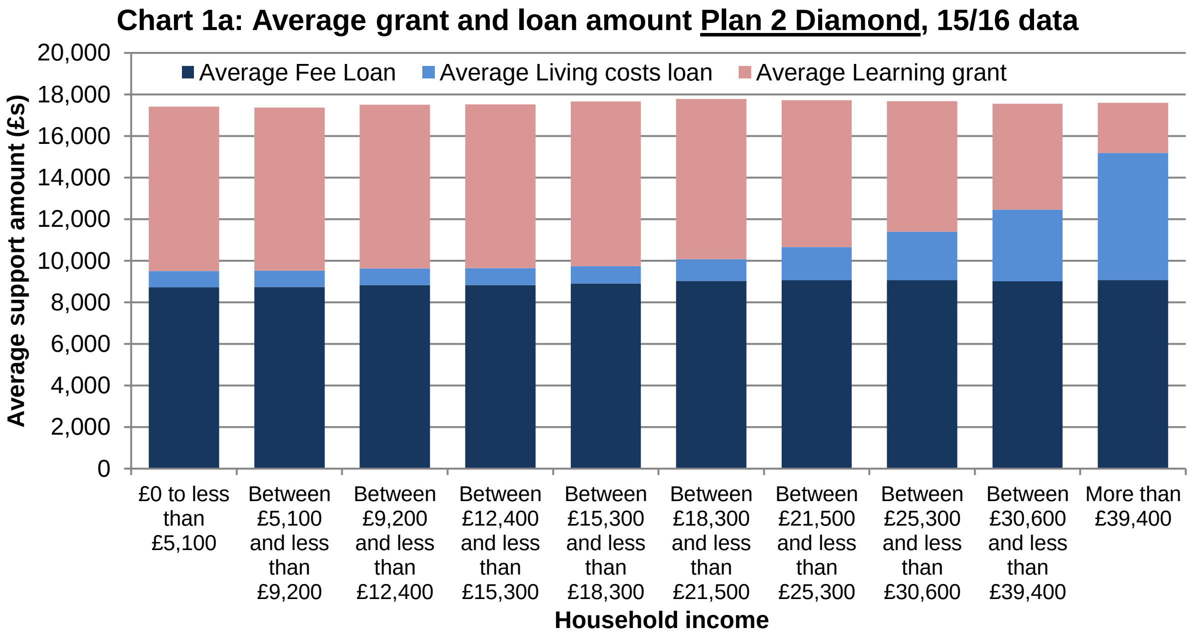
Table 1: RAB over time by Plan Type

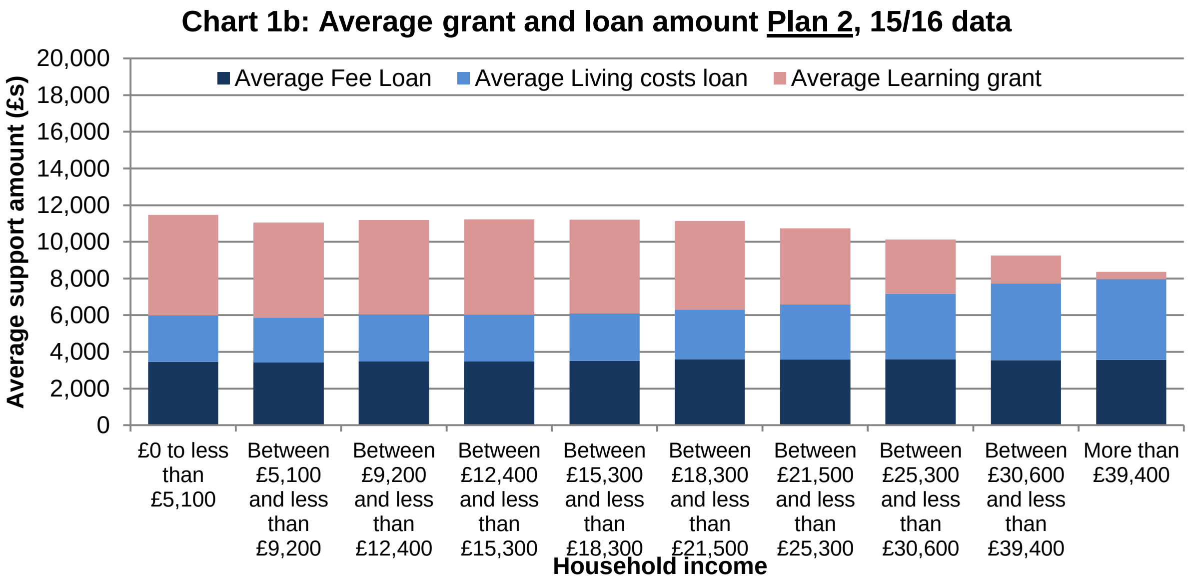
Scenario	2016-17	2017-18	**2018-19**	2019-20	2020-21	2021-22	2022-23
Plan 2 (as was, pre Diamond)			**13.7%**				
Diamond only (£21,000 threshold, £9,550 fee)			**27.4%**				
Phase out P2, phase in Diamond (£21,000 threshold, £9,000 fee)	15.6%	18.7%	**22.6%**	25.3%	25.1%	24.5%	23.9%
Phase out P2, phase in Diamond (£25,000 threshold, £9,000 fee)	28.6%	27.2%	**32.5%**	35.9%	37.6%	37.4%	36.9%
Additional partial cancellation	*4.41%*	*4.41%*	***4.41%***	*4.41%*	*4.41%*	*4.41%*	*4.41%*

