Department for Business Innovation & Skills

# Freezing the student loan repayment threshold

Government response to the consultation on freezing the student loan repayment threshold

NOVEMBER 2015

# Contents

# Freezing the student loan repayment threshold

1. The Government is committed to maintaining the UK's world class education system while living within its means and reducing the national debt. Further and higher education will remain accessible to students who have the ability to benefit from it, ensuring that no-one needs to pay up-front. We know that higher education (HE) continues to be an excellent investment, with graduates earning considerably more on average than those with lower levels of qualification. To keep higher education on a sustainable footing we must ask future graduates to meet more of the costs of their studies once they are earning.

2. As we enable more students than ever before to study, including those from disadvantaged backgrounds, we must also reflect the challenge faced by Government, to put debt on a declining path as part of fiscal consolidation plans. The Government has published a draft Charter for Budget Responsibility (the "Charter") which sets out a target for public sector debt to be falling as a percentage of GDP in every year from 2015-16 to 2019-20. We need to ensure that student finance meets our policy goals and remains financially sustainable.

3. For loans taken out before 2012, graduates started repaying when their income reached £15,000 (this threshold has now risen to a little over £17,000). The Government set the repayment threshold at £21,000 from 2016 when the first graduates under the new system would start repayments. In the previous Parliament the Government proposed that the threshold would be up-rated annually in line with earnings from April 2017. Updated forecasts based on the OBR's latest projections for the macro-economy show the proportion of borrowers liable to repay when the £21,000 threshold takes effect in April 2016 is lower than was expected when the decision to raise the threshold was made. The threshold is therefore higher in real terms than was originally intended, which increases the long-term costs of the higher education system to the tax payer.

4. The Budget on 8 July 2015 contained a number of announcements related to higher education, including an intention to consult on keeping the repayment threshold at the same level (i.e. not annually uprated) for five years. We recognise that this proposal would represent a change from when the policy was first introduced. The consultation was issued on 22 July 2015 and closed on 14 October 2015.

5. Loans to cover both tuition and living costs are available for all eligible first-degree students. These need to be repaid only once borrowers are earning more than the earnings threshold. Borrowers repay 9 per cent of their income above that threshold. Any outstanding balance will be written off after 30 years. Interest rates are applied using the Retail Price Index (RPI) and vary from RPI for those on an income up to £21,000, increasing via a simple linear progression to RPI +3% for those with an income of £41,000 or more.

6. Under the progressive student loan repayment system introduced in England in 2012, there is a much stronger link between the benefit individuals derive from higher education and the overall contribution they make to the costs of their study. A similar loan system was introduced in April 2013 for further education learners. This applies to those aged 24 and above who were undertaking qualifications at Level 3 or Level 4. 24+ Advanced Learning Loans cover tuition costs, and are repayable on the same basis as higher education student loans, with the first repayments gathered by the tax system from April 2016 onwards. Much of the discussion in this document relates to higher education students, who represent the majority of learners who are affected by the repayment threshold. However the decisions taken will apply equally to learners who take out Advanced Learning Loans.

7. The Government considers it essential that an individual's contribution to the cost of their education should be linked to their ability to pay. Research consistently estimates that higher educational attainment equates to increased lifetime earning capability. The Government provides protection to those who earn relatively low wages, or who have periods out of employment, through the setting of a threshold for repayments. Those with the lowest lifetime earnings will pay much less than those who are better-off. Those earning below £21,000 repay nothing and any amount not repaid after 30 years will be written-off.

8. The proposed freeze to the repayment threshold would make an important contribution to the Government's debt reduction plan whilst also maintaining a fair balance between the taxpayer and learners.

## What was proposed?

9. Two options for freezing the student loan repayment threshold were proposed, both relate only to the current, post-2012, loans. These are also known as 'Plan 2' loans. The first option was to freeze the repayment threshold for all borrowers since 2012 with 'Plan 2' loans. The second option was to freeze the repayment threshold for 'new' students only, that is, those who start their courses from September 2016.

### Option 1: The Government's preferred option is to freeze the threshold for all Plan 2 loans, existing and new

10. The first borrowers with Plan 2 loans start to repay under statutory terms in April 2016, when the repayment threshold will be £21,000. Under this proposal both the repayment threshold and the upper interest threshold (£41,000) will remain at the same level for five years, for all English borrowers – existing and new. The threshold will be reviewed by April 2021. This option is estimated to increase repayments by £3.2 billion over the lifetime of the loans for existing borrowers and £900 million per £15 billion of new loans. It will still ensure that higher education is free at the point of use, and that repayments are affordable for all graduates.

