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Y Gweinidog Addysg Bellach ac Uwch
Minister for Further and Higher Education



Llywodraeth Cymru
Welsh Government

Buffy Williams MS
Chair, Children, Young People and Education Committee

5 March 2026

Dear Buffy,

The Cabinet Secretary and I wrote to the Children, Young People and Education Committee ahead of its meeting on 4 February. In that letter, there was an action point to provide 'Further information on assessments on the affordability of increasing student loan outlay at a greater rate than the UK Government and the impact this will have on future support packages' and I offered the Committee a technical briefing.

Due to time constraints on Committee time, I agreed to provide a written note. The note attached provides an explanation of the two principal fiscal pressures affecting the Welsh Government's student loans system.

Should you require any further information I would be happy to provide it.

Yours sincerely,



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We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Welsh Government Briefing: Student Loans Budget Control – AME and RAB Pressures

Background

CYPE committee met on 4 February and received a letter from the Cabinet Secretary for Education and Minister for Further and Higher Education. In the letter under the action point 'Further information on assessments on the affordability of increasing student loan outlay at a greater rate than the UK Government and the impact this will have on future support packages' the Minister offered the Committee a technical briefing.

Due to time constraints on Committee time, the Minister agreed to provide a written note.

This briefing provides an explanation of the two principal fiscal pressures affecting the Welsh Government's student loans system:

1. **The Annually Managed Expenditure (AME) control on total student loan outlay**, including maintenance and fee loans; and
2. **The Resource Accounting and Budgeting (RAB) charge**, which reflects the long-term cost of non-repayment and is subject to a separate, ring-fenced spending limit.

Overview of Student Loans Budget Controls

The Welsh Government operates its student finance system within two distinct HM Treasury controls:

AME Control (Loan Outlay Limit)

- AME funds the cash cost of issuing new student loans.
- HM Treasury provides AME cover on the basis that Welsh student support arrangements remain **broadly comparable** to those in England.
- If Welsh loan outlay grows materially faster than the English comparator, HM Treasury may conclude that the system is no longer comparable, placing restrictions on future AME cover and requiring the difference to be funded from the Welsh Government's core RDEL budget.

RAB Control (Impairment/Non-Repayment Limit)

- The RAB charge reflects the portion of newly issued loans not expected to be repaid.
- Wales receives cover for RAB non-cash costs from HM Treasury, limited to a Barnett share of England's forecast RAB charge.

- Any RAB cost above that allocation must be funded from the Welsh Government's **core RDEL budget**.

These two controls operate in parallel. A breach of either, results in immediate fiscal pressure for Welsh Government.

AME Pressures

Growth in Loan Outlay

Loan outlay has increased steadily in Wales due to:

- Since implementation of the Diamond recommendations from 2018-19, uprating total maintenance support has been in line with the National Living Wage up to 2024/25, and since 2025-26 with CPI inflation;
- Freezing maintenance grant amounts and thresholds, shifting a greater share of support into loans;
- Increases in tuition-fee caps to match England;
- A progressive maintenance model that maintains higher levels of support per student relative to England.

These changes have resulted in Welsh maintenance loans rising faster than their English counterparts, where maintenance loans have not kept pace with inflation. As a result, Wales is now operating close to the implicit AME ceiling set by its comparability position.

Grant Outlay

As referenced in the Growth in Loan Outlay section, grant amounts have been fixed from 2018-19 to 2025-26, with total inflationary uplifts being absorbed by increasing the loan amounts accordingly.

- Each year, under the current support policy, fewer students are eligible for the higher levels of grant as income thresholds remain frozen.
- For 2026/27 we implementing a CPI based 2% inflationary uplift to both the maintenance loan and grant support.
- This helps control the increase in loan amounts, as the overall uplift is spread across both loans and grants for 2026/27.

RAB pressures

Forecast RAB Position

Modelling from the updated cross-UK repayments model indicates that Wales' RAB charge for 2025-26 may rise to approximately £367m, exceeding the available RAB budget (set by the Barnett share England's forecast).

HM Treasury has already signaled that Wales may be required to meet approximately £7.7m of this from its own RDEL budget, subject to final outturn.

Drivers of rising RAB Costs

The forecast breach arises from several factors:

- **Updated graduate earnings and repayments model:** The most important cause of this increase is the move to the improved shared UK graduate repayments model. The new model significantly reduces projections of graduate earnings and therefore repayments.
- **Policy divergence from England:** Wales retains the Plan 2 repayment policy, whereas England has moved to Plan 5 for new cohorts (from September 2023). Plan 5 has a lower income threshold at which repayments start (for 2025-26, £25,000 compared with £28,470 for Plan 2), as well as a longer repayment term (40 years, compared with the 30 years for Plan 2).
- **Loan outlay growth:** Higher loan outlay feeds directly into higher expected write-off costs.

Updated Repayment Model and Impacts on Borrowers

The New Student Loan Repayment Model

Welsh Government, DfE and other devolved UK administrations have adopted a common UK-wide graduate earnings and repayments model. Key features include:

- Updated assumptions about real earnings growth;
- Refreshed graduate income distributions;
- Updated employment and repayment behaviour data.

DfE first implemented the updated model in 2020, Welsh Government beginning transitioning to aspects of the new model from 2021, as the model was developed to enable use by Welsh Government and the other Devolved Administrations. A full end to end model was available for testing by Welsh Government in spring 2025.

Following full testing and quality assurance, the full new model was approved for use for the 25-26 Welsh Government accounts and AME returns. This timing is in line with other Devolved UK administrations.

Moving to the new model has resulted in a significant increase in the RAB charge, driven by using a new data source as a basis for earnings growth and the subsequent impact that has on repayment levels. The other Devolved UK Administrations have seen a similar impact.

Combined Effect of AME and RAB Constraints

The interaction of the two controls is now creating a dual pressure:

- **AME constraint:** Wales is close to the limit of the AME coverage it can justify under the comparability principle.
- **RAB constraint:** The latest modelling significantly increases the estimated non-repayment cost, exceeding the ring-fenced RAB budget.

In combination, these create a more challenging affordability environment than in previous years. Even modest further growth in loan outlay or divergence from English repayment policy is likely to prove unsustainable under HM Treasury controls.

Key Risks and Considerations for Senedd Members

- **Fiscal risk:** Future overspends could place recurring pressures on the RDEL budget.
- **Operational risk:** Divergent repayment rules pose feasibility and cost challenges for HMRC and the Student Loans Company.
- **Policy coherence:** Any adjustments to maintenance or repayment structures must consider participation, fairness and comparability.
- **Timing:** Significant modelling updates coincide with limited policy-making periods ahead of the election.

Next Steps

Officials continue to assess options for improving affordability while maintaining fairness and policy coherence. Addressing the issues outlined in this paper will form a core part of the Welsh Government response to **The future of tertiary education in Wales: five challenges and calls for submission**¹.

Contact

- For further information, officials in the Strategy & Funding Division can provide technical analysis or additional briefing as required.

¹ [The future of tertiary education in Wales: five challenges and calls for submission | GOV.WALES](#)