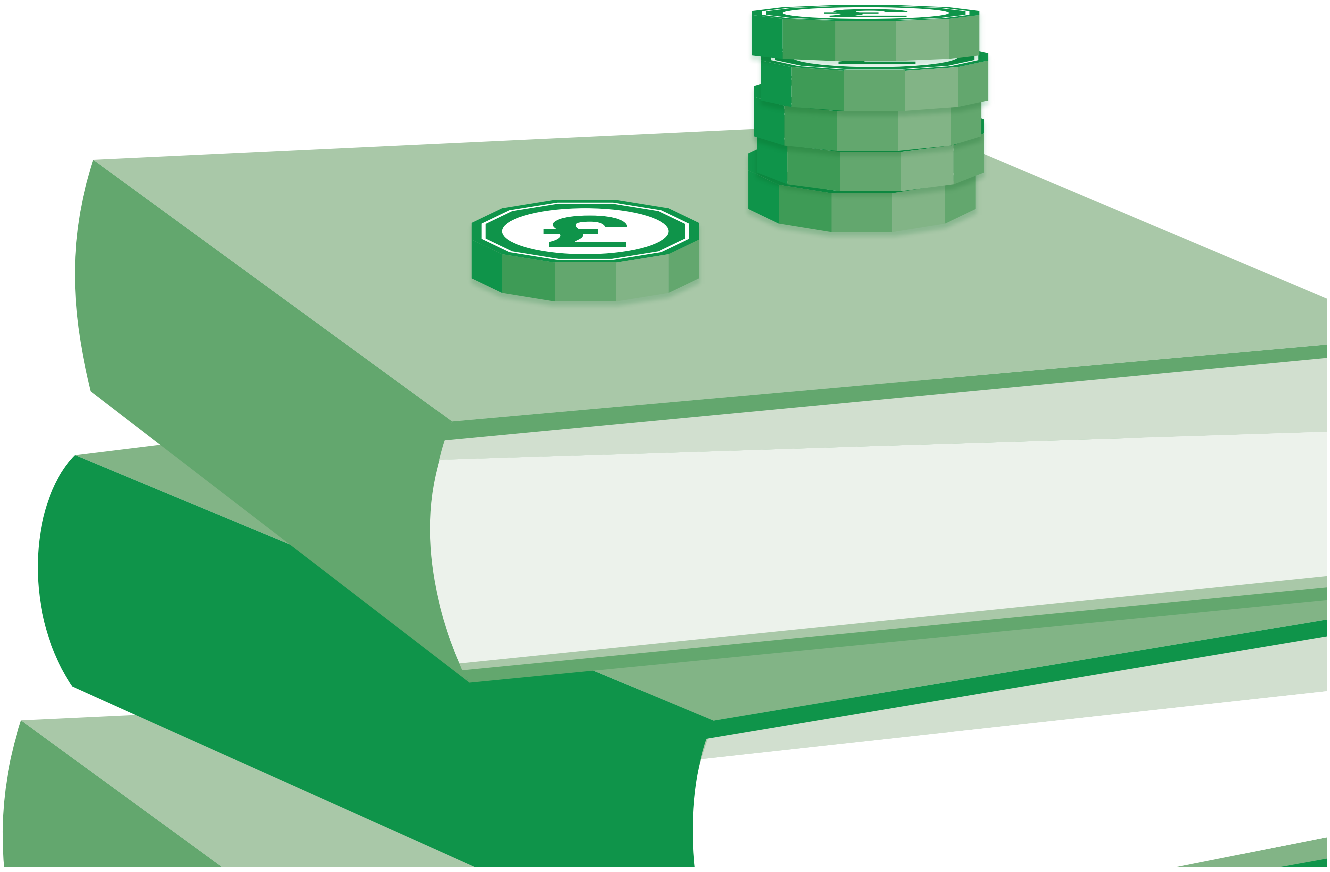
Briefing

Student loans



AUDITOR GENERAL

Prepared by Audit Scotland
January 2020

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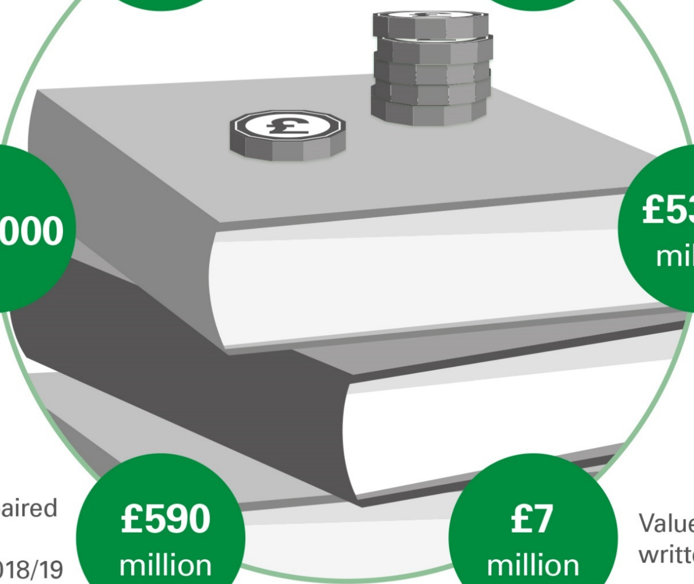
Key facts



505,800 Number of individuals with debt still to repay at April 2019

£5.5 billion Total loan debt at the end of 2018/19

654,000 Number of individuals to whom loans have been provided

£533.6 million Value of loans authorised by SAAS in 2018-19

£590 million Value of debt impaired by the Scottish Government in 2018/19

£7 million Value of loans written off in 2018/19

Introduction

1. Student loans are a significant part of the educational landscape in Scotland. They provide potential students with the opportunity to undertake study, regardless of their level of personal or family income. They also represent a significant investment by the Scottish Government. The Student Awards Agency Scotland (SAAS) authorised living-cost loans totalling £533.6 million in academic year 2018-19.[1] The Scottish Government reported total student loan debt of £5.5 billion at the end of March 2019. These loans need to be repaid in full by either the students or the Scottish Government.

2. The Scottish Government, the Student Loans Company and the SAAS gather a wide range of information on student loans, including who is taking out loans, the patterns of repayment and the overall level of debt carried by students and the government. But there is no single document that sets out how these significant costs to the Scottish Government are changing over time. In preparing this briefing paper, we have drawn on the sources described above, including the Scottish Government's Consolidated Accounts, information published by the Student Loans Company, and both guidance and statistics published by SAAS. We have also discussed the contents of the paper with officials from both the Scottish Government and SAAS.

3. This paper provides an overview of student loans in Scotland. It highlights some of the key data, provides trend analysis and notes some significant features of the student loan system. The paper focuses on student loans, but it is important to note that loans form only one part of the overall package of support available to students.

