House of Commons

Committee of Public Accounts

Student Loan repayments

Forty-fourth Report of Session 2013–14

HC 886

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Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Ian Blair (Committee Assistant) and Janet Coull Trisic (Media Officer).

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Summary

There is at present around £46 billion of outstanding student loans on the Government's books, and this figure is set to rise dramatically to £200 billion by 2042 (in 2013 prices). By 2042 there will be an estimated 6.5 million borrowers of student loans. At the same time estimates for the amount of loans that will not be repaid are also rising and the Government assumes that 35-40% of outstanding loans will never be repaid. That is some £16 billion to £18 billion on the current debt of £46 billion and £70 billion to £80 billion on the estimated value of student loans by 2042. The Department for Business, Innovation & Skills (the Department) is not doing enough to secure value for money from its collection arrangements. The Department is unable to accurately forecast student loan repayments, and does not have a sufficient understanding of the likely future cost of non-repayment to the taxpayer. The Student Loans Company is not doing enough to ensure that it identifies and collects all the repayments due, given the substantial size of the financial assets involved, and will need to demonstrate value for money from the proposed sale of the student loans book.

Conclusions and recommendations

1. The Government introduced student loans in 1990. The Department is responsible for the overall system of collecting repayments, which is operated by the Student Loans Company and HM Revenue & Customs (HMRC). In 2012-13, the Student Loans Company and HMRC spent £27 million operating their systems for collecting £1.4 billion of repayments, the majority of which are collected through HMRC's tax systems. The student loan book is a substantial public asset, and the Department estimates that the value of outstanding loans will increase from £46 billion in 2013 to £200 billion by 2042 (in 2013 prices). The Department therefore needs to understand which loans are due for repayment and what the outstanding loans are worth, and ensure that it collects all those payments due.

2. **Since student loans were introduced in 1990, there has been no reliable model for forecasting how much will be repaid to the Exchequer.** Despite investment to improve the forecasts in recent years, the Department's model for estimating future loan repayments still consistently over-estimates annual repayments by about 8% compared with the amounts actually collected. As a result, the Department is likely to be underestimating the value of student loans that will never be paid back; currently the estimate is between 35% and 40%. The Department cannot be properly held to account for performance because it does not publish its forecasts and it does not report on variances between forecasts and actual amounts collected. It also does not publish all of the detailed assumptions it is using to calculate the value of the student loan book.

   Recommendation: ***The Department must publish clear and easily-understood annual forecasts of what it expects to collect in the year ahead, and explain any subsequent variances between forecasts and the amounts actually collected. It must also invest in improving its forecasting capability so that action can be taken to reduce the ever-growing write-off figures***.

3. **We were reassured by the Permanent Secretary's statement that any sale of the student loan book "has to represent value for money for the taxpayer".** The Government has announced that the cap on the number of students that universities can admit will be lifted, with the additional costs met through the sale of the student loan book to private investors. We welcome the Department's commitment to secure value for money from the sale of the loan book, but, at present, the Department does not have a robust model to properly estimate the value of the loans, and so cannot yet give us confidence that it can assess the value for money of a sale or the long-term cost to the taxpayer. If, as the Department intends, the loans continue to be collected through existing tax systems after they are sold, opportunities for a private buyer to make efficiencies will be limited and could restrict competition between bidders. The Department therefore has some way to go before it is in a position to make a convincing value for money case from future sales.

   Recommendation: ***The baseline valuation for the sale needs to be determined in advance. The Department must demonstrate that it has a robust understanding of: the realistic value of the student loan book; the long-term cost to the taxpayer of any***

early sale; and the expected level of competition between bidders and what they might pay for the loan book.

4. **The approach to collecting debt lacks rigour.** The Department and the Student Loans Company need to improve the collection of loan repayments. The targets that the Department has set require the Student Loans Company to have up-to-date information on what borrowers are doing and whether they are earning enough to repay. However, the categories used to report the numbers of borrowers repaying lead to confusion. For example, out of 2.88 million borrowers who count towards the Student Loans Company's annual targets, 438,000 have already repaid their loan in full so should no longer be counted as being in the repayment system. The Student Loans Company lacks information on what 368,000 graduates who are not repaying at the moment but are still classified as being in the 'repayment' category are currently doing. It has little information on British graduates who live abroad and EU graduates who have also left the UK. As a result, the Department and the Student Loans Company have not put sufficient energy into identifying those borrowers who have slipped out of contact but should be making repayments. The Department needs a better understanding of performance gaps and how it could address them.