Total support

- In Plan 2 Diamond the total support package available is equal for all borrowers. It is assumed that not all borrowers took out the full amounts of the living costs and/or tuition fee loans, which accounts for the variation in the average support taken (Chart 1a).
- In line with expectations of the Diamond package, the fee loan is stable across all borrowers and the learning grant decreases as household income increases. The average living costs loan taken increases due to social mobility effect[1] implicit in the borrowing data.
- In Plan 2 the total support received decreases as household income increases due to the expectation of parental/guardian support for high household income students (Chart 1b).

[1] Students from high earning households are more likely to live away from home or study in London, and are therefore eligible to access a larger loan amount.

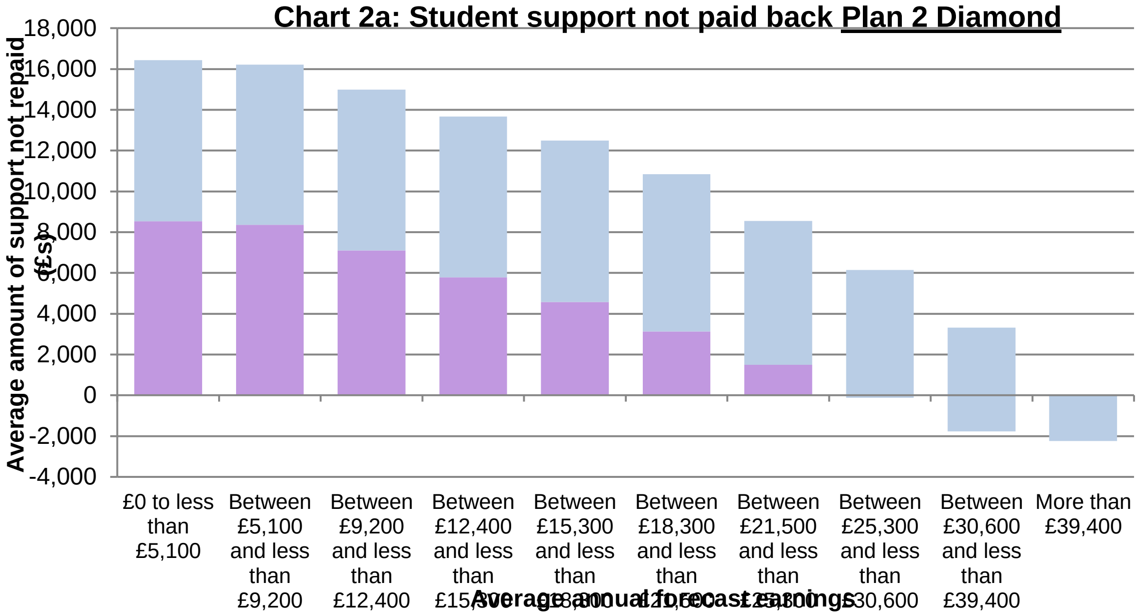


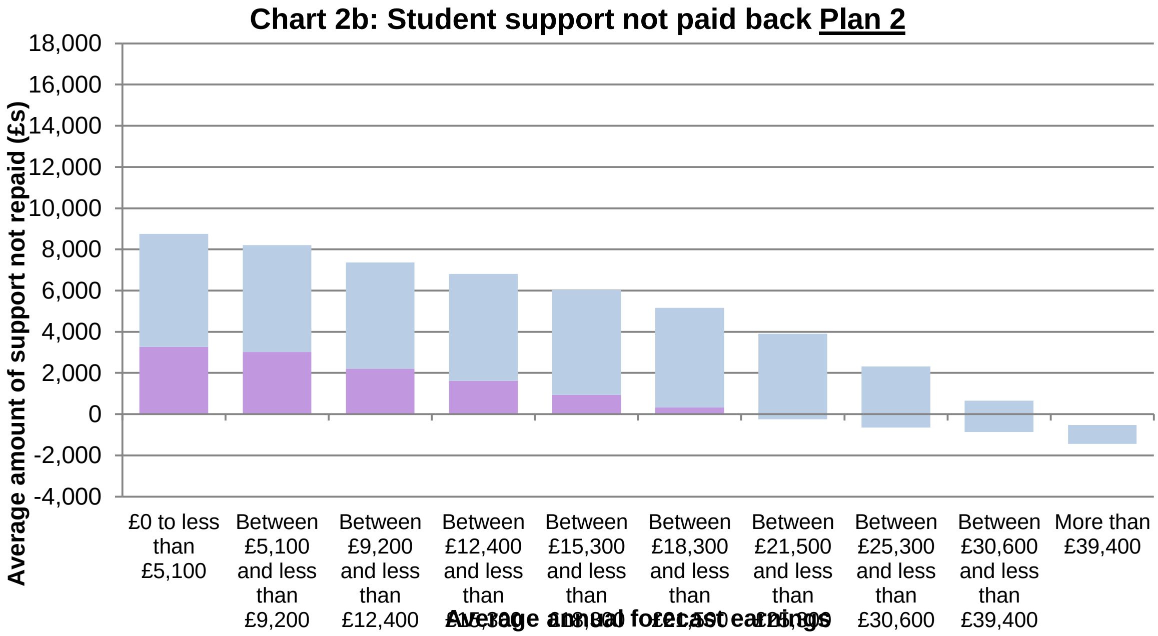


