



Department
for Education

Introducing registration fees for Office for Students

Impact assessment

March 2019

Title: Introducing registration fees for Office for Students IA No: DfE0101 RPC Reference No: RPC17-DfE-4175 Lead department or agency: Department for Education Other departments or agencies: Office for Students	Impact Assessment (IA)			
	Date: 11/03/19			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: jaimin.tailor@education.gov.uk				
Summary: Intervention and Options			RPC Opinion: Out of scope of the BIT so does not need RPC clearance	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
£0.00	£-233.69m	£22.0m		Out of scope

What is the problem under consideration? Why is government intervention necessary?

The Higher Education and Research Act 2017 (HERA) established the Office for Students (OfS) as a new regulator, which will maintain a new register of English Higher Education Providers. The function of regulating providers was previously undertaken by the Higher Education Funding Council for England (HEFCE), the Office for Fair Access (OFFA), and the Department for Education (DfE) (regarding the regulation of Alternative Providers). HEFCE, OFFA and DfE regulation were fully taxpayer funded. Intervention is necessary to redirect part of the cost of regulation towards the sector rather than the taxpayer.

What are the policy objectives and the intended effects?

To move to a funding model for the OfS, as the central regulatory body, which:

- Results in savings for the taxpayer and ensures a predictable and sustainable income to meet OfS costs
- Is efficient and economical for the OfS to administer, based on data that can be verified
- Allocates costs fairly and operates on a cost recovery basis
- Does not create barriers to entry or deter high quality new entrants
- Takes some account of provider size

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: "Do nothing" – Office for Students (OfS) fully funded by the government

Option 1: OfS charges a registration fee to registered providers based on a model of provider size. This would recognise that the OfS has benefits for providers, students and the economy at large, and recognise the differences in the size of providers and the level of benefits they receive by being registered. It will bring the OfS's funding approach in line with that of other regulators and the government's policy that regulators should generally be funded through charges on those they regulate. Option 1 is preferred, accompanied by the commitment to review the fee model after two years, enabling the OfS to reflect on actual operational data and bring in the sector's views.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2021/22				
Does implementation go beyond minimum EU requirements?			Yes	
Are any of these organisations in scope?			Micro Yes	Small Yes
			Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Chris Skidmore : Date 11/03/19

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2019	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.00	High: 0.00	Best Estimate: 0.00

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.00	26.7	229.5
High	0.00	28.9	247.0
Best Estimate	0.00	27.2	233.7

Description and scale of key monetised costs by 'main affected groups'

HE Sector – The majority of the annual administration costs will be transferred from the taxpayer to the sector.

Other key non-monetised costs by 'main affected groups'

There will be small familiarisation costs for HE providers when the new system is introduced.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	26.7	236.6
High	0.0	28.9	245.2
Best Estimate	0.0	27.2	240.2

Description and scale of key monetised benefits by 'main affected groups'

The costs of regulation transferred to the sector will constitute a net benefit to taxpayers.

Other key non-monetised benefits by 'main affected groups'

A fee-funded model will help support greater efficiency in regulating the sector through greater transparency and accountability. A better regulated sector should lead to more choice and competition in the HE sector, improving student outcomes and value for money. It should also support confidence in the sector; allowing for better choices to be made, enabling a more diverse range of providers to develop and making it even more accessible to those from currently under represented backgrounds.

Key assumptions/sensitivities/risks

Discount rate

3.5%

The registration fees charged can only be indicative at this stage as the final student counts used to calculate the fees are not yet published. The OfS funding model – it is assumed that the majority of OfS operating costs are covered by the sector. As part of our analysis, we have also assumed some continued taxpayer support for specific subsidies through to 2028-29, although spending decisions in years beyond 2019/20 are subject to future spending reviews.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 22.0	Benefits: 0.0	Net: -22.0	

Background

1. This Impact Assessment looks at the detailed model for calculating the OfS' annual registration fees to providers and the operational aspects of how this will work. The final Impact Assessment on the new risk-based regulatory framework for the HE sector, published in July 2018, provides a broader context in which the effects of moving to a provider-based charging model are considered¹. It estimated the net present value to providers (i.e. businesses) over the ten-year appraisal period to be £137.8m.²
2. This final impact assessment outlines the expected costs and benefits of the government's response as set out in Office for Students: registration fees (stage 2), published 28th of February 2018³. This included the introduction of the New and Micro provider subsidies (see Table 1). The government will provide funding for these subsidies in 2019-20, while considering how the OfS can move to a full cost recovery basis.
3. The first section of this Impact Assessment sets out the operating costs of the Office for Students (OfS). It compares the new estimates to previous cost estimates published in the consultation stage Impact Assessment in December 2017, '*Introducing registration fees for Office for Students*'⁴.
4. The second section of this Impact Assessment takes updated operating cost projections provided by the OfS and provides revised estimates of the expected size of the registration fee each provider could face and assesses the impact these would have on small and micro providers.

Changes since the consultation stage IA

5. Following the second stage consultation on the OfS registration fee model⁵, which ran from October to December 2017, the OfS has published its final regulatory framework⁶ and a number of changes have been made to the proposed OfS registration fee model. The changes include the removal of the Registered (Basic) category, the removal of the 25% government subsidy to the OfS operating costs, the design of the New Provider Subsidy (NPS) and the introduction of a Micro Provider Subsidy (MPS) (funded by the government in 2019/20, with funding in the years after to be settled at future spending reviews), that will subsidise the registration fees of the smallest providers of higher education.
6. The OfS started its operation at 1 April 2018, including establishing and populating the new register of higher education providers. The new regulatory framework it is implementing will

¹ Department for Education. Securing student success: Regulatory framework for higher education in England, Impact Assessment (July 2018), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727509/Regulatory_Framework_Final_Impact_Assessment.pdf

² Ibid.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683764/OfS_registration_fees_govt_response_final_version.pdf

⁴ Department for Education. Introducing registration fees for Office for Students – Consultation Impact Assessment (December 2017) https://consult.education.gov.uk/he-landscape-reform/ofs-registration-fees-and-other-fees-stage-2/supporting_documents/OfS%20consultation%20Impact%20Assessment%20.pdf

⁵ Office for Students: registration fees (stage 2) Government consultation (October 2017), <https://consult.education.gov.uk/he-landscape-reform/ofs-registration-fees-and-other-fees-stage-2/>

⁶ Office for Students, Securing student success: Regulatory framework for higher education in England (February 2018), https://www.officeforstudents.org.uk/media/1406/ofs2018_01.pdf

be fully operational from August 2019. OfS projected operating costs, provider forecasts and registration fee estimates have been updated using the latest registration and organisational design information supplied by the OfS. Changes from the previous (consultation stage) Impact Assessment are listed in the table below. Table 20 in the Annex shows a detailed comparison of how the cost and fee estimates have changed as a result.

Table 1. Policy and modelling assumption changes since the consultation stage Impact Assessment (December 2017)

This final impact assessment outlines the expected costs and benefits of the government's response as set out in Office for Students: registration fees (stage 2), published 28th of February 2018⁷. This included the introduction of the New and Micro provider subsidies (see Table below). The government will provide funding for these subsidies in 2019-20, while considering how the OfS can move to a full cost recovery basis. Assumptions used in the analysis are set out in the table below:

	Consultation IA ⁸	Final IA
<i>Registered Basic category</i>	Included in the registration fee calculation	Category removed
<i>19/20 OfS operating costs (Baseline cost estimate)</i>	Summed OFFA and HEFCE operating costs together. Included cost of student information.	Uses latest OfS budget forecasts. Student information has been re-classified as programme spend and is paid for by the government so not included in the OfS operating costs.
<i>21/22 to 27/28 OfS operating costs</i>	Updated baseline costs calculated from the OFFA and HEFCE costs in line with inflation.	Based on new baseline cost estimate for 2019/20, updated with October 2018 OBR inflation forecasts and with updated registered provider numbers.
<i>Efficiency Savings</i>	10% in 2019/20	4% in 2019/20 implied by calculating the difference between OFFA and HEFCE operational cost with OfS admin budget
<i>Government subsidy</i>	The government would cover 25% of OfS operating costs subject to HMT agreement.	25% subsidy changed into specific subsidies covering the NPS, MPS and the costs of the Prevent and the Teaching Excellence Framework (TEF) programme. The government will provide the funding for these subsidies in 2019/20, while considering how the OfS can move to a full cost recovery basis

7

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683764/OfS_registration_fees_govt_response_final_version.pdf

⁸ Department for Education. Introducing registration fees for Office for Students – Consultation Impact Assessment (December 2017)

https://consult.education.gov.uk/he-landscape-reform/ofs-registration-fees-and-other-fees-stage-2/supporting_documents/OfS%20consultation%20Impact%20Assessment%20.pdf

<i>New Provider Subsidy (NPS)</i>	£600,000 of the 25% government subsidy would be spent on a new provider contribution	Cost of registration fees for new providers with 1,000 or fewer FTE will be partly covered. The subsidy will be 75% in the first year, 50% in the second and 25% of registration fees in the third year of registration. The government will provide funding for this subsidy in 2019/20. As part of our analysis, we have assumed the subsidy is funded by government through to 2028/29, although spending decisions in years beyond 2019/20 are subject to future spending reviews
<i>Micro Provider Subsidy (MPS)</i>	No subsidy for micro providers	Cost of the registration fees for micro providers will be covered if they fulfil the eligibility criteria (see paragraph 40). The government will provide funding for this subsidy in 2019/20. As part of our analysis, we have assumed the subsidy is funded by government through to 2028/29, although spending decisions in years beyond 2019/20 are subject to future spending reviews)
<i>Student number data</i>	2015/16 Full-time equivalent (FTE) student data from Higher Education Statistics Authority (HESA) and HEFCE	2016/17 Full-time equivalent (FTE) student data from HESA and the OfS
<i>Registered provider numbers</i>		Updated based on registration data from the OfS.