4. The paper concludes by posing several key questions for the Scottish Government.

Student loans

Students can access various types of financial support to help them study

5. Students can access a range of publicly-funded financial support, both to pay for course fees and to support their living costs while studying. In some circumstances, financial support is also available for dependants. This financial support comprises a mix of benefits, bursaries, grants and loans. An individual's eligibility for the various types of financial support is informed by their personal/household circumstances, the nature of the education they are undertaking and their pattern of study. For example, eligibility could be affected by an individual's country of residence, age or their household income.

6. The Scottish Government commissioned a review into student support in Scotland in 2016. The report of the review was published in November 2017. In response to the review, the Minister for Further and Higher Education wrote to the Convener of the Education and Skills Committee on 9 June, and issued a statement in July 2018, setting out the government's initial plans for change. These included:

- Investment of an additional £21 million per year by the end of this parliament in improving student support over the current parliamentary term, including investment of over £5 million in 2018/19 to increase bursaries for full-time care-experienced students.
- Increases in both the further education and higher education care-experienced bursaries.
- Investment of £16 million in 2019/20 to increase further and higher education bursaries for students from the lowest income families and expand access to them.
- Further education bursary support to increase in 2019/20. And, from 2019/20, all eligible further education students aged 18 and over to receive a guaranteed bursary award.
- A commitment to review all non-core and discretionary support.
- Improve financial literacy with increased guidance on student loans, budgeting and repayment terms.