Support expected to be repaid

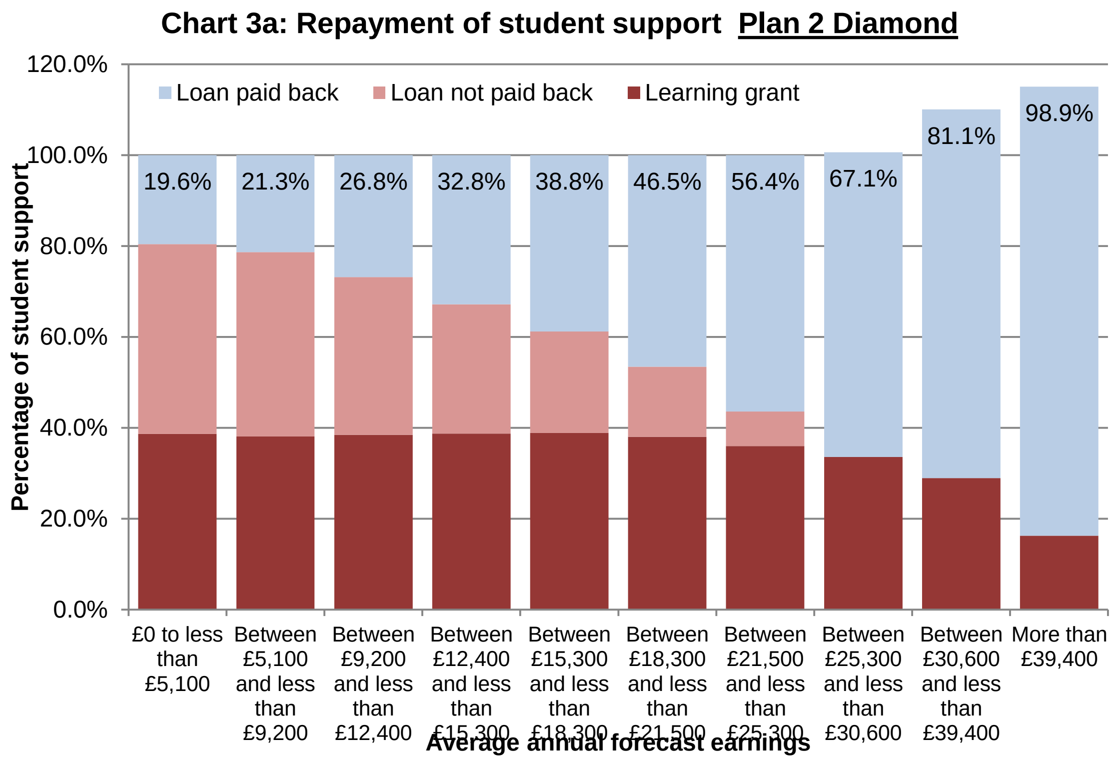
- Charts 2 show the average cost to the government of borrowers split by average annual forecast earnings over their lifetime.
- Borrowers with an average annual forecast earnings of £0 to less than £5,100 have the highest RAB charge and present the highest cost to government.
- Borrowers with average annual forecast earnings over £25,300 have a negative RAB, meaning that they repay more than originally borrowed due to interest. Many of these borrowers received a learning grant, but their overall support cost is reduced because of the negative RAB charge.

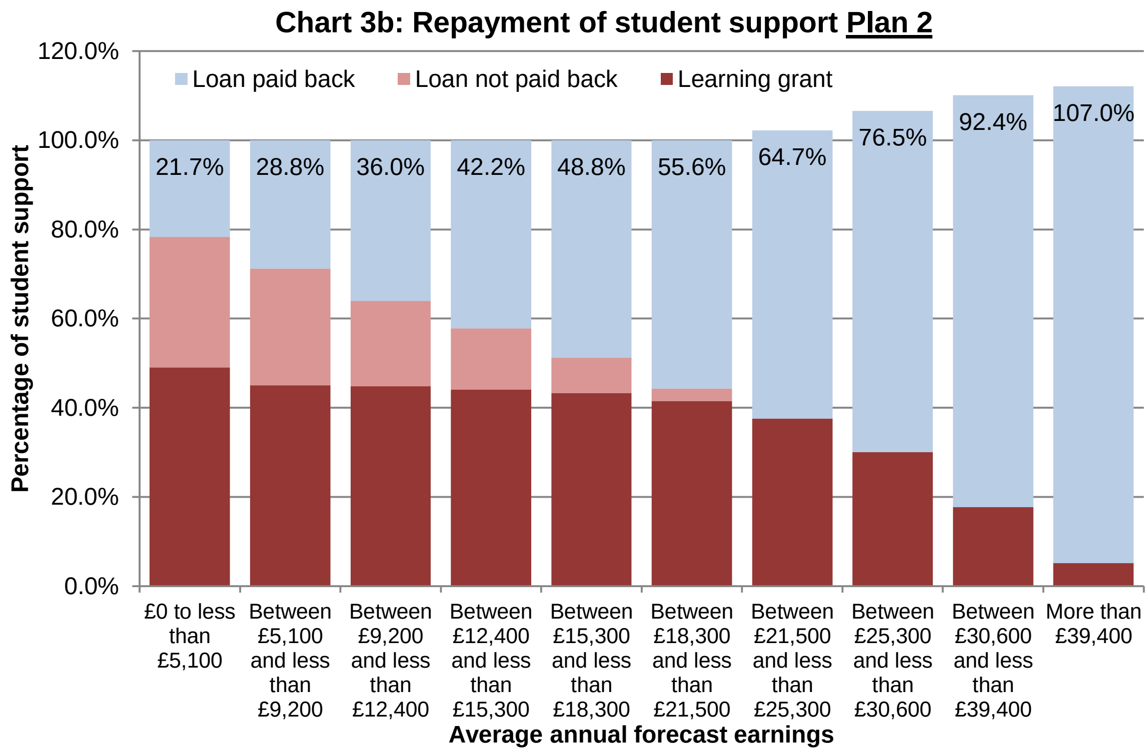
- Those with average annual earnings over £39,400 are the only cost-neutral category when accounting for total support (grant and loans). That is, these borrowers fully repay their loan and the incurred interest, which amounts to more than their average learning grant.