## Option 2: The second option is to freeze the threshold for new borrowers only

11. The second option will affect only borrowers starting courses in academic year 2016-17 and subsequent years. For higher education students, borrowers will generally expect to start repayment in April 2020. The threshold will be frozen from April 2020[1] for five years at the level that the existing post-2012 borrowers' loan repayment threshold has reached by then (currently estimated to be around £24,000). The upper threshold will also be frozen in the same way (estimated to be around £48,000).This option also reduces government debt, but considerably less than option 1, and not during the current Parliament. It requires the creation of a new student loan type, or 'plan', and therefore has operational demands and administrative costs for businesses as well as for government.

## Option 3:  Not changing the policy of threshold rising with earnings from April 2017

12. If no changes are made to the current policy, raising both thresholds by earnings from April 2017 for all borrowers, as originally intended in 2010, there will be no impact on borrowers. This does not contribute to debt reduction and will not help meet the current fiscal pressures.

## Other Higher Education changes

13. The Budget announced on 8 July contained a number of Higher Education related announcements. The most significant from an affordability perspective is the change (from the academic year 2016/17) from non-repayable maintenance grants to increased loans.

14. Together, these changes make a substantial contribution to the government deficit reduction plan, giving students from lower incomes more cash-in-hand and ensuring that we improve the sustainability of the higher education system.

[1] Note that further education learners generally undertake shorter courses than higher education learners, which typically results in them entering repayment sooner.

# Summary of consultation responses

## Repayment threshold consultation summary of responses

15. The department launched its consultation on freezing the repayment threshold on 22nd July 2015. The consultation received a total of 489 responses. 330 were received from the internet via the Citizenspace website, 157 by email and 2 by post.

## Responses by sector

16. Of the total 489 responses, 447 responses were received from individuals with 42 from organisations which included 6 universities and 14 student unions as well as HE representative bodies, charities, business organisations and professional bodies. A list of the organisations is provided in Annex A.

## Overview of responses to the consultation questions

**Question 1: Please could you provide your views, stating reasons and providing supporting evidence, on the options.**

17. Many respondents (particularly individuals) provided views or opinions but provided little supporting evidence. A small number of responses have included their own analysis and others have referenced the Sutton Trust's "Unfair Deal" report (http://www.suttontrust.com/newsarchive/students-face-extra-repayments-of-2800-if-repayment-threshold-frozen-on-existing-loans/). A significant number of responses (62) consisted of the text of a 'template letter' provided by MoneySavingExpert.com with little further information provided.

**Option 1:** Keeping the threshold of £21,000 the same for all post-2012 borrowers until April 2021

| Response type | Number | Percentage |
|---|---|---|
| For | 26 | 5 |
| Against | 410 | 84 |
| Other (no preference/ doesn't understand) | 25 | 5 |
| Blank | 28 | 6 |

18. Of the 489 responses received, 410 did not support Option 1. There were 10 responses that quoted back the policy and did not specify a preference for or against Option 1.

19. Many respondents made general comments about borrowers basing decisions about going to university on the total costs, suggesting that they would have been deterred from attending if this had been the option offered to them. 66 respondents objected to what they believed to be retrospective changes. 42 respondents made comparisons to commercial loans, saying that the terms and conditions of those would not be allowed to change, so the terms of Government loans should not be changed either.

20. The main comments against option 1 include that it:
    a. Represents a retrospective change to borrowers' terms and conditions.
    b. Changes the basis on which borrowers made their original decisions to take out loans.
    c. Changes the terms and conditions in a way that would not be allowed for commercial lenders.
    d. Impacts lower and middle earners.
    e. Sets a precedent, increasing the likelihood of further retrospective changes in future.
    f. Would lead to a loss of trust in Government.
    g. It may not be legal to change the terms.

21. Seven respondents referred to the Competition and Markets Authority's (CMA) advice on compliance and minimum standards for HE providers. These respondents suggested that Government should seek to meet the same standards in their dealings with students by upholding the integrity of the information provided to new and prospective students, where reference was made to an annual threshold rise in line with earnings.