The minister noted that some recommendations from the review would require further evidence and consideration, or discussions with the UK Government's Department for Work and Pensions. The minister wrote again to the Convener with an update on progress on 10 June 2019. The update included a commitment to introduce combined and comprehensive online information on student finance during 2019-20.

Student loans provide students with support to meet the costs associated with studying at university

7. In Scotland, since the academic year 2000-01, tuition fees for eligible full-time Scottish and EU students studying at Scottish universities are paid direct to universities by SAAS. However, full-time undergraduate students who are ordinarily resident in the rest of the UK (‘rUK students’) are required to pay tuition fees to study in Scotland.

Student loans are available to those who meet the eligibility criteria, and the maximum amount an undergraduate student can borrow is £6,750 a year

8. Currently, loans are available to both college and university students (undergraduates and postgraduates), with eligibility and the amount available varying depending on country of residence, and on both the level and pattern (full-time or part-time) of study. For example, part-time students from Scotland and the EU are not able to access living cost loans. Some students, for example postgraduate students in Scotland and Scottish students studying at a university elsewhere in the UK, may also be eligible for a tuition fee loan.

9. SAAS assesses whether Scottish and EU students are eligible for a student loan. In assessing eligibility, SAAS considers several criteria. For example, applicants need to have lived in the UK for at least three years prior to the start of their course and need to be 'ordinarily' a resident of Scotland on the first day of their course. Essentially, this means the student must live in Scotland full-time and out of choice. There are some exceptions to the various criteria. For example, for EU nationals, UK nationals who have returned from the EU and those with refugee status.

10. The amount a student can borrow depends on both the type of study and their household income. There is no minimum loan amount. The maximum an undergraduate student can borrow ranges from £4,750 a year up to £6,750 a year. Where a student is not prepared to disclose their household income, they can receive a maximum ‘non-income disclosed’ loan of £4,750 a year.

Students begin to repay their loans when they reach a specified salary threshold, and any debt remaining after 30 years is written off

11. Where SAAS assesses someone as being eligible for a loan, they will pass the details on to the SLC. The Student Loans Company (SLC) is a non-profit making organisation, jointly owned by the UK and devolved administrations. Once it receives a student’s details, it will issue the loan and notify the student of the repayment arrangements.

12. Most Scottish students are on repayment plans that are referred to as ‘Plan Type 1’. The repayment terms for Plan Type 1 – the salary threshold, the repayment percentage, the period after which debt is written off and the interest rate on remaining loan debts – were set by the UK Government. The Scottish Government can alter the repayment expiry period (and has done so) and is currently working with the SLC and HMRC to introduce a new loan plan from 2021. The new plan will allow the Scottish Government to set all aspects of the repayment terms. Further details on the terms are set out in the following paragraphs.

13. Employment status and location affect the repayment terms. Students employed in the UK begin repaying their loans once they begin earning more than the salary threshold – the threshold in 2019/20 is £18,935. The Scottish Government has committed to raising the repayment threshold to £25,000 from April 2021. The threshold normally increases every year with inflation and a different limit may apply if an individual moves to live in a country outside the UK. If an individual’s salary drops below the threshold at any point, payments will be stopped. Repayments are collected by HMRC. Individuals living or working abroad are also required to make repayments, though the salary threshold differs depending on the relative living costs in the country in which they work. For those who are self-employed, repayments are arranged through their self-assessment tax return – HMRC calculates the repayment amount.

14. The repayment level is currently set at nine per cent above the salary threshold per year, ie individuals will repay nine per cent of their annual income above £18,935. Interest is charged on loans from the first instalment of the loan until final repayment of the debt. The average loan debt per student on entry into repayment in 2019 was £13,800. The average has grown by 130 per cent since 2010/11, when it was £6,000. It is important to note that this is the average. In some cases, the debt will be much higher – in theory, and assuming the current levels of loan available remain the same, a student studying for four years, and taking the maximum loan each year, would leave with a debt in excess of £27,000 (including interest).