   Recommendation: ***The Department should set, and report against, more stretching and meaningful targets for debt expected to be collected, and for measuring the Student Loans Company's performance in specific key areas. This will improve transparency and accountability. It should develop a strategy and targets for collecting overdue debt more quickly from all categories including borrowers living overseas.***

5. **Opportunities to share data with other public bodies to track down borrowers have not been exploited by the Department and the Student Loans Company.** Data sharing between departments should improve ways of tracking down and confirming which borrowers are earning enough to repay their loans and could also help to identify fraud. The Department does not, for example, share information with the Home Office's e-Borders programme on borrowers with whom they have lost touch and who may enter or leave the UK. While the Department and the Student Loans Company have discussed the possibility of data sharing with the Department for Work and Pensions, the Department of Health and the Home Office, progress to date has been minimal.

   Recommendation: ***The Department and Student Loans Company should work with other government departments to develop a strategy for sharing data to gain more information on borrowers' whereabouts and earnings and to help identify previously undetected fraud.***

6. **The quality of customer service provided to students has improved, but significant difficulties remain.** While we note that there have been recent improvements in customer service and borrower satisfaction, borrowers still have to use premium-rate phone lines to contact the Student Loans Company. After our hearing, the Student Loans Company confirmed that it plans to stop using these lines by April 2014, but it has been slow to reach this position. The online services for students and graduates to update their details and provide information are also

inadequate and the IT is outdated and no longer fit for purpose. For example, borrowers cannot use online forms to provide information on their current circumstances, and instead have to print, manually complete and post, or scan and email, the forms. The Student Loans Company told us that that new IT and ways of working, due to be introduced in the next financial year, will address these issues.

Recommendation: ***The Student Loans Company must deliver on its promises to improve its online services to borrowers and to stop using premium-rate phone lines in the new financial year.***

1 The value of the student loan book

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for Business, Innovation & Skills (the Department), the Student Loans Company and HM Revenue & Customs (HMRC) on the valuation and collection of student loan repayments.[1]

2. The Government introduced student loans in 1990, issuing 'mortgage-style loans' whereby repayments were due in fixed instalments over a fixed period. From 1998, it issued 'income contingent loans' whereby the level of repayments is based on earnings. The Department estimates that the value of outstanding loans will increase from £46 billion in 2013 to £200 billion by 2042 (in 2013 prices). The number of borrowers due to repay is projected to increase from 3 million in 2012-13 to 6.5 million by 2042.[2] The student loan book is therefore a substantial public asset.

3. Repayments and interest charges on income-contingent loans depend on borrowers' earnings. The timing and level of repayments are therefore uncertain, and not all of the loans will be fully repaid. The Department uses a forecasting model named 'HERO' to estimate future repayments of income-contingent loans and calculate the present value of the loan book.[3] Despite efforts to improve its repayment forecasts in recent years, the Department has consistently over-forecast annual repayments by about 8% compared with the amounts actually collected.[4] The over-forecast repayments may be due to optimistic assumptions used in the HERO model about future graduate earnings and earnings growth. The forecasts assume, for example, that rates of wage growth seen in the last three decades will continue, despite recent evidence on graduate pay suggesting this may be unrealistic.[5]

4. The Department also uses the forecasting model to estimate how much of the loans will be repaid, and how quickly. The Department's current estimate of the Resource Accounting and Budgeting charge (the proportion of new loans issued that the Department does not expect to be repaid) is 35% but the Department agreed that it would not be unrealistic for the figure to rise as high as 40%.[6] Since 2010, the Resource Accounting and Budgeting charge has risen from 28% to 35%, partly because the Government decided to increase the earnings threshold annually and partly owing to changes in economic growth forecasts and average tuition fees.[7]