> At a time when HEIs are required to observe Competition and Market[s] Authority requirements and ensure that future students are provided with all the information they need to make an informed decision about HE before they apply, including about the total costs of the course, we are concerned that fundamental changes to the student loan agreement, and the repayment regime in particular, would serve to undermine this transparency and potentially place HEIs in an untenable position.
>
> **A university**

> This is an unfair proposal that places unanticipated, additional repayments on middle and lower earners…. the additional payments would add a significant percentage to the estimated costs of a degree: between 20 and 33 percentage for lower lifetimes earning deciles. This is a very significant price increase for roughly half of the projected graduate population.
>
> ……. Making changes after students and graduates have assumed new liabilities risks introducing a wholly new signal into the equation - that the loan scheme is unreliable and untrustworthy. Potential 'customers' may respond by avoiding English HE and its loans.
>
> The conception of 'affordability' offered in the Consultation cannot be taken seriously as grounds for retrospective price hikes.
>
> **An individual respondent**

22. Twenty-six respondents supported Option 1. These tended to be from businesses or business organisations; however, there was support for this option by some universities and professional membership bodies. The main comments in support of option 1 indicated that:
    a. The £21,000 threshold is higher in real terms than was assumed in 2010 when it was set.
    b. A freeze would allow the Plan 1 threshold to ‘catch up’ and could facilitate merging Plan 1 and Plan 2 thresholds into a single threshold which would be simpler to administer.
    c. HE would be more sustainable.
    d. The provision to make retrospective changes is built into the student finance system and these have been made before.
    e. The earnings of many borrowers will not be sufficiently above the current threshold for long enough for them to completely repay their loans - thereby costing taxpayers (some of whom have not received the higher education themselves) more. A threshold freeze would therefore be in the interests of equity, justice and fairness.
    f. From an employer and software developer perspective, this option is the easiest to administer and requires little or no changes to existing processes.

[We] believe …… Of the options considered, it [Option 1] was the most straightforward to communicate to students, graduates and other stakeholders.

[We] believe that the freezing of repayment thresholds is preferable to alternative measures to reduce long-term costs of the student funding system…. The specific advantages of the government's preferred option, which involves keeping the threshold of £21,000 the same for all post-2012 borrowers until April 2021, are:

- It contributes to government fiscal targets.
- It is more straightforward to administrate and results in a less complicated student loans system. ….
- Option 1 reduces the long term cost of the student funding system to government. ….in a way that maintains an appropriate balance in the contribution to funding of higher education between the government and graduates.

[We] also recognise that there are a number of disadvantages related to the governments preferred option…. Repayments will increase for current borrowers. …. [However] monthly repayments will also remain affordable, particularly in comparison to the pre–2012 system.

**An HE/FE representative body**

[We] support this proposal. We agree with the principle that future graduates should meet more of the costs of their studies once they are earning. We understand the need for HE to be funded in a sustainable way and agree that the present arrangement is not sustainable

**An HE/FE representative body**

I think it is best to keep the threshold the same for all graduates and keep it at £21,000 for 5 years to allow graduates to repay more of their loan as their salary goes up. That's still a very generous threshold and still will be in 5 years. The threshold is there so that low earners do not make repayments.

**A Plan 2 borrower**

**Option 2:** For borrowers starting in September 2016 (and subsequent intakes), repaying from April 2020, keeping the threshold at the level reached by that of existing borrowers frozen for five years. This would only affect new borrowers.

| Response type | Number | Percentage |
|---|---|---|
| For | 48 | 10 |
| Better than option 1 | 118 | 24 |
| Against | 157 | 32 |
| Other (no preference/ doesn't understand) | 33 | 7 |
| Blank | 133 | 27 |

23. Forty-eight respondents specifically stated that they supported Option 2 in principle. Of these 4 were organisations and 44 were individuals. An additional 118 respondents stated that Option 2 was better than Option 1, 11 of which were organisations and included two student unions. However, of the respondents who stated Option 2 was *better*, most rejected Option 1 (116) and supported Option 3 (108).

24. Many respondents considered this option to be unfair. Respondents observed that if average earnings are rising, the freeze effectively lowers the repayment threshold year on year across the five year period. It was believed that this could discourage participation (particularly amongst disadvantaged groups) and lead to students choosing to study abroad. The main comments on option 2 include:
    a. It is preferable to option 1, provided changes are communicated upfront to give prospective borrowers adequate opportunity to consider implications when deciding whether to take out a loan.
    b. It would need to be implemented for students entering from 2017 onwards - the 2016 intake are assuming the terms would be as previously stated, so a freeze from 2016 would not be fair.
    c. It is still unfair. If average earnings are rising, this is effectively a lowering of the repayment threshold across the five year period.
    d. It could discourage participation (particularly amongst disadvantaged groups) and lead to students choosing to study abroad.
    e. It adds complexity and confusion to the overall system.