15. An individual's ability to repay their loan, and the length of time it will take them to repay, will be affected by their income. Longitudinal Education Outcomes (LEO) data published by the Scottish Government at the end of June 2019 (relating to 2016-17) shows significant variation in average earnings by course and institution at one, three, and five years after graduation. By way of example, median earnings for medicine and dentistry graduates five years after graduation were between £42,700 and £53,500, while the median earnings for economics graduates ranged from £25,200 to £44,500. As an example of humanities subjects, median earnings for philosophy and religious studies ranged from £24,600 to £31,200.

16. Examples of expected repayment amounts, and time to repay, based on the average loan amount on entry to repayment, are shown in Exhibit 1.

Exhibit 1
Examples of student loan repayment periods

Annual salary	Loan repayment calculation	Monthly repayment	Time to repay
£25,000	£25,000 – £18,935 = £6,065 £6,065 x 9% **= £545.85 per year**	**£45.49**	**303 months or just over 25 years**
£35,000	£35,000 – £18,935 = £16,065 £16,065 x 9% **= £1,445.85 per year**	**£120.49**	**115 months or just over 9½ half years**
£45,000	£45,000 – £18,935 = £26,065 £26,065 x 9% **= £2,345.85 per year**	**£195.49**	**71 months or just under 6 years**

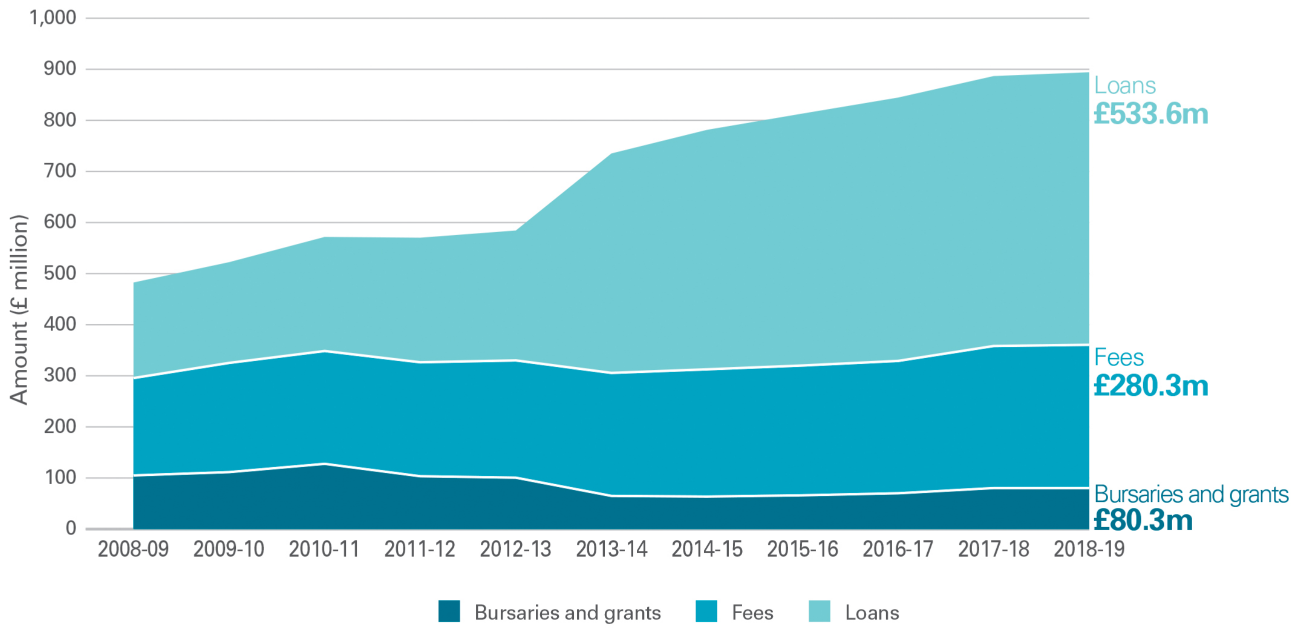
Note: It is important to note that the 'time to repay' does not include any period during which a student is earning less than the salary threshold. These calculations also do not include any interest, and assume that the repayment threshold remains constant and that salary level does not vary, so the payback periods could be shorter, or longer.