Problem under consideration and rationale for intervention

7. Given that the student, supported by taxpayers, is now the primary funder of higher education, a new regulatory body, the Office for Students (OfS), has been established to ensure that the interests of students and taxpayers are fully protected. Government will reduce its funding to the regulator and regulated HE providers will be required to provide the balance via registration fees.
8. The Impact Assessment published in June 2016⁹ in support of the introduction of the Higher Education and Research Bill set out the key reasons for partly funding the OfS through registration fees¹⁰. These included:
 - **Fairness:** The costs of HEFCE/OFFA were fully covered by the taxpayer. This effectively meant that a taxpayer who has never been through the HE system was

⁹ 2016 impact assessment - <https://www.gov.uk/government/publications/higher-education-and-research-bill-impact-assessment>

¹⁰ Rationale for regulators recovering costs from the regulated is laid out in – Cabinet Office’s Regulatory Futures Review 2017 - <https://www.gov.uk/government/publications/regulatory-futures-review>

contributing to the administration costs of the regulator. For those who had studied, taxes paying for the operation of the regulatory body would come on top of their student loan repayments, despite them being out of education for potentially many years.

- **Budgetary pressures:** The model where providers cover the majority of the costs of the new regulator would realise savings to the taxpayer, contribute to the stability of public finances and enable government funding to be focused towards areas of market failure where funding is required to deliver public policy outcomes in a way that represents value for money.
- **Accountability:** Asking providers to contribute to the cost of the OfS would give them an incentive to hold the regulator accountable and challenge the efficiency of the regulatory system. This would be encouraged by strong accountability mechanisms between the sector, the government and the OfS. Providers would also be able to challenge the OfS should they feel that it is not operating according to its general duties on the face of the Act, including the requirement to have regard to the need to use its resources in an efficient, effective and economic way. In addition, the OfS would be required to lay an annual report before Parliament on the performance of its functions and its statement of accounts. Alongside the need to charge fees in accordance with regulations made by the Secretary of State, this would ensure that the OfS faces the appropriate level of government scrutiny over how it exercises its fee charging powers.

Policy objective

9. Under HERA 2017, the OfS has powers to charge providers registration fees in accordance with regulations made by the Secretary of State. These regulations will enable the OfS to fund the majority of its operating costs using income from registration fees, which it can retain (subject to Secretary of State and HM Treasury approval under section 72), resulting in the sector covering the administrative cost of regulation rather than the taxpayer.

Options under consideration

10. This Impact Assessment covers the options for the OfS to charge registration fees.

Option 0: Do nothing: Government (and thus the taxpayer) continues to fully fund the regulatory body for higher education.

Option 1: OfS charges a registration fee to registered providers based on a model of provider size. This would recognise that the OfS has benefits for providers, students and the economy at large, and recognise the differences in the size of providers and the level of benefits they receive by being registered. It would also bring the OfS's funding approach in line with that of other regulators and the government's policy that regulators should generally be funded through charges on those they regulate.

11. The government consulted on the options in December 2017¹¹ and a consultation response was published on 28 February 2018¹². Following the consultation and the formation of the organisational design of the OfS this Impact Assessment has been updated to reflect these developments.
12. The previous Impact Assessment included a third option, to charge registration fees to approved providers based on a model of provider size and regulatory effort. This would recognise that the OfS would have benefits for providers, students and the economy at large, and also recognise that some providers are more costly to regulate than others. However, without more operational data, there is no information on the costs of the regulatory effort. Therefore this second option has been excluded at this stage. The expectation is that this option will be considered again when the OfS registration fees are reviewed in 2021/22.

Estimating the OfS's expected operating costs

Establishing baseline operating costs

13. Estimates of the OfS's operating costs set out in the consultation stage Impact Assessment have been updated to reflect the regulator's latest administrative budget projections and business plan. In parallel, work on the OfS's organisational design is informing new estimates on expected efficiency savings.
14. Table 2 shows the administrative budget of the OfS for the financial year 2019-20 that forms the baseline for our operating cost estimates.

Table 2. OfS administrative budget for the 2019-20 financial year

£ thousand actual	2019-20
OfS budget	26,977

15. This figure already takes account of changes that were implemented as part of the reforms, such as the transfer of managing the Research Excellence Framework from HEFCE to Research England and the transfer of managing Alternative Providers (APs)¹³ from DfE to the OfS. These changes were addressed separately in the consultation stage Impact Assessment published in December 2017. The costs to the OfS of operating the Teaching Excellence Framework (TEF) and monitoring the Prevent programme¹⁴ are not considered here as they are covered by the government and therefore not included in the calculation of

¹¹ <https://consult.education.gov.uk/he-landscape-reform/ofs-registration-fees-and-other-fees-stage-2/>

¹² Department for Education. Office for Students: registration fees (stage 2) – Government consultation response (February 2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683764/OfS_registration_fees_govt_response_final_version.pdf

¹³ Alternative providers are Higher Education providers who do not receive recurrent funding from Office for Students (previously HEFCE) or other public body and who are not further education colleges.

¹⁴ Monitoring compliance with the Prevent framework to tackle extremism is not a regulatory function of the OfS under HERA and does not directly benefit the sector but it has external benefits to society beyond a given institution and will therefore be funded by the government. Ongoing government support dependent on departmental budgets, subject to agreement with HM Treasury.

registration fees. The costs of TEF have been assessed in the separate impact assessments on the regulatory framework (July, 2018) and in TEF primary legislation (June, 2016)¹⁵.

16. As in the consultation stage Impact Assessment, funding to HESA and QAA is not included in the baseline estimate of the OfS's operating costs. This is because they are separate bodies from the OfS and, as the Designated Data Body (DDB) and Designated Quality Body (DQB) respectively they have (or will have) the power to charge their own fees¹⁶. HESA and the QAA were designated in February 2018 to carry out the functions of the DQB and the DDB respectively.

17. The baseline estimate for OfS operating costs is estimated to be £27.0m for the financial year 2019-20 as shown in Table 2. The figure is then converted into the academic year 2019/20, to give a baseline operating cost of the OfS of £27.2m. All analysis onwards is in academic years.

Efficiency savings

18. In the consultation stage Impact Assessment the operating costs were calculated by summing OFFA and HEFCE budgets and applying a 10% efficiency saving to the central estimate from the second year of operation of the OfS, 2019/20¹⁷. It was assumed that the OfS would generate cost savings, stemming in part from the replacement of HEFCE and OFFA with a single regulatory body, and in part from the move to a risk-based, and more efficient regulatory framework.

19. Estimates for 2019/20 have been revised based on the latest OfS budget forecasts. The OfS administrative budget for the academic year 2019/20 is **£27.2m**. The budget for 2019/20 is 4% lower than the previously estimated operating cost without efficiency savings.¹⁸ Therefore, we now estimate efficiency savings to be 5% for 2019/20. To give a conservative estimate we do not expect any further efficiency savings for the following years.

Dynamics of the operating cost

20. The reforms introduced by HERA will open the market to high quality new providers and create a level playing field between established providers and new entrants. This is expected

¹⁵ Department for Education. Securing student success: Regulatory framework for higher education in England, Impact Assessment (July 2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727509/Regulatory_Framework_Final_Impact_Assessment.pdf and Higher Education and Research Bill Detailed Impact Assessment – The Teaching Excellence Framework (June 2016) <https://www.gov.uk/government/publications/higher-education-and-research-bill-impact-assessment>

¹⁶ Higher education quality and data bodies: notice of designation. <https://www.gov.uk/government/publications/higher-education-quality-and-data-bodies-notice-of-designation>

¹⁷ Department for Education. Introducing registration fees for Office for Students – Consultation Impact Assessment (December 2017) https://consult.education.gov.uk/he-landscape-reform/ofs-registration-fees-and-other-fees-stage-2/supporting_documents/OfS%20consultation%20Impact%20Assessment%20.pdf

¹⁸ The 2019/20 operating costs were estimated at £29.2million for 2019/20 if no efficiency savings were achieved (High estimate). This did include the cost of Student Information of £500k, which has since been re-classified as programme cost and is therefore no longer part of the administrative budget of the OfS. It also does not include the cost of Prevent as this will also be funded directly through the government. Excluding the costs of Student Information and Prevent the cost estimates were £28.2m for 2019/20.

to lead to an increase in the number of providers within the regulated system, improving choice for students and putting greater competitive pressure on existing providers to improve their student offer. That would mean the OfS having responsibility for regulating a greater number of providers, which may lead to an increase in the operating costs. The number of registered providers is estimated to increase by between 2 to 3% annually between 2020/21 and 2028/29¹⁹. The OfS estimates that around 50% of their costs are fixed and 50% variable. We therefore assume that the operating costs would grow by 2% if the number of registered providers rises by 4%. This is a conservative estimate as the cost increases are likely to be stepped rather than linear. The OfS expects the increases to be lower in the first years but then increase at certain thresholds. Currently there is not sufficient information available to quantify these, which is why we have chosen to base the increase on the variable costs.

21. Registered providers are subject to monitoring and assurance. They are expected to comply with conditions of registration, common baseline requirements, which focus on what matters most to students and on providing value to students as well as the taxpayer. Providers in both the Approved and Approved (fee cap) categories are subject to largely the same conditions and therefore the same baseline level of regulation. There are additional access and participation requirements for Approved (fee cap) providers who want their students to be able to access the higher rate of student loans, which need to be monitored by the OfS. We do not envisage that these will be significant drivers of OfS operating costs and to realise administrative efficiency, it was decided to not differentiate between fees for the approved categories²⁰.

22. Table 3 shows the projected number of registered providers and the projected operating cost of the OfS²¹ over time. The increase in operating costs over time is due to two factors: (i) increase in the estimated number of registered providers and (ii) inflation²². Provider forecasts have been updated from the registration fees Impact Assessment (December 2017) and the related regulatory framework Impact Assessment (July 2018) using information from the OfS registration process. More details on the provider forecasts and the underlying assumptions are provided in the Annex²³.

23. Analysis is provided in academic years.

Table 3. Expected OfS operating cost by academic year in nominal prices²⁴

¹⁹ The 2-3% average growth in providers per year, is calculated from an estimated 5% growth through new providers joining and a 2-3% shutdown rate for existing providers. Average growth per year is 2.3%. These estimates have been developed in discussions with the OfS.