- The cost to the government per borrower is higher for Plan 2 Diamond than Plan 2. This is because Plan 2 Diamond increases the amount of both the loan and grant given versus Plan 2. The larger loan balance results in a larger RAB charge which also reduces the offset grant outlay.

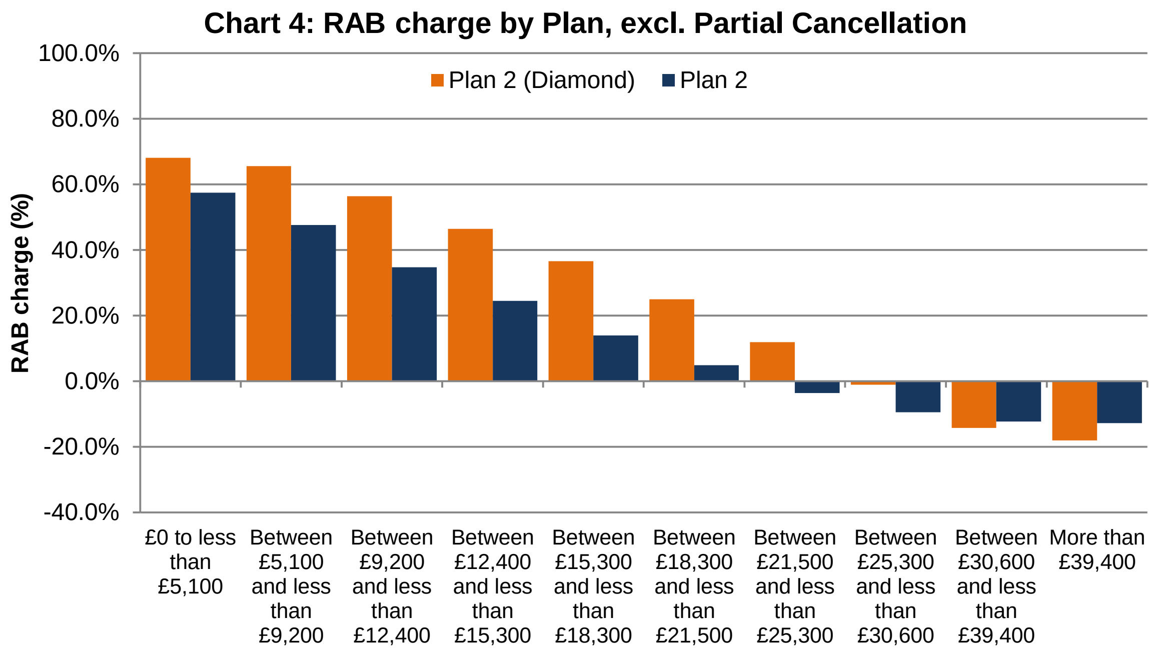




- Learning grant makes up a similar proportion of student support for borrowers in earnings categories up to £18,300 in Plan 2 Diamond. After which the proportion starts to decrease. This illustrates that support is forecast to be allocated to those who are likely to require it at the time, and in the future.

Direct comparison of RAB charge

- Charts 3 and 4 illustrate that, overall, RAB charge makes up a larger proportion of the student support not paid back in Plan 2 Diamond than in Plan 2.
- Borrowers with an average income of between £0 and £5,100 will repay a smaller proportion of their student support in Plan 2 Diamond than Plan 2.
- The number of borrowers repaying their loan in full falls between Plan 2 and Plan 2 Diamond. Specifically, those in the category £21,500 to £25,300 now incur a RAB charge of 11.9%, instead of -3.6% under Plan 2. This is because the size of loans given out is larger in Plan 2 Diamond, resulting in one additional earnings category of borrowers to become unable to repay within the write-off window.



- The effect of Diamond on the RAB charge is that higher earners contribute more interest subsidy and repay their loans, and lower earners require the most write-off. Diamond has increased the difference in RAB between the lowest and highest earners such that those most able to repay contribute to the system.