SAAS authorised living-cost loans totalling £533.6 million in 2018-19, and the amount authorised has grown over time

17. Changes to the amounts that students could borrow led to a significant change in both the amount, and the proportions of different types, of financial support provided to students (Exhibit 2, page 8).

18. SAAS authorised 100,600 students for a living-cost loan in academic year 2018-19 at a total cost of £533.6 million. This represents an increase of 185 per cent since 2008-09, when it authorised £187 million in living cost loans. The maximum loan for students who did not disclose their income rose significantly in 2013-14 – from £850 to £4,500. SAAS also authorised a further £57.4 million in fee loans in 2018-19.

Exhibit 2
Trends in student financial support in Scotland



Source: National Statistics Publications, Student Awards Agency for Scotland

The number of borrowers liable for repayment grew by 4.7 per cent in 2018-19

19. The most recent SLC statistics indicate that, since 2000, loans have been provided to over 654,000 individuals. At April 2019, 140,700 had fully repaid their loan. There were 421,500 borrowers liable for repayment and a further 84,300 borrowers not yet liable for repayment. The total number of individuals with debt still to repay is 505,800.

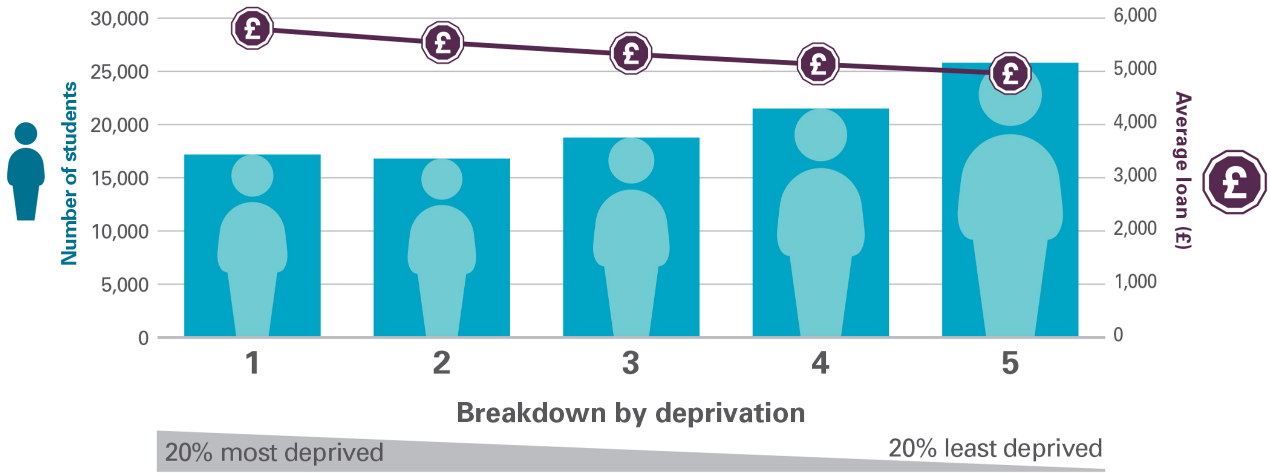
20. The average loan per student rose from £2,420 in 2008-09 to £5,300 in 2018-19, with the biggest increase taking place between 2012-13 and 2013-14, when the average loan amount rose from £3,110 to £5,020. Increases in the average loan amount over the last three years have been negligible.

21. Most full-time students to whom SAAS provided financial support through a loan in 2018-19 were undergraduates (96,530, or 96 per cent). 97 per cent of full-time students receiving any form of support from SAAS were studying in Scotland and 77 per cent of full-time students supported by SAAS were studying at a Scottish university.

Students from deprived areas tend to borrow more than those from less deprived areas

22. Analysis by SAAS indicates that, in 2018-19, students from the 20 per cent most deprived (SIMD) areas borrowed, on average, more than those from the least deprived areas (£5,800 compared to £4,960)[2]. In 2017-18, the latest year for which data is available, 15.6 per cent of students entering university were from the 20 per cent most deprived areas (Exhibit 3, page 9).