²⁰ Office for Students: registration fees (stage 2) consultation response (February 2018)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683764/OfS_registration_fees_govt_response_final_version.pdf and Office for Students: registration fees and other fees (December 2016)https://consult.education.gov.uk/he-landscape-reform/office-for-students-registration-fees/supporting_documents/OfS%20registration%20fees%20consultation.pdf

²¹ Increase in gross operating costs is calculated with 25% of costs fixed and 75% directly proportionate to number of registered providers. E.g. if the number of providers increase by 100% the OfS's operating costs will increase by 75%.

²² The data is updated with the OBR GDP deflator estimates published in Economic and Fiscal Outlook October 2018.

²³ See Annex A, Table 12 and Table 13

²⁴ To compare with the previous OfS operating cost estimates see Table 20 in the Annex.

	2019/ 20	2020/ 21	2021/ 22	2022 /23	2023/ 24	2024/ 25	2025/ 26	2026/ 27	2027/ 28	2028/ 29
Total registered providers	464	478	493	507	520	531	542	551	560	567
Estimated OfS operating costs, £million²⁵	27.2	28.6	29.6	30.6	31.6	32.6	33.7	34.7	35.8	36.8

Analysis of policy options

24. This impact assessment covers the options for an OfS registration fee model. The actual amounts charged under the funding model chosen in the consultation response will be set out in secondary legislation.

Option 0: Do nothing

25. In the 'do nothing' scenario, the government (i.e. taxpayers) would continue to fully fund the HE sector regulatory body. This would mean that HE providers would be able to join the OfS register in any registration category, as long as they meet the initial registration conditions for the category in question, and would not be charged a fee by the OfS to regulate or register them.

Costs

26. There would be no additional costs to providers as the regulator would continue to be fully funded by government and would not charge registration fees to the higher education providers it regulates. This option would not be consistent with a key rationale for charging registration fees: fairness, as it means that the general taxpayer would still contribute a significant amount to the administration costs of the HE regulator. It also would not realise any significant savings to the taxpayer, who may have never attended a higher education provider themselves. Additionally, this option provides no financial incentive for HE providers to hold the regulator to account and challenge its efficiency.

Benefits

27. There would be no additional benefits to any HE providers under option 0.

28. The absence of registration fees may weaken any disincentive for new providers to register, and would instead create a benefit to new providers wishing to join the register. However,

²⁵ Takes into account inflation and the numbers of providers registered with the OfS. As the number of registered providers increases the OfS operating costs will increase by three quarters that amount e.g. if the number of providers increased by 100% OfS operating costs would increase by 75%. The data is updated OBR GDP deflator estimates published in Economic and Fiscal Outlook October 2018.

Option 1 proposes to partially subsidise new providers' fees as an incentive for them register and prevent the fee from acting as a barrier to entry.

Option 1: OfS charges a registration fee to registered providers based on a model of provider size.

29. Under this option, the OfS would charge fees broadly based on provider size. Registered providers would pay a varied fee based on their size, which would be measured by full-time equivalent (FTE) HE student²⁶ numbers. This would be accompanied by a commitment to review the fee model after two years of its operation, enabling the OfS to reflect on actual operational data and bring in the sector's views.

30. Varying fees by provider size would help to ensure affordability, as size is expected to be broadly correlated with ability to pay, and a full-time equivalent (FTE) measure would avoid penalising providers with a high number of part-time students. New providers would have their registration fees partially subsidised for the first three years of their registration, and micro providers would also be subsidised reducing a potential barrier to entry to new high quality providers.

31. The following principles, which the government previously consulted on,²⁷ were considered when designing the fee model:

A fee model, which

- **Is proportionate to the cost of regulating a provider** - taking some account of provider size, the associated assurances and other benefits providers receive.
- **Does not deter high-quality new entrants** - entry of new providers is important as it improves choice for students and incentivises innovation from existing providers. Newer providers who register with the OfS would cost the OfS the same, or possibly even more than incumbent providers to regulate in the initial years of their operation, as the OfS would need to assure that entrants offer high quality provision and are likely to be financially sustainable. However, the full cost of regulation could be unaffordable to new providers and thus could discourage entry.
- **Operates on a cost recovery basis** - consistent with the guidance in 'Managing Public Money'
- **Is as simple as possible** - to enable providers to predict their likely fees
- **Is based on data that can be verified**
- **Ensures a predictable and sustainable income to meet OfS costs**
- **Is efficient and economical for the OfS to administer**

²⁶ This measure of full time equivalent students includes both undergraduates and postgraduates and also includes international students. Full-time equivalent compares an individual's workload to a standard full-time, full-year workload. A full-time student or member of staff is 1.0 FTE. A student on a part-time course that is 60% of a full-time course would be 0.6 FTE. The OfS has consulted on and published the principles underlying the FTE student number calculations: https://www.officeforstudents.org.uk/media/c68c404d-fe32-42c1-bf4e-a1da59c65756/ofs2018_32.pdf

²⁷ https://consult.education.gov.uk/he-landscape-reform/office-for-students-registration-fees/supporting_documents/OfS%20registration%20fees%20consultation.pdf

Costs

Table 4. Indicative expected split between OfS operating costs funded by Government and through registration fees in nominal prices and by academic years, £million²⁸

Note: Government support for the NPS and MPS beyond 2019/20 is subject to agreement at future spending reviews

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
OfS Operating Costs (£m)	27.2	28.6	29.6	30.6	31.6	32.6	33.7	34.7	35.8	36.8
Government support NPS and MPS (£m) ²⁹	0.8	1.0	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Total Registration fees paid for by providers³⁰ (£m)	26.3	27.6	28.5	29.4	30.4	31.4	32.4	33.4	34.4	35.5

²⁸ All costs have been updated according to the OBR GDP deflator estimates published in Economic and Fiscal Outlook October 2018.

²⁹ Ongoing government support dependent on departmental budgets, subject to agreement with HM Treasury

³⁰ =(OfS operating costs - total government support)

32. 2019/20 is the first year in which providers will be required to pay registration fees, the new regulatory framework is expected to be fully operational and that providers are expecting to derive benefit. The total operating costs for this year are estimated to be £27.2m based on OfS internal budget forecasts. In 2019/20, the government will partly cover the cost of regulating new providers and micro providers through funding the New Provider and the Micro Provider Subsidies, in total estimated to be £0.8m (see Table 4). As part of our analysis, we have assumed the subsidy is funded by government through to 2028/29, although spending decisions in years beyond 2019/20 are subject to future spending reviews. Providers will pay for the remaining operating costs through their registration fees.
33. The actual amount of government contribution is subject to agreement with HM Treasury. Departmental budgets will only be agreed until the end of the Spending Review period (2019/20); any subsequent government contribution assumed in this Impact Assessment would therefore be subject to negotiations with HM Treasury as part of the regular Spending Review process. There are two key parts of the operating costs that will be funded by the government in 2019/20, in addition to the programme spend³¹:
- a. **Costs of regulating new providers**– for providers that have not previously been regulated (as set out below) and have 1000 or fewer student FTE. There is a pro-competition argument for the regulatory costs for new providers through the New Provider Subsidy to be partly covered, as the subsidy will reduce barriers to entry and increase student choice. As it is currently very difficult to specifically ascribe the likely level of operating costs of the OfS to a particular provider or type of provider, the New Provider Subsidy will cover a proportion of the registration fees of new providers in their first three years of registration with the OfS. Any associated costs of this subsidy will be met by the government in 2019-20.
 - b. **Costs of regulating micro providers** – through the Micro provider subsidy as set out below. The very smallest providers, where the registration fees would be disproportionate to their financial position, will be eligible to apply for a Micro Provider Subsidy. The government will fund 100% of the registration fees for these providers, and the associated costs will be met by the government in 2019-20.

New Provider Subsidy

34. An institution is defined as a “new” provider if it has not been regulated by either HEFCE or the Department for Education (DfE) since 31 July 2014, and has not previously been registered with the OfS as a higher education provider. Table 6 uses DfE’s provider forecasts to estimate the number of ‘new’ providers registering in each year.
35. It is proposed that ‘new’ providers with 1,000 or fewer FTE (other than those benefiting from the Micro Provider Subsidy) would be partially subsidised for three years. The government would pay for the full cost of the New Provider Subsidy in 2019/20. This is a change from the previous Impact Assessment, where the New Provider Subsidy would have come from the 25% government subsidy on OfS operating costs. As part of our analysis, we have also

³¹ This covers programmes funded by the government as they are not directly related to regulating providers under HERA. These include for example Prevent and TEF.

assumed some continued taxpayer support for specific subsidies through to 2028-29, although spending decisions in years beyond 2019/20 are subject to future spending reviews.

36. The different registration fees estimated to be paid by providers with 1,000 or fewer student FTE are set out in Table 5 below. For the purpose of this Impact Assessment, it is assumed that new providers in each year have a similar distribution in terms of size as existing APs with 1,000 or fewer student FTE. Although new providers might be initially smaller, this assumption was chosen as providers that are joining the register could have been running outside the system and already have a significant number of students. The cost of the subsidy is therefore potentially slightly overestimated in this calculation.

Table 5. Indicative registration fees for providers with 1,000 or fewer student FTE and the estimated proportion of new providers in each band

FTE Band		Band fee	% of new providers in band
A	Not more than 25 (incl. Zero)	£11,800	16%
B	More than 25 but no more than 50	£14,750	8%
C	More than 50 but no more than 75	£18,400	4%
D	More than 75 but no more than 100	£23,050	3%
E	More than 100 but no more than 300	£28,900	32%
F	More than 300 but no more than 500	£36,200	14%
G	More than 500 but no more than 1,000	£45,400	23%

37. 'Cumulative new providers' in Table 6 sets out the number of 'new' providers estimated to be subsidised in each year i.e. those previously unregulated providers that are in their first three years of registration and continue to have 1000 or fewer FTE. Details on the methodology for forecasting provider numbers can be found in Annex B.