> It is clear that this option will be too complex for the SLC to effectively manage, too complex for borrowers who possibly switch cohorts and challenging for employers.
>
> **A student support organisation**

> If a choice … must be made, Option 2 is marginally preferable, because this would not amount to a retrospective change in terms for prospective students. In other words, the goal posts will not be moved half way through the game.
>
> **A charity**

**Option 3:** Allowing threshold to rise by earnings (no change)

| Response type | Number | Percentage |
|---|---|---|
| For | 315 | 64 |
| Against | 31 | 6 |
| Other (no preference/doesn’t understand) | 21 | 4 |
| Blank | 122 | 25 |

25. Option 3 was viewed by almost two-thirds of respondents as being the fairest or most reasonable option. The main reason given was that the basis on which the

loans were originally offered should be honoured. The main comments supporting option 3 include:

a. This is the fairest/most equitable option.
b. This is what was originally agreed.
c. This is the basis on which loans were offered and should be honoured.
d. The loan thresholds should increase as the cost of living increases
e. It has minimal impact on social mobility.

> I agree that there need to be sacrifices made to cut the deficit and this wouldn't help with that, but it feels like young people are bearing the brunt of the cuts that have been caused by the older generation. …the government's priorities are in the wrong place, not only targeting (relatively) low earners (as graduates in the first few years of their career often are) but also discouraging ambition and social mobility.
>
> **An individual respondent**

> We do not expect that Government will favour this option, but other stakeholders including students and post-2012 graduates are likely to do so, for understandable reasons. … This is how current students and recent graduates anticipated the system would work, based on the information provided by Government to students and to Parliament. Considering the Competition and Markets Authority's (CMA's) recent compliance requirements and minimum standards applying to protecting consumer's rights in the higher education sector, universities and colleges are increasingly being held accountable over their contractual terms and conditions with students. We are unsure whether the CMA is bound to hold Government to the same standard in its duty to protect consumer rights, but in either case, this option would ensure Government meets those same standards by upholding the integrity of its own information, advice and guidance for new/prospective students, which refer to a threshold rise in line with earnings.
>
> **An HE/FE representative body**

26. Of the respondents who provided an answer to this question, 26 (6 organisations and 20 individuals) said they rejected option 3 outright, with a further 5 implying rejection of option 3 by stating they supported option 1. Ten respondents appeared to misunderstand how the policy works.

27. The main comments rejecting option 3 include:
    a. Post-2012 ('Plan 2') borrowers will make lower repayments than intended.
    b. The threshold is currently too high.
    c. This is not affordable to Government.
    d. Financial sustainability of HE will not be met.

> The fairest thing to do is to freeze the threshold at £21,000 for all plan 2 borrowers. This would allow the objectives of the policy initially set out in 2010 … to be met. It would still be fair on plan 2 borrowers as the threshold is already higher than intended and it would minimise complexity in the system, making it fair for employers administering the loans and maintain fairness for borrowers like me who hold loans under plan 1 and plan 2 as it would allow more of my repayments each year from April 2016 to be apportioned to my plan 2 loan balance which is reasonable given that the gap between the plan 1 and plan 2 thresholds is already higher than was intended (due to lower RPI inflation for the plan 1 threshold)
>
> **A Plan 2 Borrower**

> Not uprating the threshold does not alter the principles that brought about the policy… it simply corrects the policy to ensure it is affordable as a result of inaccurate OBR earnings forecasts. It is fair to students and fair to taxpayers.
>
> **A student**

**Question 2: What risks and impacts do you think that holding the threshold at the same level for five years would have?**

**a. Current students/borrowers?**

28. The majority of comments were against the proposal to freeze the threshold. 353 respondents answered this question, of which 222 stated that this would result in an increased financial burden for borrowers compared to the repayments that they would otherwise expect. Many of these respondents also suggested that the proposal would disproportionately affect those from disadvantaged groups and backgrounds, as well as lower and middle earners. Some also cited the examples in the consultation document as an illustration that the proposal was regressive and widened the gap between lower and higher earners.

29. Twenty one respondents commented that the increased repayment burden could also impact more generally on borrowers' standards of living, quality of life and social mobility, by reducing disposable income (for example, for rent or mortgages or for starting and supporting a family). Some also stated that reduced disposable income would also impact on the wider economy. 143 respondents believed that the proposal effectively represented an unfair retrospective change in the terms of the loans, as it constituted a variation to the information that borrowers had been provided with when making their original decisions on whether to take out a loan.

30. Ninety-nine respondents said that the proposal would reduce borrowers' levels of trust in the student finance system (by raising the expectation that there will be further changes in the future) and/or would reduce trust in the Government more generally by implementing what respondents perceived to be retrospective changes. While acknowledging that the terms and conditions of the loans allow for such changes, many respondents believed that the proposal would still be

unfair to borrowers who have taken out these loans in the belief that the threshold would increase annually.

