29 October 2018

Supplementary forecast information release

Student entrants: forecast methodology change

1.1　Our student loans forecast combines assumptions about new student entrants, the average size of individual student loans, continuation rates beyond a student's entrant year, and the repayments that borrowers make over the lifetime of their loan. Other than policy changes, revisions to the number of new entrants to higher education institutions are often the biggest driver of change in the value of new student loans in our forecasts. Our student entrants[1] forecast therefore plays a crucial role in our forecast for net cash outlays on student loans.

1.2　In our March 2018 *Economic and fiscal outlook* (*EFO*), our forecast was based on the number of full-time UK and EU-domiciled HEFCE[2] fundable entrants at English higher education institutions and further education colleges, including nursing, midwifery and allied health professional students. The growth rate in the number of students within this population was used to inform our forecast of cash outlays on English student loans.

1.3　'HEFCE fundable entrants' was previously defined as places available at higher education institutions and further education colleges that had received public funding from HEFCE, the higher education regulator for England, with the stated aim to incentivise learning and teaching. These were included regardless of whether they were filled by a student with a loan. HEFCE's responsibilities for learning and teaching funding have since been absorbed by the new independent regulator, the Office for Students (OfS), with responsibilities for research funding absorbed by United Kingdom Research and Innovation (UKRI). These changes afforded us an opportunity to align our student entrants forecast more closely to the population of students in receipt of student loans, which we had already been considering, rather than using the HEFCE proxy.

1.4　Our latest forecast employs a new student entrants model developed by analysts at the Department for Education. The new model forecasts full-time undergraduate English-domiciled entrants at UK providers and EU-domiciled entrants at English providers. We then assume the proportion of these entrants expected to be eligible for a full-time undergraduate tuition fee loan to generate a forecast for number of entrants eligible for loans.[3] We consider nursing, midwifery and allied health professional students separately. The growth rate in eligible loan entrants is now used to inform our forecast of cash outlays on English student loans at public providers. The capacity of higher education institutions to

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[1] Entrants are students entering the first year of a higher education course at a new provider. Previous *EFOs* referred to our student entrants forecast as a student numbers forecast, which could have been misinterpreted as all students rather than new ones.
[2] The Higher Education Funding Council for England (HEFCE).
[3] Note that our entrants forecast only covers undergraduate level entrants at higher education institutions. It does not include eligible PGCE, alternative provider and further education college entrants, which are forecast separately.

provide student places is factored in to the student entrants forecast via the rate at which student applications are assumed to be accepted by providers.

1.5   The new model specification has some clear advantages over the previous one. Eligible loan entrants are a much more direct driver of future loans than OfS-fundable entrants. Similarly, English entrants to UK providers and EU entrants to English providers can more readily be measured against other established student number metrics, such as the Higher Education Statistical Agency's (HESA's) published outturn series. This will improve the scope for evaluating the performance of our forecast as well as improving forecast transparency.

1.6   Table 1.1 and Chart 1.1 below show our March 2018 forecast for student numbers based on the old 'HEFCE-fundable entrants' methodology, that forecast restated using the new methodology and our latest October 2018 forecast on the new methodology. For further information on our latest forecast, see paragraph 4.195 onwards in our October 2018 *EFO* and the student entrants forecast supplementary table available on our website.

1.7   The table and chart show that the number of entrants eligible for loans predicted under the new methodology is lower than the HEFCE-fundable entrants predicted under the old methodology. That reflects the inherently narrower student base that the new forecast is modelling, i.e. English rather than UK-domiciled undergraduates and only those eligible for a loan rather than all HEFCE-fundable entrants.

1.8   Since our loans forecast is aligned to outturn loans disbursed, it is the growth rate, rather than the level, of the entrants forecast that matters for future disbursements. Although the new model reduces the number of student entrants due to the narrower base, the future profile is flat rather than falling, so all else equal this increases our loan outlays forecast. Other assumptions also influence forecast lending, and given that the maximum tuition fee and maintenance loan amounts are typically uprated with inflation in the absence of Government policy (such as the current freezes in maximum tuition fees) the student loans forecast will still tend to increase even with little growth in eligible loan entrants.

Table 1.1: Student entrants forecast methodology comparison

| | Student entrants (000s) | | | | |
| | Forecast | | | | |
	2018-19	2019-20	2020-21	2021-22	2022-23
March 2018[1]	399	395	393	386	390
March 2018 - New model[2]	386	383	378	377	381
October 2018[2]	374	374	370	371	376

[1]Full-time UK and EU domiciled HEFCE fundable entrants at English higher education institutions and further education colleges, including nursing, midwifery and allied health professional entrants.

[2]Eligible loan entrants including: the expected proportion of full-time undergraduate English domiciled entrants at UK higher education institutions and EU domiciled entrants at English higher education institutions eligible for a tuition fee loan; and nursing, midwifery and allied health professional entrants.

Chart 1.1: Student entrants forecast methodology comparison

Source: OBR

OBR supplementary release