Table 6. New providers registering each academic year and estimated government contribution through New Provider Subsidy in nominal terms

Note: Government support for the NPS beyond 2019/20 is subject to agreement at future spending reviews

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
"New" providers	24	15	16	16	16	15	15	14	14	13

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
eligible for NPS ³²										
Cumulative "new" providers ³³	24	39	55	47	48	47	46	44	43	41
Govt contribution to new providers through NPS ³⁴ ³⁵ (£m)	0.5	0.7	0.8	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Average subsidy per new provider ³⁶ (£k)	20.8	18.0	14.3	15.9	16.0	16.2	16.5	16.9	17.2	17.6

38. Table 6 outlines the amount of new provider subsidy that may be required each year. New providers will get a subsidy of 75% of their registration fees in the first year of registration with the OfS, a subsidy of 50% in the second year and 25% in the third year. The total subsidy is estimated by calculating the registration fees of new providers in each year. This is using registration fee estimates for 2019/20. The total New Provider Subsidy is calculated by adding the registration fees for new providers that joined that year and the two previous years and applying the respective subsidy rates. Figures are also adjusted for inflation.

39. The overall costs that these new providers could face are outlined in Table 17 in the Annex.

Micro provider subsidy

40. To be eligible to apply for the micro provider subsidy, providers would be required to meet the following proposed criteria:

- a. Must have 300 students or fewer
- b. Must meet Companies House definition for a micro-entity (which definition will be extended for these purposes to include providers which are charities).³⁷

41. None of the current Higher Education Institutions (HEIs) or Further Education Colleges (FECs) fulfil the criteria of a micro provider. We assume that only providers which are

³² Those HE providers entering the register from outside the regulated system. Details on the methodology of estimating the number of new providers can be found in Annex B.

³³ Count of "new providers" for three years - Providers are 'new' for the first three years of their registration – figures may not sum due to rounding

³⁴ The data is updated OBR RPIX estimates published in Economic and Fiscal Outlook March 2018.

³⁵ The estimate excludes the subsidy for new providers, that would qualify for the Micro Provider Subsidy (MPS). Their registration fees will be paid through the MPS and are included in Table 7.

³⁶ Government contribution to new providers / cumulative new providers, dependent on overall departmental budgets, subject to agreement with HM Treasury

³⁷ To be classified by Companies House as a micro-entity at least two of the following criteria must be met:

- Turnover must not be more than £632,000
- Balance sheet total must be no more than £316,000
- The average number of employees must not be more than 10

currently Alternative Providers (APs) will be eligible for the Micro Provider Subsidy. We have estimated the number of eligible APs using a dataset on Key Performance Indicators of Alternative Providers previously provided by HEFCE. Based on that we have identified the number of eligible micro providers (7% of all designated APs). For subsequent years, we have assumed that the same proportion (7%) of new providers would also qualify for the micro provider subsidy. We have not assumed a shutdown rate for micro providers, so the estimate represents an upper bound.

42. We have estimated the total cost of the subsidy by calculating the registration fees of existing providers using student FTE data and assumed that new providers would have the same distribution across fee bands as existing micro providers. Table 7 shows the total number of micro providers as well as the estimated overall cost to government. The cost estimates are adjusted for inflation.

Table 7. Existing and new micro providers registered with the OfS each year and estimated government contribution through Micro Provider Subsidy in nominal prices

Note: Government contribution to the MPS beyond 2019/20 is subject to agreement at future spending reviews

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Micro providers ³⁸	11	13	14	15	15	16	17	18	19	19
Govt contribution through MPS (£m) ³⁹	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Average subsidy per micro provider (£k)	24.7	25.6	26.1	26.6	27.1	27.7	28.3	29.0	29.6	30.3

Costs to HE providers

43. To relieve the burden of transitioning into the new system, providers will not begin to pay registration fees until academic year 2019/20.

44. HE providers' fees would vary broadly depending on their size.

Aggregate Costs to providers

³⁸ This includes new micro providers. It was assumed that in 7% of all new providers would be micro providers.

³⁹ Estimates adjusted for inflation using OBR GDP deflator projections, October 2018.

45. Registered providers would cover the total registration fees as shown in Table 4. There are a small number of providers that would get government support through the New Provider Subsidy and the Micro Provider Subsidy in 2019/20. Any government support beyond this academic year is subject to agreement at future spending reviews.
46. "Registration fees paid by providers" in Table 4 represents the added cost to business in each year, the total amount of the OfS operating costs which will be recouped through the registration fees of all registered HE providers.

Provider level costs

47. Registration fees for individual HE providers would be proportionate to the number of full-time equivalent (FTE) higher education (HE) students⁴⁰ at the institution, taken as a proxy for their size.
48. Providers would accordingly be charged a fee depending on which size band they fall into. We have estimated the numbers of providers in each of the below bandings, based on student numbers from HESA data for HEIs, APs and Further Education Colleges (FECs). We have used the latest estimates⁴¹ of the number of providers that would be registered with the OfS in 2019/20 in each registration category (464 in total). We have used FTE data for providers that had applied to the register by 8 January 2019 and that returned either 2016/17 HESA, 2016/17 ILR data or financial tables (as part of their registration). The final registration fees for 2019/20 will be calculated using 2017/18 student numbers. These were not available in time to feed into the Impact Assessment and therefore the numbers of providers in each fee band and the fee levels per band are only indicative.
49. The bandings are updated from the previous Impact Assessment in response to concerns raised during the second stage consultation by a significant number of respondents about the impact of the previous model on smaller providers. Smaller institutions typically have lower income and could potentially suffer disproportionately from the burden of regulation. In the new model, there is more granularity in the smaller bands. The responses indicated a general preference for narrower bandings for the smallest providers, and wider bands for the largest providers. This reflects the fact that, in the HE sector, there are many providers at the bottom end of the distribution, and providers with 10 students may have greater differences in the size of their activities, income and infrastructure relative to a provider with 100 students, compared to two providers with 10,000 and 20,000 students respectively.

⁴⁰ This measure of full time equivalent students includes both undergraduates and postgraduates and also includes international students. Full-time equivalent compares an individual's workload to a standard full-time, full-year workload. A full-time student or member of staff is 1.0 FTE. A student on a part-time course that is 60% of a full-time course would be 0.6 FTE. The OfS has consulted on and published the principles underlying the FTE student number calculations: https://www.officeforstudents.org.uk/media/c68c404d-fe32-42c1-bf4e-a1da59c65756/ofs2018_32.pdf

⁴¹ Drawing on the latest information provided by the OfS on the number of providers registering with them (January 2019).

Table 8. Estimated distribution of registered providers across student FTE bands in 19/20 (HEIs, APs and FECs)

FTE HE student numbers band		Estimated number of providers
A	Not more than 25 (incl. Zero)	49
B	More than 25 but no more than 50	24
C	More than 50 but no more than 75	13
D	More than 75 but no more than 100	10
E	More than 100 but no more than 300	97
F	More than 300 but no more than 500	43
G	More than 500 but no more than 1,000	69
H	More than 1,000 but no more than 1,500	24
I	More than 1,500 but no more than 2,500	19
J	More than 2,500 but no more than 5,000	21
K	More than 5,000 but no more than 10,000	20
L	More than 10,000 but no more than 20,000	48
M	More than 20,000	25
Total		464

50. Table 9 below shows how cost bands have been calculated. Following responses to the second stage consultation, the percentage distribution of costs across different bands was amended so that a lower proportion falls on smaller providers. This banding distribution was chosen to minimise distortion of competition in the sector. It addresses the responses to the second stage consultation that indicated that the per capita charge for smaller providers is higher than that for larger providers, thereby putting them at a competitive disadvantage.

51. Analysis of publicly funded HEI income data⁴² and ESFA data on college accounts⁴³ shows that with this method no FEC or HEI would be paying more than 0.7% of their total income in OfS registration fees. This very small proportion of a provider's income should not distort competition in the HE market. Analysis of data on the Key Financial Indicators of APs⁴⁴ shows that APs would be paying on average around 1% of their income but with some paying more, up to 7% of their total income in registration fees. We acknowledge that this means some providers will need to spend a higher proportion of their income on fees. The APs that would be spending between 4% and 7% of their income on registration fees all have less than 300FTE and around 70% would be eligible for the Micro Provider Subsidy⁴⁵

⁴² HESA finance plus volumes 2016/17

⁴³ ESFA, College accounts academic year 2016/17

⁴⁴ Alternative Provider Key Financial Indicators, November 2017

⁴⁵ See competition impact section for detail

Table 9. Distribution between fee bands

FTE Band		% increase between bands
A	Not more than 25 (incl. Zero)	
B	More than 25 but no more than 50	25%
C	More than 50 but no more than 75	25%
D	More than 75 but no more than 100	25%
E	More than 100 but no more than 300	25%
F	More than 300 but no more than 500	25%
G	More than 500 but no more than 1,000	25%
H	More than 1,000 but no more than 1,500	26%
I	More than 1,500 but no more than 2,500	26%
J	More than 2,500 but no more than 5,000	26%
K	More than 5,000 but no more than 10,000	26%
L	More than 10,000 but no more than 20,000	26%
M	More than 20,000	26%

52. We calculated the fees for 2019/20 in each band using a formula which:

- a. Satisfies the distribution set out in Table 9
- b. Ensures that the total amount paid by providers and the government is equal to the 'OfS operating costs in Table 4.

53. Estimations take into account the amount of New Provider Subsidy and Micro Provider Subsidy the government will be contributing in the year 2019/20.

54. Table 10 shows indicative estimates of the registration fee that a provider might expect to pay under Option 1. There have been minor changes to the provider estimates based on the latest information on registered providers therefore, there have also been slight changes to the banding fees as a result.