31. Other comments included suggestions that the proposal could discourage borrowers from taking higher-paid jobs in order to stay below the repayment threshold, or that employers would find it easier to justify keeping salaries low; that it could increase the likelihood of graduates choosing to move abroad (including a belief that it will be easier to evade or avoid repayments); and it could act as a deterrent to undertaking postgraduate study.

32. Seven respondents commented in favour of the proposal, stating that even though it will see an increase in repayments, the adverse risks and impacts should be small for individual borrowers. One respondent pointed out that even with the freeze, Plan 2 students would still be repaying less per month than those with Plan 1 (pre-2012) loans.

> "Only low earners should not be making repayments and at the moment £21,000 is not a salary at which I'd consider earnings to be particularly low."
>
> **A current student**

> "Despite the clause in the terms and conditions, this change will undermine the trust and confidence in the stability of the loan system for future students, as they will no longer be confident that they know what the terms of the loan are, and it will be more difficult to make an informed decision to go to university"
>
> **An HE/FE representative body**

**b. Prospective students/ new borrowers?**

33. This question was answered by 339 respondents, with 186 saying that they believed the proposal to freeze the repayment threshold would have an adverse effect on future participation in HE. Many of these respondents identified groups that they believed would be particularly affected, including: those from low socio-economic backgrounds, disadvantaged groups, BME groups, mature and part-time students, those who are debt-averse and those progressing from further education (FE). A number of these responses also commented that the proposal, when combined with the proposed switch from maintenance grant to loans, will further increase students' debt burden and could further discourage participation in HE.

34. Some of these comments suggested that the proposal could lead to prospective students being more likely to choose to study abroad. Thirty-eight respondents commented that the impacts on prospective students and new borrowers were likely to be small, mainly because the proposal would not be considered to be a retrospective change for these groups, and so they would have the necessary information in advance to allow them to make an informed decision. Many of these respondents stressed the need for clear communication and information to avoid confusion.

35. 64 respondents said that implementing such a threshold freeze was still likely to lead to greater aversion to student finance (or participation in HE) in future, due to an increase in the likelihood of further changes to the system which could be to the detriment of borrowers. A reduction in trust was also mentioned by 19 respondents as a consequence of any such decision.

36. A recurring theme was the potential effect of increasing maximum loan sizes and changes to terms and conditions which could ultimately affect student numbers.

> “Feedback from member institutions has noted the potential risk that recent trends towards increasing costs to students and retrospective changes to repayment parameters may have on undermining student confidence in the loan scheme. It has been suggested that a greater understanding is needed of the potential impact this may have on current students and their perception of higher education as they graduate, begin their repayments and develop in their careers.”
>
> **An HE/FE representative body**

> “No doubt some will perceive that a higher education has become "more expensive" but of greater matter will be how they perceive the earnings value of that higher education. If more is done to ensure that a degree leads to higher earnings then there should be no impact on this group at all.”
>
> **An employer**

**c. Employers of borrowers with loans?**

37. Responses to the question on employer impacts indicate a range of potential impacts as there are obligations for employers of loan borrowers. This question was answered by 254 respondents, 59 of whom suggested that there would be pressure on employers to increase salaries to offset the effect of higher student loan repayments on employees’ net income. However, 21 respondents suggested that employers may use the threshold freeze as an excuse to seek to keep employees’ salaries low, and possibly even below the £21,000 threshold.

38. Twenty respondents commented that employers may experience increased administrative burden and complexity (and hence increased costs and risk of error) in administering student loan deductions from its employees, especially in the case of option 2 which would require the introduction of an additional repayment threshold. However, 69 respondents said that they believed that a threshold freeze would result in no or minimal impact on employers.

39. Twenty six respondents cited potential issues with recruitment and/or retention of staff. Some comments suggested that employers may be discouraged from employing graduates with loans, because employees could be more likely to accept lower salaries if they do not have to make repayments. Graduates with loans could also be more likely to move jobs more frequently as they seek positions that are more highly-remunerated. Some of these responses predict that this effect will be more marked in areas with a high cost of living, which may see employees choosing not to live and work in these areas at all.

40. Fourteen respondents commented that employers could experience issues with staff performance, morale and general wellbeing - for example, with employees seeking to work longer hours or take second jobs in order to compensate for increased student loan deductions, or allowing financial concerns to detract from focusing on job performance and career development.

41. Other comments included potential impacts on employees making pension contributions, and an increase in 'cash-in-hand' payments to employees to evade repayment obligations.