Annex

Effect of the change from £21,000 to £25,000 lower threshold

Chart 5 represents repayments that would be made subject to the two thresholds for an example (hypothetical) graduate earnings pathway. The example salary start at £20,000 one year post SRDD, with 3% earnings progression of the borrower and 1.4% earnings growth applied to the threshold. The chart illustrates the increase in time before a borrower enters mandatory repayment, and how the repayments made are shifted to the right for all subsequent repayments.

Chart 6 illustrates the cumulative repayments made for the same example. Given a fixed amount borrowed, the amount requiring write off in this example increases by 50%.

Chart 5: Repayments made on an example graduate earnings pathway, £21,000 versus £25,000 threshold

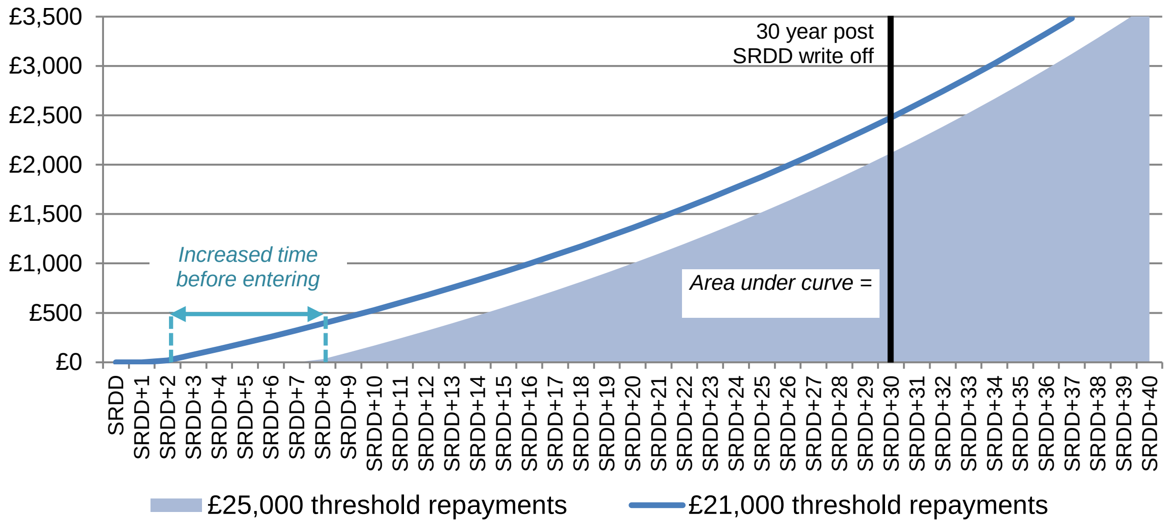


Chart 6: Cumulative repayments made on an example graduate earnings pathway,
£21,000 versus £25,000 threshold