Table 10. Indicative registration fee for each band in 19/20

FTE Band		Band fee
A	Not more than 25 (incl. Zero)	£11,800
B	More than 25 but no more than 50	£14,750
C	More than 50 but no more than 75	£18,400
D	More than 75 but no more than 100	£23,050
E	More than 100 but no more than 300	£28,900

FTE Band		Band fee
F	More than 300 but no more than 500	£36,200
G	More than 500 but no more than 1,000	£45,400
H	More than 1,000 but no more than 1,500	£56,950
I	More than 1,500 but no more than 2,500	£71,550
J	More than 2,500 but no more than 5,000	£89,900
K	More than 5,000 but no more than 10,000	£113,050
L	More than 10,000 but no more than 20,000	£142,250
M	More than 20,000	£179,150

55. Providers that join the register on or after 1 August 2019 will have to pay a fee for their initial registration, which will be calculated by multiplying the average monthly ongoing fee by the number of full months the provider will be on the register before the start of the next academic year.
56. There is a small risk that providers will try to keep their numbers towards the top of the fee bands to avoid moving into a higher category. However, we judge this risk to be low, as the same FTE counts are used for a variety of other purposes such as allocating teaching grants, which clearly reduces the incentive to providers to have lower FTE numbers. In addition, registration fees are small compared to overall income. We estimate that they make up 0.1% of income at HEIs, 0.2% at FECs and 1.4% of income at APs⁴⁶. However, we have assessed in the sensitivity analysis the scenario that FTE numbers for providers are lower than currently estimated.
57. To calculate the cost of the 'New Provider Subsidy' we had to make several assumptions about providers and the fee bands they would fall into. To be eligible they would have 1,000 FTE HE students or fewer. We have assumed that new providers would have the same distribution across fee bands as existing providers with less than 1,000 FTE have at the moment. The indicative registration fees for new providers are listed in Table 17 in the Annex, including the proportion of the fees that is not covered by the subsidy and has to be paid by the provider itself. It is estimated that on average new providers in 2019/20 would need to pay £7,300 in the first year of registration, £14,600 in the second and £21,900 in the third year of registration.
58. 'Micro' providers on the other hand would get their full registration fees covered by the 'Micro Provider Subsidy' if they are eligible. As set out above the distribution across fee bands was estimated using the distribution across fee bands of existing providers that would qualify based on data on the Key Performance Indicators for Alternative Providers. Table 18 in the

⁴⁶ The estimate for APs exclude any APs that would be eligible for the Micro Provider Subsidy. Estimates are based on HESA 2016-17 finance data for HEIs, HESESHEIFES 17 for FECs and Key Performance Indicators for the latest financial year for APs.

Annex shows the estimated number of micro providers and the distribution across fee bands. As explained, no HEIs or FECs would qualify for the Micro provider subsidy.

59. Option 1 would be broadly consistent with the key principles established through consultations⁴⁷ with the sector. It would help to limit barriers to entry for new providers wishing to enter the regulated system, as any new provider wishing to register with the OfS could be eligible for a partial fee subsidy for the first three years of their regulation. This could encourage new providers to join the register, increasing competition in the HE sector and increasing student choice.
60. Option 1 is relatively simple in design, as it requires only information about the number of FTE students, which would be available to the OfS when a provider registers with them⁴⁸. As the OfS and the new regulatory framework are newly in operation, a relatively simple model is preferred in order to arrive at a more robust estimate of provider fees.
61. The establishment of the OfS in itself has not had direct costs to business, though there is likely to be small familiarisation costs for businesses, reflecting the change in the regulatory architecture. These have been addressed in the regulatory framework Impact Assessment. It was estimated that the familiarisation of the provider with the registration process would incur a one-off cost of £4,400 per provider and £2.2m in total in 2018/19⁴⁹. They are not included in the EANDCB of this Impact Assessment to avoid double counting.
62. Additional familiarisation costs to providers associated with understanding what fees should be paid and how to pay them are assumed to be minimal. All information on the individual registration fees payable will be available to providers in an individual online portal and the OfS will send invoices with the respective fee. Therefore additional familiarisation costs associated with registration fees are assumed to be minimal and are not assessed in this Impact Assessment.

Benefits

63. Option 1 limits barriers to entry, encouraging new high quality providers to enter the regulated sector. Creating more competition in the HE sector, increasing choice and improving student outcomes.
64. HE providers' requirement to pay a registration fee to the OfS may incentivise them to hold the regulator to account, increasing transparency and accountability of the OfS.

⁴⁷ Office for Students: registration fees (stage 2) consultation (February 2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683764/OfS_registration_fees_govt_response_final_version.pdf and Office for Students: registration fees and other fees (December 2016) https://consult.education.gov.uk/he-landscape-reform/office-for-students-registration-fees/supporting_documents/OfS%20registration%20fees%20consultation.pdf

⁴⁸ For the academic year 2019/20 the OfS will use student numbers from the Higher Education Statistics Authority (HESA) and the Individual Learners Record (ILR) to calculate FTEs according to their published methodology. From 2020/21 onwards FTEs will be calculated annually based on the submitted prior year student data.

⁴⁹ Securing student success: Regulatory framework for higher education in England, Impact Assessment, July 2018

65. Option 1 is relatively simple and predictable for providers to understand how the fee is calculated and what their likely charge will be.
66. More about the broader benefits to HE providers of being on the OfS register can be found in the Regulatory Framework Impact Assessment⁵⁰.
67. Due to the lack of available data on these benefits, we are unable to robustly quantify them at this stage.

Impact on the taxpayer

Costs

68. There is no additional cost expected for the government from this option. By definition, it would see providers meeting a greater proportion of the costs of regulating their activities. There is estimated to be no significant additional administrative burden of raising the fees as it is planned that invoicing will be largely automated based on data submitted by the providers via a 'Provider Portal' and the amounts due will be collected by direct debit on either an annual or quarterly basis to keep collection costs to a minimum.

Benefits

69. Relative to the "do nothing" option, the cost saving for the government would be equivalent to the amount of the OfS's running costs covered by the sector – listed in Table 4 as "Registration fees paid by providers".

Wider Impacts

70. The OfS will regulate registered HE providers in the interest of students as consumers of higher education, promoting greater competition, choice and standards in the higher education sector with the goal of delivering better outcomes and value for money for students and taxpayers who underwrite the system. This should have wider benefits to the economy and society by increasing the supply and skills of graduates.
71. Within our analysis we have considered the possibility that providers will pass on any increased costs to students via fee rises. We judge this risk to be low.
72. Approved (fee cap) providers operating at the fee cap will be unable to pass the cost of registration fees on to their students as they cannot raise their fees above the fee cap and most already charge at this level. Instead, we anticipate that they will look to absorb these costs by either seeking efficiencies, including small reductions in their wider educational offer or by seeking to expand other activities that would generate offsetting revenues e.g. through commercial activities. For some providers, registering in this category will enable them to

⁵⁰ Ibid.

access for the first time government grant funding, as set out in the Impact Assessment on the regulatory framework.

73. Approved category providers will be able to set their own fee levels, with students able to access student support of tuition fee loans of up to £6,165. This suggests that there might be greater scope for them to pass on some of the costs of registration to their students through their tuition fees, though to some extent this will be reduced by the cap on the tuition fee loan their students will be able to access.
74. In responses received to the Government's initial (stage 1) consultation on OfS registration fees, a very small minority (6%) of respondents raised a concern that some providers, in particular Alternative Providers, could pass on the costs of registration fees to students⁵¹. This suggests that while a possibility, it is not held to be a particularly large concern amongst a wider reform programme that should support the best providers in being successful and improve student outcomes. And as before, providers will have other routes available to them by which they can manage such an increase in costs, for example efficiencies or generating revenue via other more commercial or fundraising activities.
75. The respondents to the second stage consultation were concerned that the registration fee per student was significantly higher at the lower end of the proposed fee bands than at the higher. They suggested that this would cause smaller providers to divert proportionally more funding derived from tuition fees towards paying OfS registration fees than their larger counterparts. We have addressed this by establishing more granularity in the smaller bands and by changing the distribution of costs across fee bands overall so that a lower proportion falls on smaller providers. The Micro Provider Subsidy will protect providers with the smallest incomes and least possibilities to find alternative ways to offset this cost.
76. Most providers in the Approved category will be existing APs. Data on the Key financial indicators of APs shows that fee income makes up on average 62% of total income at APs. Based on this, as an illustrative example, we assume that an Approved provider could pass on 62% of its registration fee costs to students through their tuition fees, which would equate to a possible impact of £39⁵² a year per FTE HE student enrolled at an Approved provider. This would be 0.6% of the loan amount available to student at Approved providers, so a very small effect and one which in practice we would expect to be smaller because of the existence of alternative routes to offset this cost.

Small and micro-business assessment

77. For the purposes of preparing impact assessments, a micro business is defined as having fewer than 10 employees, and a small business as having fewer than 50 employees⁵³. In HE, the size of a provider is usually based on the size of its student population, as this is considered more relevant than employee numbers. For example, providers with a comparable number of employees may have significantly different student population sizes.

⁵¹ Under the new regulatory framework, it is assumed that the majority of these providers would be registered in the Approved category

⁵² Based on current estimates of student numbers at registered providers, the amount of registration fees raised would amount to an average of £15.46 per student enrolled at a registered provider. We assume 52% of this could be passed on to the student. (£15.46*0.52=£8.04)

⁵³ This is different from the Companies Act 2006 definition used in defining a micro provider for purposes of determining eligibility for the Micro Provider Subsidy.

However, for the purposes of the Small and Micro Business Assessment, we look at the number of employees at each provider only.