### d. The Student Loans Company (SLC) and HM Revenue and Customs (HMRC)

42. This question was answered by 250 respondents. The wide ranging nature of comments suggests a lack of clarity about how the student loan collections process works. 37 respondents said that they believed the proposal would result in increased collection of student loan repayments, but most said this would be at the expense of a loss of trust in SLC and HMRC (although the reasons for this are not clear), whilst the benefits of such increased collections may be more than eliminated by the financial demands of increasing student numbers and rising tuition fees.

43. 14 respondents commented that they felt a threshold freeze would lead to an increased level of borrower activity to attempt to avoid or evade repayment. 31 respondents commented that they thought the proposal to freeze the threshold would result in increased administrative burden, complexity and cost for SLC and HMRC. Four respondents recognised that increased administrative responsibility would arise only if option 2 was selected.

44. 11 respondents felt that if people were deterred from going to university or taking out student loans due to the freeze, this could actually result in reduced collections in absolute terms.

45. Other comments related to the potential for errors, confusion and complaints; a belief that HMRC in particular should concentrate its resources on tax avoidance; and that the impact on borrowers should be a more important consideration than any impact on SLC and HMRC. Finally, three comments suggested that a freeze would see an increase in SLC "profits", while two comments implied that freezing the repayment threshold could make the loans more attractive to be sold to the private sector.

### e. Learning providers?

46. 246 respondents answered this question, 41 of whom felt that the proposal would have little or no impact on learning providers. Respondents observed that it would be difficult to accurately predict what impact a threshold freeze would have on learning providers, as this would be likely to occur in combination with other changes to student funding. However, 121 respondents commented that they believed a threshold freeze would lead to a drop in student numbers, most likely

due to reduced confidence in the stability of the student finance system and the impact of potentially higher loan repayments.

47. 31 respondents stated that the drop in numbers would be particularly acute amongst debt-averse groups, mature and part-time students, disadvantaged groups and those traditionally targeted through Widening Participation and social mobility agendas. There were 20 comments to the effect that a drop in numbers would result in an adverse financial impact on learning providers, which could lead to the raising of tuition fees to cover financial shortfalls and/or seeking to increase recruitment of international students. Alternatively, some suggested that learning providers could look to lowering tuition fees to attract more students but with an acknowledgment that this would bring its own financial pressures on those providers.

48. 15 respondents commented on the potential impact on courses being offered – some may be over-subscribed; others may see less demand which could lead to viability issues. There could also be more general quality or value for money issues, which could lead to an increase in complaints.

49. Communication to students (both current and prospective) was raised as an issue by 11 respondents. It was felt that learning providers would need to work harder to convince prospective students that HE represents a good investment – particularly amongst those providers who are already charging maximum tuition fees. Continual changes to the terms of student loans and lack of certainty about future changes to the student finance system would make it more difficult for student services teams to provide high quality information, advice and guidance around student finance to their students.

50. Increased requests by students to their learning providers for hardship support (or other financial support, perhaps in the form of bursaries or scholarships) were predicted by 5 respondents. Finally, a particular concern was raised in relation to the effect on part-time students, stating that the Government's proposals and accompanying analysis seemed to focus more on the full-time model, but part-time first-degree students are not eligible for maintenance loans.

> "We are concerned that universities already (and often incorrectly) perceived as more "expensive" … cannot benefit from moves that increase the post-graduation cost of higher education."
>
> **A university Students' Union**

> "Despite concerns related to the potential impact on recruitment, most institutions supported freezing the repayment threshold over the risk of alternative measures to reduce long-term costs to government, such as reducing student places or the level of funding per student."
>
> **An HE/FE representative body**

> "We would urge thorough analysis of the potential impact of options 1 and 2 on the part-time HE sector too, given one in five undergraduate students in England studies part-time."

**A university**

"Learning providers will once again face extra pressure to provide an almost impossibly excellent and consistent service to students. Many students already feel it is unfair, given that they are paying £9000 a year for their degrees, that they should have to face lesson cancellations, lack of materials and inconsistent teaching. It follows that the greater the financial pressure on the student, the more they expect from their university experience. However, seeing as no more money will be going to the institutions themselves, this pressure will not be met, and instead, universities will be left without hope, struggling, understandably, to offer the service expected of them and without doubt facing frequent student backlashes."

**An individual respondent**

### f. The Tax-payer?

51. 271 respondents answered this question. 56 of these felt that the proposal would have little or no impact on the taxpayer, while 17 were not sure. Respondents used this question to put forward a wide range of views and comments, a significant number of which were not directly relevant to the consultation.