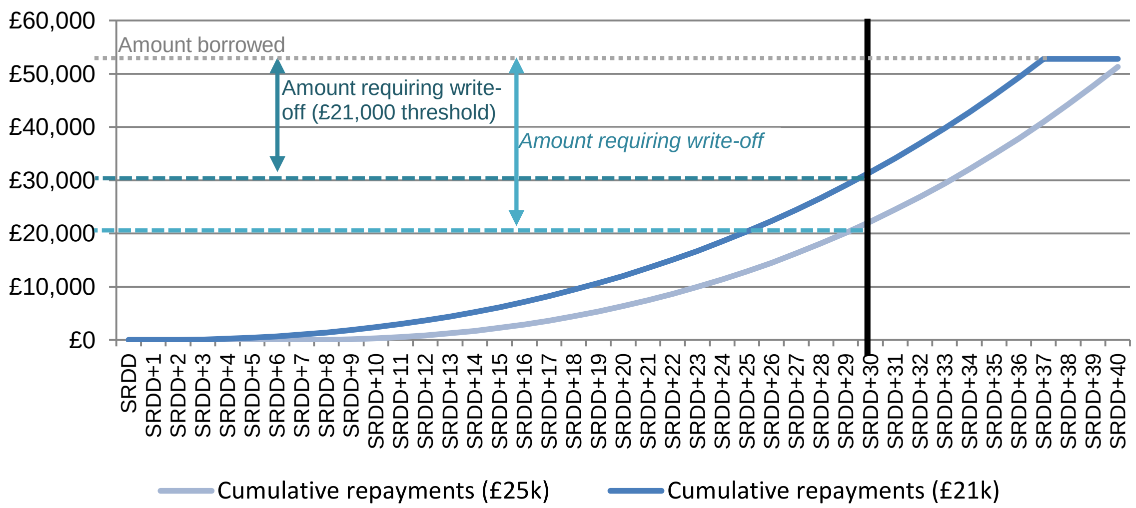
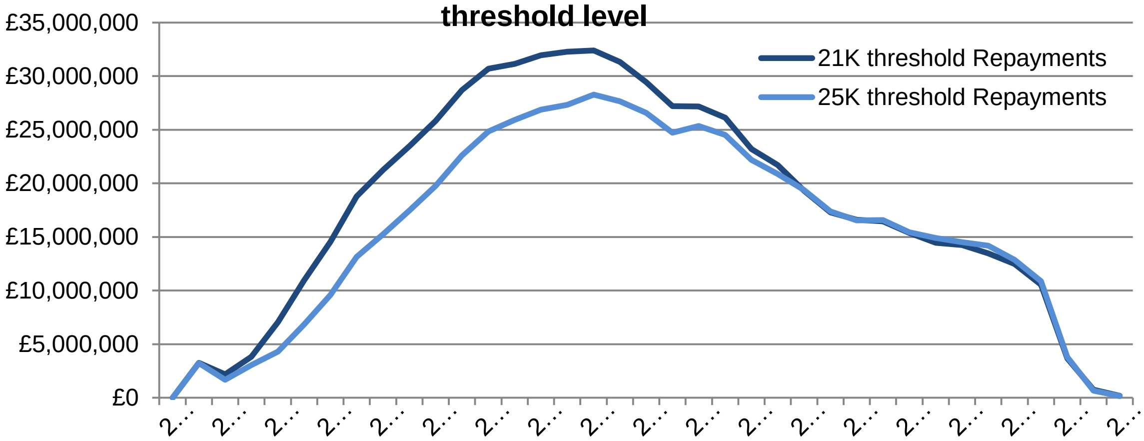
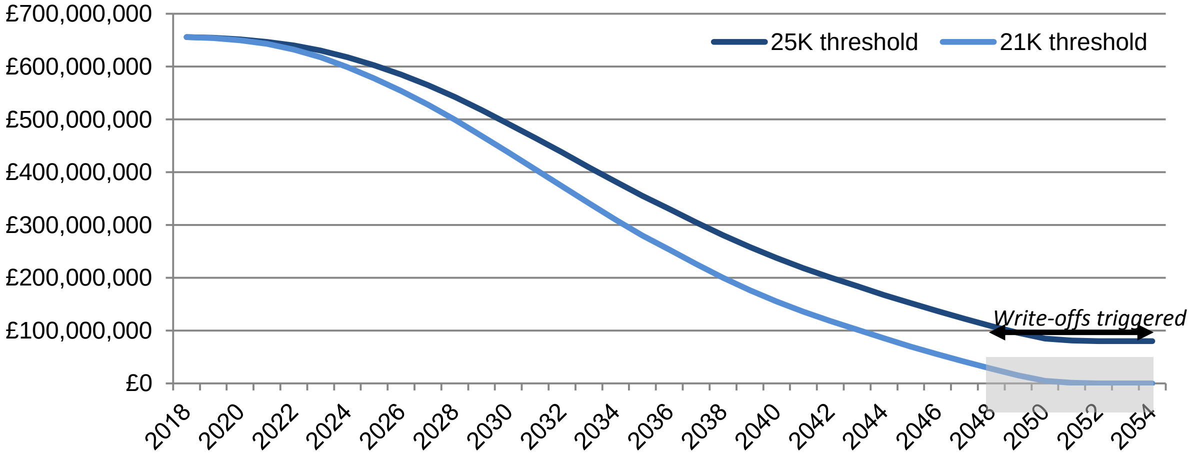


Chart 7: Total forecast repayments for all borrowers by lower threshold level



Charts 7 and 8 investigate the effect using actual borrower data. The effect of implementing a £25,000 lower threshold for interest and repayment (to replace the £21,000 threshold) reduces and offsets repayments made in the first 15 years post SRDD. Write off is triggered 30 years post SRDD. Courses are of variable length and so there is no single fixed write-drop for the overall cohort starting in 2018.

Chart 8: Total loanbook balance of borrowers commencing study in 2018 over time subject to repayments, by threshold



2. StEP3.7 model update

Moving from the November 2016 to the March 2017 OBR rates resulted in a decrease in stock and RAB charges for both pre- and post-2012 student loans.

It was announced on 18th October 2017 that the repayment thresholds for post-2012 student loans would increase from £21,000 and £41,000 to £25,000 and £45,000. As can be seen in Table 1 and Chart 1, this increased the stock and RAB charge.

On 22nd November 2017 updated OBR rates were published. The November 2017 OBR rates increased the stock for both pre- and post-2012 student loans. They increased the RAB for post-2012 student loans from 2017-18 to 2019-20, but decreased the RAB for the next three years. The increase due to the change in OBR rates was small compared to the increase due to the change in repayment thresholds. Post-2012 data includes the phase out of Plan 2 as was and the phase in of Plan 2 (Diamond). For reference, Annex 1 details the changes in OBR rates between November 2016 and March 2017.

The table below shows the stock and RAB calculated using StEP3.7, and the calculated difference between the outputs using the March 2017 and November 2017 OBR rates.