Exhibit 3
Average loan by SIMD category 2018-19



Source: National Statistics Publications, Student Awards Agency for Scotland

23. While SAAS publishes data on overall support by other student characteristics, such as age and gender, it does not publish a breakdown of the student loan data by these characteristics. There is also no published data on the distribution, by SIMD, of the remaining debt. It is not possible, therefore, to draw any conclusions about whether those from the most deprived areas, and who borrow the most, also carry the debt for longer than those from less deprived areas.

The level of debt, and amount likely to be written off by the Scottish Government, has grown over time

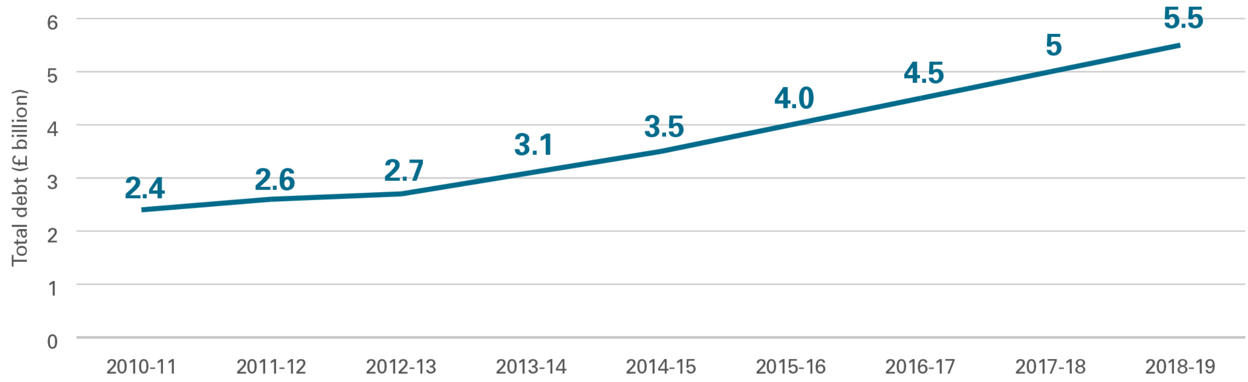
24. As the total value of loans has increased, so has the overall outstanding debt. In Scotland, total debt increased from £2.5 billion in 2011 to £5.5 billion in 2019, an increase of 120 per cent (Exhibit 4, page 10). This is broadly similar to the rate of increase in the other devolved administrations.

25. There are certain circumstances in which loans will be written off:

- If an individual becomes permanently unable to work
- For those who took out a student loan:
  - between academic years 1998/99 and 2006/07, any outstanding amount will be cancelled when the individual reaches 65 years of age, or 30 years from the April after they graduated
  - in or after academic year 2007/08, it will be cancelled 30 years from the April after they graduated.

26. The amount written off in 2018-19 was £7 million.

Exhibit 4
Change in level of student loan debt



Source: Outstanding Student Loans Balance, Student Loans Company

27. Loans are accounted for as a financial asset. This asset is revalued annually to its ‘fair value’; that is, the Scottish Government reduces the asset to reflect the fact that all loan debt won’t be collected. The revaluation is a statistical estimate, based on a complex set of assumptions about borrower demographics, future earnings and economic growth. The assumptions are reviewed each year, and the fair value is adjusted as necessary. This adjustment is often referred to as an ‘impairment’.

28. The Scottish Government calculates the costs associated with student loans using two main ‘charges’:

- The Resource Accounting and Budgeting (or ‘RAB’) charge – this is the estimated cost of borrowing needed to cover the cost of loans issued in the current year. It is based on future loan write-offs and interest subsidies.
- The Stock charge – this covers the impairment element of loans issued in previous years.

29. At the time of preparing this briefing, the Scottish RAB charge for 2019/20 is calculated at 31 per cent of current year borrowing and the Stock charge at 38 per cent of the outstanding debt (meaning the Scottish Government can expect to recoup 62p of every £1 of outstanding debt).

30. The Scottish Government reports various information on student loans in its accounts, including the total value of the loan asset, total annual interest on the loans (£75 million in 2018/19) and the impairment cost. The Scottish Government impaired the student loans asset by £590 million in 2018/19. This figure reflects the planned increase in the repayment threshold to £25,000 and a reduction in the repayment period from 35 to 30 years that applied from 2018.