52. 30 respondents made general comments about the importance of the balance between reducing Government debt while considering the wider benefits to the economy and society of investing in HE, also pointing out that graduates themselves are taxpayers who will contribute considerable amounts of tax over their working lives. Nine respondents thought that the Government should seek to identify other ways to reduce the deficit rather than seeking to "reduc[e] the burden on the taxpayer" by what they see as unfairly penalising graduates further through increased loan repayments.

53. 24 respondents thought the proposal would result in increased income to the Exchequer. However, nine respondents further stated that they believed that, although the proposal might be beneficial in the short term (i.e. by bringing down debt over the lifetime of this Parliament), it could have an adverse impact to the taxpayer in the longer term. If students are deterred from HE by increases in loans and less favourable repayment conditions, or decide to study or work abroad, there may be fewer borrowers, fewer loan repayments and less tax income in future years which will lead to further deficits and damage to the wider economy.

54. Three respondents suggested that the proposal is an indication that the student finance system may not be working and is not sustainable.

> "Holding the repayment threshold for five years would have an important role in ensuring that the long term costs of student loans for the taxpayer remains within current limits and ensures a fair balance in the funding of higher education between taxpayers and graduate."
>
> **An HE/FE representative body**

> "Income contingent student loans are as much a tax as a loan and no-one ever disputes changes to income tax thresholds or intentions to change income tax thresholds so there is no reason that the government should not be able to maintain the sustainability of the student loans by freezing this higher-than-intended threshold to bring it back into line with what was intended."
>
> **A business organisation**

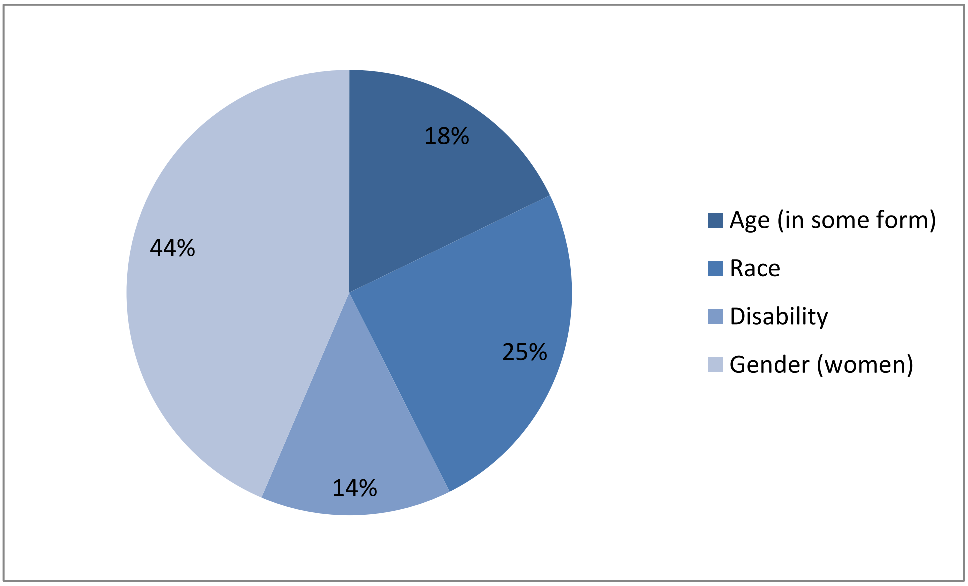
> "The government's priority is to reduce the national debt in the short term; they point out that option 2 "would not contribute to the government's fiscal objective of bringing down debt in this Parliament". However, the contribution by option 1 would be less than 0.03 per cent of the national debt. We do not think that this is a price worth paying for the loss of trust that would be precipitated, as more than a million borrowers will see the terms of their loan change from what they initially expected."
>
> **A charity**

> "By penalising students who are seeking to improve themselves and make a bigger contribution to society in future, the taxpayer makes a small gain now in return for greater losses in the long run."
>
> **An individual respondent**