5. The Department does not account publicly for how much of the variance between forecast and actual repayments is due to inaccurate forecasting, or how much might be due to ineffective collection. It also does not publish all of the detailed assumptions it uses to

1 C&AG's Report, *Student loan repayments*, Session 2013-14, HC 818, 28 November 2013

2 C&AG's Report, para 3

3 C&AG's Report, para 4.3

4 Qq 1-2

5 Qq 4, 8-13, 88-89, 94; C&AG's Report, para 4.10-4.11

6 Qq 5-7

7 Qq 5, 16-18, 64-65; C&AG's Report, para 1.9

calculate the Resource Accounting and Budgeting charge and the value of the student loan book.[8]

6. The Department has already invested in trying to improve its forecasting model but is now working on a new version. It paid Deloitte £300,000 in 2010 to develop the HERO model, and in 2012 paid a further £100,000 for an updated methodology for forecasting future earnings which it later decided not to implement.[9] Although it considers the HERO model to be an improvement on its previous model, the Department hopes to have a new forecasting model finalised by the end of the 2013-14 financial year. It told us that the new model is being developed in-house, based on the recent work by Deloitte, and is being validated by PricewaterhouseCoopers.[10]

7. In November 2013, the Department sold the remaining tranche of the mortgage-style loan book to a consortium of private companies.[11] Despite having a face value of £890 million the loans were sold for £160 million. The Department explained that this sale contained only very old, difficult to collect, loans. It estimates that the value of the loans, had it retained them, would have been substantially less than the £160 million gained from the sale, and therefore regards the sale to be value for money.[12]

8. In the 2013 Autumn Statement, the Government announced that the cap on the number of students that universities can admit will be lifted, with the additional costs met through the proposed sale of income-contingent loans.[13] The Department is preparing to sell tranches of the income-contingent loan book, subject to the proposed sale passing a value for money test.[14] The Department's current proposal is that the loans will continue to be collected through tax systems after they are sold, because of the efficiencies this brings for collecting repayments from borrowers working in the UK. Retaining the existing collection processes will limit opportunities for a private buyer to make further efficiencies.[15]

9. The Department told us that if the sale did not pass the value for money test it would not go ahead.[16] However, the Department has some way to go before it is in a position to make a convincing value for money case. We were told that the value for money of a sale would depend on a comparison of how much purchasers are willing to pay against an estimate of what the loans are worth.[17] But to make this comparison, the Department needs a reliable and accurate forecasting model so that it can make a sufficiently robust estimate of the loan value in the first place, which it has not yet been able to do with any confidence.[18]

8 Qq 8-10, 64-65; C&AG's Report, para 8, 19a

9 Q 90; C&AG's Report; para 4.4, 4.15

10 Qq 88-93

11 Qq 50-51, 63

12 Qq 52-63

13 Qq 24-37

14 Qq 38-41

15 Qq 66-78; C&AG's Report, para 1.10

16 Qq 42, 76-79

17 Q 74

18 Q 39

2 Collecting repayments from borrowers

10. The Department is responsible for ensuring that there is an effective and efficient system for collecting repayments from English borrowers and EU borrowers attending English universities. The Student Loans Company and HMRC operate the system for collecting repayments. In 2012-13, the Student Loans Company and HMRC spent £27 million operating their systems for collecting £1.4 billion of repayments. The majority of repayments are collected through HMRC's tax systems.[19]

11. The Department sets targets that require the Student Loans Company to get borrowers into what it calls 'repayment channels'. The Department defines borrowers in repayment channels as including both borrowers who are repaying their loan on time and those who are not earning enough to begin repaying.[20] In March 2013, the Student Loans Company's Annual Report showed that 99% of borrowers living in the UK (2.88 million out of 2.90 million) were in a repayment channel.[21] However, the figures reported in the Student Loans Company's Annual Report included 438,000 borrowers in March 2013 who had finished repaying or had their loan cancelled, and who were therefore no longer in the repayment system.[22] In addition, borrowers counted as in repayment channels included 368,000 borrowers who were not repaying anything and for whom the Student Loans Company did not have any information on what they were currently doing.[23] The Department and the Student Loans Company have done little to investigate this group of borrowers, and do not know how many might be, for example, working overseas.[24]