78. 2016/17 HESA data shows that HEIs in England have on average 2,200 FTE employees. The smallest number of FTE employees at a single HEI was 85. Analysis of the Further Education college accounts data for England shows that the average college with HEFCE funded students in England had 470 FTE staff⁵⁴. The smallest number of FTE staff at a FEC with HEFCE funded students was 90 FTE staff. Therefore, we do not believe any HEI or FEC to be classified as a small business for this assessment.
79. According to data on the Key Financial Indicators of designated APs, 6% of designated APs employed fewer than 10 FTE staff, and 50% of APs had between 10 and 49 FTE employees. All designated APs are expected to register with the OfS in addition to further APs that are currently outside the system. As we do not hold further detail on the split of small or micro businesses that will choose to enter the regulated system, we assume that 6% of all APs registered with the OfS, are classed as micro businesses under the present definition and 50% classed as small (excluding micro businesses)⁵⁵.
80. For small and micro-sized businesses the burden of legislation can be disproportionately greater. It needs to be ensured that the burden is proportionate, so as to not disadvantage smaller businesses.
81. Under this proposal, providers who meet the Companies Act definition of a micro-entity and who have 300 or fewer student FTE will be eligible for the Micro Provider Subsidy, so are most likely not going to face an additional financial cost as a result. For other small providers there would be an additional cost. We have done additional analysis on small providers to see that the registration fees would not make up a disproportionate amount of their income. We have found that for no small provider would the registration fee be more than 6% of their income. This was calculated using information on total income of FECs with HE students, HEIs and designated APs.⁵⁶ More details on the impact by provider type can be found in the 'Competition Impact' analysis below.
82. To ensure that registration fees do not act as a barrier to entry, the government proposes a subsidy for the registration fees for new providers in their first 3 years of registration. The government will cover the cost of the subsidy in 2019-20; funding in the years beyond is subject to agreement at future spending reviews. Based on the proposed model, fees would also be proportionate to the number of FTE HE students attending the provider. So while this measure constitutes a new burden, it ensures that the burden is proportionate for smaller providers and may be additionally reduced for new providers.
83. Full exemption of small businesses from paying registration fees to the OfS could significantly reduce the effectiveness of the policy. It could undermine the policy objective of creating a level playing field for all registered HE providers and create the risk that providers

⁵⁴ ESFA, College accounts academic year 2016 to 2017 data

⁵⁵ Based on provider estimates we expect 144 APs to register with the OfS in the academic year 2019/20, based on this we can expect that 9 (144*0.06) of these APs are micro businesses and 72 (154*0.5) are small businesses.

⁵⁶ HESA 2016-17 finance data for HEIs, HESSESHEIFES 16 for FECs and Key Performance Indicators for the latest financial year for APs (HEFCE 2017)

fully exempted from fees have no incentive to act in the interests of students and the general taxpayer because they do not incur a direct financial cost from being registered. An exemption is made for micro providers that are often highly specialised and where the overall number is estimated to be very small⁵⁷.

Specific impact tests and better regulation requirements

Competition impact

84. The structure of the registration fees for OfS could have an impact on competition, even if this is relatively minor.

85. Three aspects of the model are there to ensure it does not distort competition but instead works with the government's broader reform programme to promote competition in the sector:

- a. Size of registration fees proportionate to the number of students at the provider – thus everyone will face a similar burden relative to their size
- b. Registration fees of new providers (with 1,000 or fewer FTE students) are partially subsidised by government during their first three years of operation
- c. Registration fees for micro providers (with 300 or fewer FTE students) are fully subsidised

86. Analysis of 132 publicly funded HEIs the department holds finance data on⁵⁸ and the proposed banding structure (Table 10) show that no HEI would be paying more than 0.7% of their total income in OfS registration fees. The range of proportions is very narrow, from 0.01-0.7% of a provider's total income. These very small proportions of a provider's income should not distort competition in the HE market, ensuring that all providers can compete on a level playing field.

87. We have further analysed ESFA college accounts data for 120 FECs with HEFCE funded learners, that have applied to register and found that FECs would be paying on average 0.2% of their total income in registration fees. This ranges from 0.05% to 1.3% of total income but with just one provider paying more than 1%. Again, these proportions are very small and highly unlikely to impede competition in the HE market.

88. Compared to HEIs and FECs, the total income of many APs is significantly smaller. Analysis of data on the Key Financial Indicators of 82 APs indicates that on average APs would be paying 1.4% of their total income in registration fees but with some APs spending up to 7% of their total income on the fees. Overall, registration fees are estimated to make up between 0.01% and 7% of total income at registered APs. We acknowledge that this means some providers will need to spend a higher proportion of their income on fees. The providers that would be spending between 4% and 7% of their income on registration fees all have 300 or fewer FTE and 80% would be eligible for the Micro Provider Subsidy.

⁵⁷ See Table 7 and Micro Provider Subsidy section for more detail

⁵⁸ HESA finance plus volumes 2016/17

89. Thus the funding model options are designed with an explicit principle of not distorting competition.

Sensitivity analysis

90. We have tested the sensitivity of the analysis for an increase or decrease in FTE counts. The above numbers are not final⁵⁹ and therefore registration fees could be different depending on FTE counts. We have tested what the impact would be if FTE counts were 20% less for each provider. This would increase registration fees by around 8% in each band. For the individual provider in this scenario the impact of registration fees could increase the proportion that fees make up of total income by:

- 0.001pp on average for HEIs
- 0.01pp on average for FECs
- 0.01pp in the case of APs.

91. If FTE numbers were on average 20% higher than assumed, the registration fees fall by between 7% and 8% in each band. The impact on the individual provider would be lower. The results of the detailed analysis are shown in Tables 21 to 26 in the Annex.

92. Another potential risk is around the number of providers entering the market and registering with the OfS. If numbers are lower than expected the registration fees would need to increase to meet the expected OfS operating costs. In the long term, this could impact on the OfS cost estimate as it is assumed that costs change in line with the number of providers regulated.

93. We have tested the burden on providers if provider numbers were going to increase by 10% or 20% instead of the assumed average of 2.3%. It was found that overall the operating costs would increase but more would be paid for by the government through the New Provider Subsidy so that the amount paid for by providers would be lower in all analysed years, between £0.6m and £2.2m for a 10% growth rate and between £0.2m and £3.6m for a 20% growth rate. The detailed estimates of OfS operating costs, registration fees paid by providers and government subsidies under these scenarios are shown in Table 27 in the Annex. The EANDCB for both scenarios is shown in Table 11 below. On an individual provider level, the burden would not change significantly as the fees calculation accounts for the number of providers. Therefore the operating costs increase but the fees would stay the same as the number of providers paying for it would also increase. The EANDCB would also be lower in these scenarios:

Table 11 Scenario Analysis for changes in the provider growth rate- EANDCB

Note: Government contribution to the NPS and MPS beyond 2019/20 is subject to agreement at future spending reviews

⁵⁹ The final registration fees will use the data collected by HESA for 2017/18 academic year and be based on the principles on calculating FTE student numbers as outlined by the OfS in the consultation response: https://www.officeforstudents.org.uk/media/c68c404d-fe32-42c1-bf4e-a1da59c65756/ofs2018_32.pdf

Scenario (% annual provider growth rate)	EANDCB (over 10 years)
Best estimate (2.3%)	£22.0m
High 1 (10%)	£25.6m
High 2 (20%)	£23.9m
Low (1%)	£25.9m

94. If on the other hand, growth rates would be lower than expected, e.g. 1% on average, the operating costs would be lower in all analysed years but the burden on the providers would be slightly higher, between £0.8m and £1.1m per year, as less would be paid for by the New Provider Subsidy. These figures are shown in Table 27 in the Annex and the EANDCB is shown in Table 10 above. The bands would increase slightly by around 1%-2% to account for this.

Business Impact Target

95. The introduction of registration fees will be implemented by regulations under section 70 of the Higher Education and Research Act 2017. Such regulations will be a statutory provision which makes provision imposing a “tax, duty, levy or other charge” (or connected provision) within section 22(4)(a) of the Small Business and Enterprise Act 2015. They will therefore be excluded from the definition of “regulatory provision” within the meaning of that Act. The introduction of fees is therefore out of scope of the statutory Business Impact Target.

Annex A – Fee modelling assumptions

In the absence of available data on the size of the estimated providers in each of the registration categories, a number of assumption have been made in order to estimate the numbers of providers that would fall into each of the fee bands as 2017/18 data on FTE numbers at HE providers was not available in time to feed into this IA.

Table 12 - Provider estimates (2019/20)

2019/20 estimates	
Approved	112
APs	110
FECs	2
HEIs	0
Approved (fee cap)	352
APs	50
FECs	169
HEIs	133
Total	464

Table 13 – Provider estimates (2019/20)

Approved and Approved (fee cap) providers			
HEIs	FECs	APs	All
133	171	160	464

Data

Assumptions

Higher Education Institutions (HEIs)

There are estimated to be 134⁶⁰ HEIs registered with the OfS in the academic year 2019/20. FTE numbers were calculated by the OfS based on 2016/17 HESA data. These will be different from the FTE numbers used to calculate the final fees. They will be based on 2017/18 HESA and ILR data, which was not available in time to feed into this IA.

⁶⁰ Based on January 2019 information on providers registered with the OfS. This number does not include 7 APs that are not publically funded but have HEI status.

Table 14 – Estimated Distribution of HEIs (2019/20)

FTE band	HEI count
Not more than 25 (incl. Zero)	0
More than 25 but no more than 50	0
More than 50 but no more than 75	0
More than 75 but no more than 100	0
More than 100 but no more than 300	4
More than 300 but no more than 500	2
More than 500 but no more than 1,000	10
More than 1,000 but no more than 1,500	7
More than 1,500 but no more than 2,500	8
More than 2,500 but no more than 5,000	12
More than 5,000 but no more than 10,000	18
More than 10,000 but no more than 20,000	48
More than 20,000	25
Total	134

Further Education Colleges (FECs)

There are estimated to be 175⁶¹ FECs registered with the OfS in the academic year 2019/20. We have FTE data on 175 FECs that have already registered from the 2016/17 HESA and ILR publications. These will be different from the FTE numbers used to calculate the final fees. They will be based on 2017/18 HESA and ILR data, which was not available in time to feed into this IA.

Table 15 - Distribution of FECs

FTE band	Count registered FEC ⁶²	Numbers in band as a % of total
Not more than 25 (incl. Zero)	10	4%
More than 25 but no more than 50	3	9%
More than 50 but no more than 75	3	4%
More than 75 but no more than 100	2	7%

⁶¹ Based on January 2019 information on providers registered with the OfS.