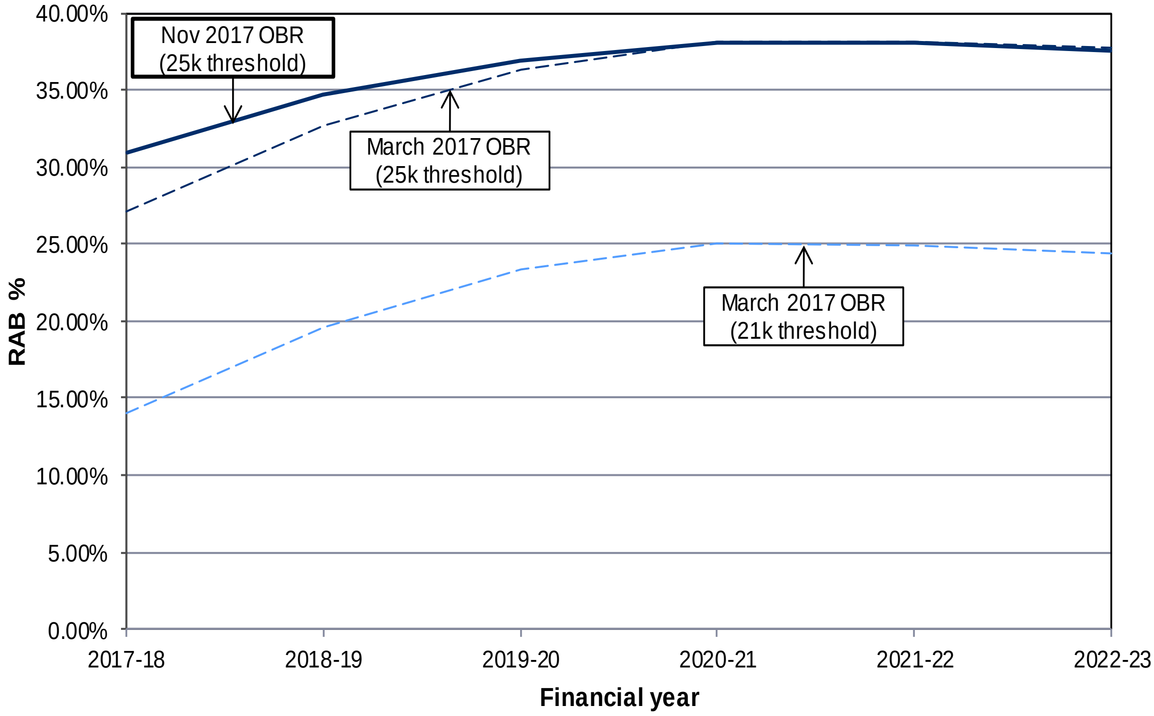
Table 1: Difference between the results from the StEP3.7 model using March 2017 and November 2017 OBR rates

	Stock	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Pre-2012 (Plan 1)							
March 2017 OBR rates	28.59%	37.04%	33.18%				
November 2017 OBR rates	29.52%	37.19%	25.64%	30.56%			
Difference	**0.93%**	**0.15%**	**-7.54%**				
Post-2012 (Plan 2 with Diamond phase in)							
March 2017 OBR rates (21k threshold)	17.75%	13.96%	19.62%	23.30%	25.04%	24.95%	24.34%
March 2017 OBR rates (25k threshold)	30.38%	27.10%	32.72%	36.34%	38.17%	38.20%	37.75%
November 2017 OBR rates (25k threshold)	32.50%	30.89%	34.64%	36.96%	38.05%	38.08%	37.57%
Difference	**2.11%**	**3.79%**	**1.92%**	**0.62%**	**-0.12%**	**-0.12%**	**-0.18%**

Source: Higher Education Division, The Welsh Government

Chart 1 shows a comparison of the RAB charges using the March 2017 and November 2017 OBR rates.

Chart 1: RAB charge from the StEP3.7 model using March 2017 and November 2017 OBR rates (Plan 2 with Diamond phase in)



On 13th December 2017 it was discovered that the StEP3.7 model provided by DfE had an error that meant that the stock charge for Plan 2 would be wrong when running the model for the 2017/18 academic year. StEP3.9 corrected the error. This error had no impact on the RAB charge and only affected results when running the model for the 2017/18 academic year, so previous StEP results presented to SSFUG were not affected.

The results from the StEP3.9 model, as well as the differences from the StEP3.7 model, can be seen in Table 2a. Although the error correction only impacted the stock charge from the StEP3.9 model, the stock charge for Plan 1 also changed because the actual interest rate for 2016/17 was used in the StEP3.9 model, which was different from the predicted interest rate used in the StEP3.7 model. As can be seen, there was no change to the RAB charge.

Table 2a: Difference between the stock and RAB charges from the StEP3.7 and StEP3.9 models using November 2017 OBR rates

	Stock	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Pre-2012 (Plan 1)							
November 2017 OBR (StEP3.7)	29.52%	37.19%	25.64%	30.56%			
November 2017 OBR (StEP3.9)	28.72%	37.19%	25.64%	30.56%			
Difference	**-0.80%**	**0.00%**	**0.00%**	**0.00%**			
Post-2012 (Plan 2 with Diamond phase in)							
November 2017 OBR (StEP3.7) (25k Threshold)	32.50%	30.89%	34.64%	36.96%	38.05%	38.08%	37.57%
November 2017 OBR (StEP3.9) (25k Threshold)	32.29%	30.89%	34.64%	36.96%	38.05%	38.08%	37.57%
Difference	**-0.20%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Source: Higher Education Division, The Welsh Government

Although the stock charge fell for both Plan 1 and Plan 2 when using the StEP3.9 model, the error correction increased the opening face value for Plan 2 in 2017/18 and the amount expected never to be paid off. This difference can be seen in Table 2b.