12. Over three quarters of overdue repayments from borrowers living overseas have been overdue for more than a year.[25] The Department does not have a strategy for collecting arrears from overseas borrowers more quickly, and has not set the Student Loans Company a target to reduce older debt. Most debt-collecting organisations aim to prevent old debt from accumulating so that they can focus on newer and more collectable debt.[26] The Student Loans Company accepted this point, and told us that it has begun to manually prioritise its collection efforts in terms of the age and value of the debt. It believes this will become easier when a new telephone system is implemented in March 2014. The telephone system it currently uses to automatically phone people who are in arrears or owe money cannot deal with international prefixes and time zone requirements.[27]

13. Data sharing between Government departments is likely to offer improved ways of tracking down borrowers and of identifying which borrowers are likely to be earning enough to repay. For example, borrowers who are claiming benefits are unlikely to be

19 C&AG's Report, para 1.4

20 Q 141; C&AG's Report, para 2.2

21 C&AG's Report, Figure 5, 8

22 Qq 140-142

23 Qq 143-146

24 C&AG's Report, para 2.9-2.11, 3.15-3.16

25 Qq 158-159

26 Qq 160-164; C&AG's Report, para 2.13

27 Qq 164-167

earning enough to repay their loans and borrowers using health services in the UK are less likely to be working overseas. E-Borders may be able to provide notification when named individuals enter or leave the UK.[28] The Department and the Student Loans Company are in the early stages of data-sharing with the Department for Work and Pensions and are also considering data sharing with the Department of Health and the Home Office, but have not yet started detailed discussions.[29]

14. Better information sharing between departments may also help to identify fraud. The Student Loans Company has tightened controls to prevent and detect fraud and error when students apply for the loans, but many loans will have been taken out before the controls were tightened and so any that were taken fraudulently may remain undetected.[30] The Department and Student Loans Company believe that the amount of money lost to fraud is small, but do not inform the Department for Work and Pensions of fraudulent claims.[31]

15. The Student Loans Company reported improvements in how its services are perceived by repaying borrowers with satisfaction ratings rising from 67% in 2010-11 to 78% in 2012-13.[32] But the Student Loans Company accepted that it has more to do to improve the quality of its customer service. Borrowers still have to use premium-rate phone lines at a cost of 41 pence per minute to contact the Student Loans Company. The Student Loans Company earns £78,000 a year from these lines, while the provider of the lines makes the majority of the profit.[33] The Student Loans Company told us that it plans to stop using premium-rate telephone numbers by April 2014.[34]

16. The Student Loans Company is also developing its online service for students and graduates to update their details and provide information. Borrowers who have graduated and are not working in the UK are obliged to provide information on their current circumstances to the Student Loans Company, but cannot use online forms to do so. Instead, they have to print, manually complete and post, or scan and email, the forms.[35] For borrowers living overseas, this can be a particularly cumbersome process. When borrowers want to check their balance or update their contact details, for example because they have moved address, they cannot do so online.[36] The Student Loans Company accepts that its systems are old and constrained, and has promised that new IT and ways of working, due to be introduced in the next financial year, will address these issues.[37]

28 Q 170

29 Q 171; C&AG's Report, para 3.17

30 Qq 120-128

31 Qq 119, 151-157; Ev 19

32 C&AG's Report, para 3.19

33 Qq 186-198

34 Qq 199-205; Ev 19

35 Q 206; C&AG's Report, para 3.20

36 Qq 168-169

37 Qq 206, 210-213

Formal Minutes

Monday 10 February 2014

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon	Stewart Jackson
Stephen Barclay	Fiona Mactaggart
Guto Bebb	Austin Mitchell
Jackie Doyle-Price	Nick Smith
Chris Heaton-Harris	Ian Swales
Meg Hillier	Justin Tomlinson

Draft Report (*Student loans repayments*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 12 February at 2.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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