⁶² FEC FTE counts as provided by the OfS from HESA and ILR data

FTE band	Count registered FEC⁶²	Numbers in band as a % of total
More than 100 but no more than 300	54	40%
More than 300 but no more than 500	34	16%
More than 500 but no more than 1,000	44	15%
More than 1,000 but no more than 1,500	13	2%
More than 1,500 but no more than 2,500	7	4%
More than 2,500 but no more than 5,000	5	0%
More than 5,000 but no more than 10,000	0	0%
More than 10,000 but no more than 20,000	0	0%
More than 20,000	0	0%
Total	175	

Alternative Providers (APs)

Information on AP student numbers were provided by the OfS. Again they are based on 2016/17 data and will not match the final FTE counts used to calculate the final registration fees for 2019/20.

Table 16 - Distribution of APs

FTE band	Count registered AP	Numbers in band as a % of total
Not more than 25 (incl. Zero)	3	3%
More than 25 but no more than 50	14	15%
More than 50 but no more than 75	10	10%
More than 75 but no more than 100	11	11%
More than 100 but no more than 300	25	26%
More than 300 but no more than 500	8	8%
More than 500 but no more than 1,000	14	15%
More than 1,000 but no more than 1,500	4	4%

FTE band	Count registered AP	Numbers in band as a % of total
More than 1,500 but no more than 2,500	3	3%
More than 2,500 but no more than 5,000	3	3%
More than 5,000 but no more than 10,000	1	1%
More than 10,000 but no more than 20,000	0	0%
More than 20,000	0	0%
Total	96	

New Provider Subsidy – cost to new providers

The New Provider Subsidy was calculated using the new provider estimates as detailed in Table 6 above and assuming that they have the same distribution across student FTE bands as existing providers with 1,000 or fewer FTE. The table below details the estimated number of new providers registered with the OfS in 2019/20⁶³ in each fee band and the amount of registration fees paid for by the providers over the first three years of registration. In Year 1, the government will provide a subsidy covering 75%, in Year 2, 50% and in Year 3, 25% of the registration fees for those providers who have 1000 or fewer FTE. After three years they will no longer be eligible to benefit from the New Provider Subsidy. The government will provide funding for this subsidy in 2019/20. As part of our analysis, we have assumed the subsidy is funded by government through to 2028/29, although spending decisions in years beyond 2019/20 are subject to future spending reviews.

Table 17 – Distribution across fee bands for new providers in 2019/20 and fee not covered by NPS in year 1 to 3 of registration

FTE band	Indicative registration fee	Estimated new providers in each band	Fee paid by new provider in Year 1	Fee paid by new provider in Year 2	Fee paid by new provider in Year 3
Not more than 25 (incl. Zero)	£11,800	4	£2,950	£5,900	£8,850
More than 25 but no more than 50	£14,750	2	£3,675	£7,350	£11,025
More than 50 but no more than 75	£18,400	1	£4,600	£9,200	£13,800
More than 75 but no more than 100	£23,050	1	£5,775	£11,550	£17,325
More than 100 but no more than 300	£28,900	8	£7,225	£14,450	£21,675
More than 300 but no more than 500	£36,200	3	£9,050	£18,100	£27,150
More than 500 but no more than 1,000	£45,400	5	£11,350	£22,700	£34,050
<i>Average (non weighted)</i>			<i>£7,500</i>	<i>£15,100</i>	<i>£22,600</i>

⁶³ This refers to new providers who have registered with the OfS before the 1 August 2019.

Micro provider subsidy

Table 18 below shows the estimated number of micro providers in each fee band. The government will provide funding for this subsidy in 2019-20. As part of our analysis, we have assumed the subsidy is funded by government through to 2028-29, although spending decisions in years beyond 2019-20 are subject to future spending reviews.

FTE band	Band fee	Estimated number of micro providers
Not more than 25 (incl. Zero)	£11,800	0
More than 25 but no more than 50	£14,750	2
More than 50 but no more than 75	£18,400	4
More than 75 but no more than 100	£23,050	2
More than 100 but no more than 300	£28,900	6
Total		13

Table 19 - Comparison of Indicative registration fee bands

Secondary IA			Final IA	
	FTE Band	Band fee	FTE Band	Band fee
A	Up to 50	£18,200	A Not more than 25 (incl. Zero)	£11,800
B	51-100	£20,100	B More than 25 but no more than 50	£14,750
C	101-300	£22,100	C More than 50 but no more than 75	£18,400
D	301-500	£24,300	D More than 75 but no more than 100	£23,050
E	501-1,000	£29,100	E More than 100 but no more than 300	£28,900
F	1,001-1,500	£35,000	F More than 300 but no more than 500	£36,200
G	1,501-2,500	£42,000	G More than 500 but no more than 1,000	£45,400
H	2,501-5,000	£54,600	H More than 1,000 but no more than 1,500	£56,950
I	5,001 – 10,000	£70,900	I More than 1,500 but no more than 2,500	£71,550
J	10,001- 20,000	£92,200	J More than 2,500 but no more than 5,000	£89,900
K	20,001+	£119,900	K More than 5,000 but no more than 10,000	£113,050
			L More than 10,000 but no more than 20,000	£142,250
			M More than 20,000	£179,150

Table 20 – Comparison of estimates in consultation IA to final IA (all costs are in nominal terms)⁶⁴

Note: Government support for the NPS and MPS beyond 2019/20 is subject to agreement at future spending reviews

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Inflation adjusted OfS operating costs (£m)	Secondary IA	26.2	27.7	29.2	30.7	32.3	33.8	35.4	36.9	38.5
	Final IA	27.2	28.6	29.6	30.6	31.6	32.6	33.7	34.7	35.8
Efficiency savings	Secondary IA	10%	-	-	-	-	-	-	-	-
	Final IA	4%	-	-	-	-	-	-	-	-
Total Government support (£m) (incl. NPS and MPS)	Secondary IA	6.6	6.9	7.3	7.7	8.1	8.5	8.8	9.2	9.6
	Final IA	0.8	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Total Registration fees paid by providers (£m)	Secondary IA	19.7	20.7	21.9	23.0	24.2	25.4	26.5	27.7	28.9
	Final IA	26.3	27.6	28.4	29.4	30.4	31.4	32.4	33.4	34.4
New provider estimates ⁶⁵	Secondary IA	25	26	27	28	27	26	25	24	23
	Final IA	26	16	17	17	17	16	16	15	14

⁶⁴ Estimates adjusted for inflation using OBR GDP deflator projections, October 2018.

⁶⁵ Those HE providers entering the register from outside the regulated system.

Results of the Sensitivity Analysis

Scenarios	
A) Change in FTE numbers	A1) FTE numbers increase on average by 20% compared to 2016/17
	A2) FTE numbers decrease on average by 20% compared to 2016/17
B) Change in provider growth	B1) Provider growth rate of 10%
	B2) Provider growth rate of 20%
	B3) Provider growth rate of 5%

Impact on providers under Scenario A1):

Table 21) Estimate of APs' registration fee as a proportion of income with 20% higher FTE

APs					
Student FTE	Band fee	Number in each band ⁶⁶	Average % of income	Highest	Lowest
up to 25	£11,000	x	1%	1.8%	0.0%
26-50	£13,800	x	1%	2.7%	2.3%
51-75	£17,300	6	3%	5.6%	0.0%
76-100	£21,600	7	2%	5.5%	0.2%
101-300	£27,100	26	2%	6.3%	0.0%
301-500	£33,900	10	2%	3.0%	0.2%
501-1000	£42,600	7	1%	1.8%	0.2%
1001-1500	£53,400	10	1%	1.3%	0.7%
1501-2500	£67,100	x	1%	0.9%	0.3%
2501-5000	£84,300	x	0%	0.2%	0.2%
5001-10,000	£106,000	x	0%	0.3%	0.1%
10,001-20,000	£133,400	-	-	0.0%	0.0%
20,001+	£168,000	-	-	0.0%	0.0%

Table 22) Estimate of HEIs' registration fee as a proportion of income with 20% higher FTE⁶⁷

HEIs					
Student FTE	Band fee	Number in each band	Average % of income	Highest	Lowest
up to 25	£11,000	0	-	0.0%	0.0%

⁶⁶ Numbers below 5 have been suppressed and are shown as 'x'

⁶⁷ Based on HESA Finance data 2016-17

HEIs					
26-50	£13,800	0	-	0.0%	0.0%
51-75	£17,300	0	-	0.0%	0.0%
76-100	£21,600	0	-	0.0%	0.0%
101-300	£27,100	3	0.0%	0.0%	0.0%
301-500	£33,900	2	0.4%	0.6%	0.2%
501-1000	£42,600	6	0.3%	0.5%	0.1%
1001-1500	£53,400	7	0.2%	0.3%	0.0%
1501-2500	£67,100	7	0.2%	0.4%	0.0%
2501-5000	£84,300	10	0.2%	0.4%	0.0%
5001-10,000	£106,000	15	0.2%	0.2%	0.1%
10,001-20,000	£133,400	44	0.1%	0.1%	0.0%
20,001+	£168,000	38	0.1%	0.1%	0.0%

Table 23) Estimate of FECs' registration fee as a proportion of income with 20% higher FTE⁶⁸

FECs					
Student FTE	Band fee	Number in each band	Average % of income	Highest % of income	Lowest % of income
up to 25	£11,000	4	0.0%	0.0%	0.0%
26-50	£13,800	2	0.0%	0.1%	0.0%
51-75	£17,300	0	-	0.0%	0.0%
76-100	£21,600	2	0.1%	0.1%	0.0%
101-300	£27,100	31	0.1%	0.4%	0.1%
301-500	£33,900	18	0.1%	0.4%	0.0%
501-1000	£42,600	37	0.2%	0.8%	0.1%
1001-1500	£53,400	13	0.2%	0.4%	0.1%
1501-2500	£67,100	5	0.5%	1.2%	0.2%
2501-5000	£84,300	5	0.4%	0.7%	0.2%
5001-10,000	£106,000	0	-	0.0%	0.0%
10,001-20,000	£133,400	0	-	0.0%	0.0%
20,001+	£168,000	0	-	0.0%	0.0%

⁶⁸ Based on HESES-HEIFES16 data

Impact on Providers under Scenario A2)

Table 24) Estimate of APs' registration fee as a proportion of income with 20% lower FTE⁶⁹