Table 2b: Difference between the opening face value in 2017/18 expected to be written off from the StEP3.7 and StEP3.9 models using November 2017 OBR rates

	Face value	Stock charge	Amount expected to be written off
Pre-2012 (Plan 1)			
November 2017 OBR (StEP3.7)	£ 2,146,713,413	29.52%	£ 633,737,356
November 2017 OBR (StEP3.9)	£ 2,146,541,346	28.72%	£ 616,518,476
Difference	**-£ 172,067**	**-0.80%**	**-£ 17,218,880**
Post-2012 (Plan 2 with Diamond phase in)			
November 2017 OBR (StEP3.7) (25k Threshold)	£ 1,378,414,779	32.50%	£ 447,952,864
November 2017 OBR (StEP3.9) (25k Threshold)	£ 1,642,695,187	32.29%	£ 530,483,270
Difference	**£ 264,280,408**	**-0.20%**	**£ 82,530,406**

Source: Higher Education Division, The Welsh Government

Annex 1: Changes in OBR rates between March 2017 and November 2017

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Retail Price Index (RPI)							
November 2016 OBR rates	2.95%	3.44%	3.44%	3.13%	3.17%	3.27%	3.27%
March 2017 OBR rates	3.03%	3.97%	3.28%	3.10%	3.14%	3.20%	3.15%
November 2017 OBR rates	3.10%	3.82%	2.87%	2.81%	2.90%	2.95%	3.00%
Difference	**0.07%**	**-0.15%**	**-0.41%**	**-0.29%**	**-0.24%**	**-0.25%**	**-0.15%**
RPI all items excluding mortgage interest (RPIX)							
November 2016 OBR rates	2.33%	2.77%	3.50%	3.18%	3.16%	3.16%	2.80%
March 2017 OBR rates	2.33%	2.77%	3.20%	3.06%	3.07%	3.08%	3.01%
November 2017 OBR rates	2.30%	2.80%	3.20%	2.81%	2.89%	2.95%	2.96%
Difference	**-0.03%**	**0.03%**	**0.00%**	**-0.25%**	**-0.18%**	**-0.13%**	**-0.05%**
Earnings forecast (March)							
November 2016 OBR rates	2.77%	2.59%	3.27%	3.47%	3.78%	3.88%	4.14%
March 2017 OBR rates	2.95%	2.72%	2.96%	3.24%	3.57%	3.72%	3.86%
November 2017 OBR rates	2.57%	2.75%	2.12%	2.53%	2.89%	3.12%	3.06%
Difference	**-0.38%**	**0.03%**	**-0.84%**	**-0.71%**	**-0.68%**	**-0.60%**	**-0.80%**
Earnings forecast (Full year average)							
November 2016 OBR rates	2.50%	2.40%	3.02%	3.38%	3.68%	3.77%	4.14%
March 2017 OBR rates	2.57%	2.56%	2.81%	3.02%	3.50%	3.66%	3.79%
November 2017 OBR rates	2.45%	2.28%	2.17%	2.44%	2.69%	3.11%	3.07%
Difference	**-0.12%**	**-0.28%**	**-0.63%**	**-0.58%**	**-0.81%**	**-0.56%**	**-0.72%**
Bank rate (Apr - Jun)							
November 2016 OBR rates	0.50%	0.19%	0.27%	0.41%	0.57%	0.73%	0.98%
March 2017 OBR rates	0.50%	0.22%	0.34%	0.53%	0.72%	0.92%	1.17%
November 2017 OBR rates	0.50%	0.25%	0.60%	0.81%	0.94%	1.06%	1.17%
Difference	**0.00%**	**0.03%**	**0.26%**	**0.28%**	**0.21%**	**0.14%**	**-0.01%**
Bank rate (Jul - Sep)							
November 2016 OBR rates	0.34%	0.20%	0.30%	0.45%	0.61%	0.77%	1.05%
March 2017 OBR rates	0.34%	0.24%	0.39%	0.58%	0.77%	0.97%	1.24%
November 2017 OBR rates	0.34%	0.25%	0.68%	0.84%	0.97%	1.08%	1.20%
Difference	**0.00%**	**0.01%**	**0.29%**	**0.27%**	**0.19%**	**0.11%**	**-0.05%**
Bank rate (Oct - Dec)							
November 2016 OBR rates	0.19%	0.21%	0.34%	0.49%	0.65%	0.84%	1.12%
March 2017 OBR rates	0.25%	0.27%	0.43%	0.63%	0.82%	1.02%	1.31%
November 2017 OBR rates	0.25%	0.42%	0.73%	0.88%	1.00%	1.11%	1.22%
Difference	**0.00%**	**0.15%**	**0.30%**	**0.25%**	**0.18%**	**0.09%**	**-0.09%**
Bank rate (Jan - Mar)							
November 2016 OBR rates	0.18%	0.24%	0.37%	0.53%	0.69%	0.91%	1.19%
March 2017 OBR rates	0.21%	0.30%	0.48%	0.67%	0.87%	1.11%	1.38%
November 2017 OBR rates	0.25%	0.50%	0.77%	0.91%	1.03%	1.14%	1.24%
Difference	**0.04%**	**0.20%**	**0.29%**	**0.23%**	**0.15%**	**0.03%**	**-0.13%**

Source: Office for Budget Responsibility