31. The UK Government currently provides budget cover for the costs associated with loans drawn down and the associated repayments, and the Scottish Government is required to prepare and submit forecasts to the UK Government (Her Majesty’s Treasury – HMT) each year. The forecasts cover seven years. Separately, the Scottish Government prepares estimates of the impairment costs. These are prepared for the current year and the next year, in line with UK and Scottish Government budget requirements. HMT currently provides separate ring-fenced funding to meet these costs. Since the impairment costs flow directly from the overall loan amounts, the Scottish Government would be able to prepare longer-term estimates, if required. Where the Scottish Government proposes changes to any of the loan parameters, it must discuss these with HMT and include them in the forecasts it submits.

32. New accounting rules mean the portion of student loans not expected to be recouped (the impairment) is now classified as government spending[3]. It is not known if this reclassification will have any impact on the current UK funding arrangements for Scottish student loans or, consequently, on the budget or spending decisions of the Scottish Government.

Key issues for the Scottish Government

33. This paper highlights aspects of student loan arrangements in Scotland, including growing costs and debt levels, financial planning for the costs and debt and the distributional effects of student loans. These issues lead logically to several questions for the Scottish Government, including the link between student loans and longer-term outcomes set out in the Scottish Government's National Performance Framework:

- Are the costs associated with providing student loans financially sustainable? And what are the implications for Scottish Government spending, ie the opportunity costs of investing in student loans?

- How might clearer information on the personal cost of student loans, and the level of debt and potential repayment period, influence individuals' decisions to undertake higher education? And what might the implications be for the Scottish Government's aspirations to widen access to higher education? In the medium to long term, how does carrying a high level of student loan debt affect individual students' wellbeing?

- What do the above questions mean for the Scottish Government's long-term outcomes, as set out in the National Performance Framework? When defined narrowly, outcomes in the form of jobs that allow students to quickly repay their loan debt could help to mitigate any potential negative effects on wellbeing, while also making a positive contribution to the economy. But what wider outcomes are expected, and how clearly are these linked to the NPF? For the economy, is there enough capacity to deliver the types of jobs that will support the Scottish Government's aspirations?

Endnotes

[1] We use the following conventions in the paper: 2017-18 when referring to figures relating to the academic year; and 2017/18 when referring to figures relating to the Scottish Government's financial year.

[2] Some caveats apply because students may declare their term-time address as their place of residence, rather than their permanent address; or because living circumstances may not be fully reflected, eg flat-share.

[3] The new rules apply as a result of the decision by the Office for National Statistics (ONS), in December 2018, to reclassify student loans and debt.

Appendix 1

Recommendations from the independent review of student financial support in Scotland

Fair funding

- Entitlement to a Minimum Student Income of £8,100 in both further and higher education
- Delivered through a mix of bursaries and student loans, with means-testing of bursaries to target support for those from the poorest backgrounds
- Student loans available in further education
- Further education loans written off in full for those transitioning from further to higher education
- Student loan terms enhanced by:
  − Repayment threshold being increased to £22,000
  − Write-off period for student loans being shortened from 35 to 30 years
  − Low interest rates continuing (lowest of RPI or 1 per cent above Bank of England base rate).

Parity

- Common funding system across further and higher education, with local face-to-face support
- Common data system and a central budget for student support
- Flexibility for students around when they would receive financial support.

Clarity

- A single, centralised online portal to provide information to all students
- Consistent guidance and communications for prospective students of all ages, parents and carers
- Local support to help students navigate the system, especially those with more specialist needs
- These recommendations are complemented by a proposed special support payment for students on benefits in further and higher education, similar to the approach already taken in England, Wales and Northern Ireland.

Costs to implement

- To support the introduction of student loans in further education, the Scottish Government should provide an equal split of bursaries and loans for the poorest students in further education
- This would provide an immediate and meaningful improvement in funding to students and would cost an additional £16 million per year
- There are other options, some of which would cost less and some more.

Source: A new social contract for students, Scottish Government, Nov 2017

Student loans

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