APs					
Student FTE	Band fee	Number in each band ⁷⁰	Average % of income	Highest % of income	Lowest % of income
up to 25	£13,000	x	1%	2.1%	0.1%
26-50	£16,200	9	2%	5.1%	0.6%
51-75	£20,300	11	2%	5.0%	0.1%
76-100	£25,400	8	2%	5.7%	0.0%
101-300	£31,800	23	2%	6.2%	0.2%
301-500	£39,900	x	1%	2.7%	0.2%
501-1000	£50,000	13	1%	1.2%	0.1%
1001-1500	£62,800	x	1%	0.8%	0.2%
1501-2500	£78,800	x	0%	0.2%	0.2%
2501-5000	£99,100	x	0%	0.3%	0.1%
5001-10,000	£124,600	x	0%	0.3%	0.3%
10,001-20,000	£156,800	0	-	0.0%	0.0%
20,001+	£197,400	0	-	0.0%	0.0%

Table 25) Estimate of HEIs' registration fee as a proportion of income with 20% lower FTE⁷¹

HEIs					
Student FTE	Band fee	Number in each band	Average % of income	Highest	Lowest
up to 25	£13,000	0	-	0.0%	0.0%
26-50	£16,200	0	-	0.0%	0.0%
51-75	£20,300	0	-	0.0%	0.0%
76-100	£25,400	0	-	0.0%	0.0%
101-300	£31,800	4	0.1%	0.2%	0.0%

⁶⁹ Based on Key Performance Indicators for designated APs

⁷⁰ Numbers below 5 have been suppressed and are shown as 'x'

⁷¹ Based on HESA Finance data 2016-17

HEIs					
301-500	£39,900	3	0.4%	0.7%	0.2%
501-1000	£50,000	11	0.2%	0.5%	0.0%
1001-1500	£62,800	5	0.2%	0.4%	0.0%
1501-2500	£78,800	8	0.2%	0.3%	0.0%
2501-5000	£99,100	13	0.2%	0.3%	0.1%
5001-10,000	£124,600	28	0.1%	0.2%	0.0%
10,001-20,000	£156,800	49	0.1%	0.1%	0.0%
20,001+	£197,400	11	0.0%	0.1%	0.0%

Table 26) Estimate of FECs' registration fee as a proportion of income with 20% lower FTE⁷²

FECs					
Student FTE	Band fee	Number in each band	Average % of income	Highest	Lowest
up to 25	£13,000	4	0.0%	0.0%	0.0%
26-50	£16,200	2	0.1%	0.1%	0.0%
51-75	£20,300	2	0.0%	0.1%	0.0%
76-100	£25,400	2	0.2%	0.3%	0.0%
101-300	£31,800	37	0.2%	0.5%	0.0%
301-500	£39,900	19	0.2%	0.5%	0.0%
501-1000	£50,000	36	0.2%	0.9%	0.0%
1001-1500	£62,800	7	0.2%	0.5%	0.0%
1501-2500	£78,800	5	0.6%	1.4%	0.0%
2501-5000	£99,100	3	0.5%	0.9%	0.0%
5001-10,000	£124,600	0	-	0.0%	0.0%
10,001-20,000	£156,800	0	-	0.0%	0.0%
20,001+	£197,400	0	-	0.0%	0.0%

Table 27) Scenario B – Changes in provider growth rate⁷³ Note: Government support for the NPS and MPS beyond 2019/20 is subject to agreement at future spending reviews

⁷² Based on HESES-HEIFES 16 data

⁷³ The data is updated OBR RPIX estimates published in Economic and Fiscal Outlook March 2018.

Scenario (% provider growth rate)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Provider forecast										
Best estimate (2.3%)	448	472	494	519	543	565	586	604	621	636
B1) High 1 (+10%)	448	493	519	544	571	597	621	644	665	683
B2) High 2 (+20%)	448	537	566	593	623	651	678	703	725	745
B3) Low (+1%)	448	452	476	499	524	548	571	591	610	627
OfS Operating Costs in real terms (£m)										
Best estimate (2.3%)	£26.9	£28.6	£29.9	£31.2	£32.5	£34.0	£35.3	£36.7	£38.1	£39.4
B1) High 1 (+10%)	£26.9	£29.3	£30.6	£32.0	£33.4	£35.0	£36.5	£38.0	£39.4	£40.9
B2) High 2 (+20%)	£26.9	£30.7	£32.1	£33.5	£35.0	£36.6	£38.2	£39.8	£41.3	£42.8
B3) Low (+1%)	£26.9	£28.0	£29.3	£30.6	£32.0	£33.4	£34.9	£36.3	£37.7	£39.1
Registration fees paid by providers in real terms (£m)										
Best estimate (2.3%)	£25.3	£26.9	£28.1	£29.5	£30.7	£32.0	£33.3	£34.6	£35.9	£37.1
B1) High 1 (+10%)	£25.3	£26.3	£27.1	£28.3	£29.4	£30.6	£31.7	£32.8	£33.9	£34.9
B2) High 2 (+20%)	£25.3	£27.0	£27.0	£27.6	£28.4	£29.5	£30.5	£31.6	£32.6	£33.5
B3) Low (+1%)	£25.3	£27.6	£29.1	£30.6	£31.9	£33.2	£34.5	£35.7	£37.0	£38.2
Government subsidy in real terms (£m)										
Best estimate (2.3%)	£2.1	£2.3	£2.3	£2.2	£2.4	£2.5	£2.6	£2.7	£2.8	£2.9
B1) High 1 (+10%)	£2.1	£2.9	£3.3	£3.5	£3.7	£4.0	£4.2	£4.5	£4.8	£5.1
B2) High 2 (+20%)	£2.1	£4.2	£5.7	£6.5	£7.2	£7.7	£8.3	£8.8	£9.4	£10.0
B3) Low (+1%)	£2.1	£1.5	£1.3	£1.1	£1.2	£1.3	£1.5	£1.6	£1.7	£1.7

Annex B – Provider Forecasts

The provider forecasts that underline the provider numbers used in this impact assessment have been updated since they were last used in the impact assessment “Securing student success: Regulatory framework for higher education in England”⁷⁵. Forecasting future provider numbers over a ten year period is difficult because of uncertainties around the likely behavioural response of providers to the new regulatory framework. The numbers presented in this impact assessment are based on our best judgement as to the most plausible scenario.

As mentioned in Annex B (page 68) of this previous impact assessment there are four main uncertainties in our provider forecasts:

- 1) It is uncertain how designated APs, which are currently in the regulatory system, will behave in the first year of operation of the OfS register.
- 2) It is uncertain how existing APs currently outside the regulatory system will behave in the first year of the OfS register.
- 3) Providers can switch over time between the different categories of the regulatory framework (i.e. a provider may move from Approved to Approved (fee cap) or look to gain DAPs), however, there is limited evidence on what this rate of switching will be at this stage.
- 4) It is uncertain how many new providers will enter the market each year.

Since the previous publication of the provider forecasts new data have become available that reduces the uncertainty of our estimates. Namely:

- OfS application data, which shows the providers who have applied to the OfS and their chosen category. We now have a much clearer idea how designated APs and APs outside the regulatory system will behave in the first year. However, some uncertainty still exists because the registration period for 19/20 is currently ongoing (at the time of developing the forecast) and some providers that apply to the OfS may not meet the conditions of registration.
- Database on APs. CGHE⁷⁶ have compiled a comprehensive database of APs, including those that are not designated. This has helped us improve our baseline estimates on the number of APs that are outside the system.

Although this data has improved our certainty for 19/20 and on the number of APs outside the system, the uncertainties after the first year around switching and the number of new providers that enter the market still remain. As such, we keep the same assumptions as the previous forecast model.

The new provider forecast numbers are shown in the table below. The provider numbers are lower in our updated forecasts. The reasoning for this is as follows.

75

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727509/Regulatory_Framework_Final_Impact_Assessment.pdf.

⁷⁶ [Reference]

In 19/20 the updated forecast predict 58 less providers joining the OfS, this was due to

- Fewer FECs joining the OfS register (Approx. 40 less). Our original forecasts assumed that all FECs with an access agreement would join the OfS. The available OfS application data confirms this is reasonable assumption, however, there were approximately 40 fewer FECs with access agreements in the sector compared to the time when the original forecasts were made.
- Fewer existing designated APs joining the register (Approx. 10 less). In our original forecasts we assumed all designated APs would apply to either Approved or Approved (fee cap). The available application data showed that not all designated APs had expressed their intention to join the OfS. Our modelling assumes that approximately 10 designated APs would not join the register in 19/20.
- Fewer APs from outside the system joining the OfS register (Approx. 10 less). In our original forecasts we assumed that approximately 20 APs who were outside the system (i.e. those without designation, DAPs and a Tier 4 licence) would join the OfS. The latest applied data estimates around 10 providers.

As well as lower numbers of providers joining the OfS in 19/20, growth in the forecast period is smaller in the revised modelling scenario. In our original model, growth averaged approximately 4% per academic year, which was equivalent to 21 to 26 more registered providers per year. After conversations with the OfS, we revised our growth rate downwards to approximately 2.3% per academic year⁷⁷. A lower growth rate from a lower base (i.e. a smaller number of registered providers in 19/20) explains the difference between the two forecasts.

Table B1: Forecasted number of providers registered with the OfS by registration category, revised figures, 19/20 to 28/29.

	19/ 20	20/ 21	21/ 22	22 /23	23/ 24	24/ 25	25/ 26	26/ 27	27/ 28	28/29
Approved	112	121	131	140	148	155	162	167	172	177
Approved (fee cap)	352	357	362	367	372	376	380	384	387	391
Total	464	478	493	507	520	531	542	551	560	567
Old Total⁷⁸	508	531	555	580	606	631	654	677	698	718

⁷⁷ This reduction was arrived at by changing our behavioural assumptions. Namely, we assumed only 20 providers would enter the market each year instead of 30 and we assumed that a lower percentage of existing providers outside the system would register with the OfS each year.

⁷⁸ Taken from Annex B of the Impact Assessment "Securing student success: Regulatory framework for higher education in England". https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727509/Regulatory_Framework_Final_Impact_Assessment.pdf.



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