**Question 3: Can you identify any equality issues introduced by these possible changes?**

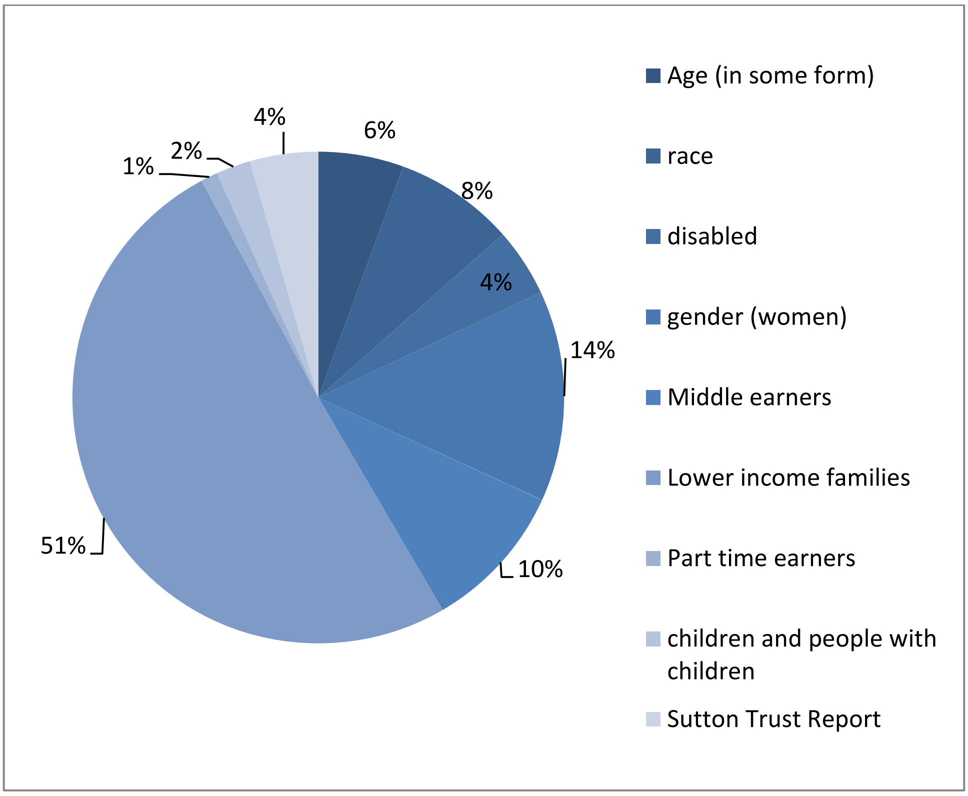
| Response type | Number | Percentage |
|---|---|---|
| Yes | 245 | 50 |
| No | 49 | 10 |
| Other/ Not specific | 9 | 2 |
| Blank | 186 | 38 |

55. The majority (81%) of respondents who answered this question thought that there would be equality issues in freezing the threshold; The Equality Act 2010 makes it unlawful to discriminate against people with a 'protected characteristic'. The protected characteristics (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, sex and sexual orientation). The graph below shows which of these they thought would be impacted by implementing a threshold freeze.




56. However most comments related to the perceived impact on students from poorer families, lower socio-economic backgrounds and disadvantaged groups/those with protected characteristics, where an increased repayment requirement would have an impact on widening participation, withdrawal rates and future finances.

57. Additionally respondents thought that the lower and middle earners, women and part time, people with children and their children would be disadvantaged. 4% quote the Sutton Trust ‘Unfair Deal’ report (http://www.suttontrust.com/newsarchive/students-face-extra-repayments-of-2800-if-repayment-threshold-frozen-on-existing-loans/).




| |
|---|
| The proposal to freeze the repayment threshold would have the greatest negative impact on lower earners who would end up paying more over the lifetime of the loan – with a further disproportionate effect on young graduates entering professions with long, low career average earnings (as illustrated by the IFS Analysis, July 2015)<br>**A university** |

| |
|---|
| Across both Black and Asian minority groups, there appeared to be a strong belief that student loan debt was just as bad as other commercial forms of debt. Furthermore, as the threshold freeze will affect those on lower incomes the most, it will have an even larger effect. Those with smaller incomes are more likely to spend all over their disposable income rather than save it. It is therefore likely that much of the extra repayment clawed back by government is being sucked out of the retail market. Having less money to spend will lead middle earners to go out less and shop less.<br>**A student organisation** |

**Question 4: Do you think the Government could mitigate the impact of the proposed changes for borrowers? If so, what do you consider those actions might be? (Please indicate all that you consider to be relevant)**

| Response type | Number | Percentage |
|---|---|---|
| Yes | 131 | 27 |
| No | 139 | 28 |
| Not sure | 97 | 20 |
| Blank | 122 | 25 |

58. Out of the 131 respondents who thought Government could mitigate the proposal, 57 suggested that the only way to mitigate is to not implement the policy. 12 specifically suggest option 2 would act as mitigation. 7 respondents suggested that loans should be interest free, while 4 thought that taxes could be lowered for those with loans. 5 suggested writing off the loans earlier while 2 respondents suggested implementing a graduate tax and a further 2 suggested raising taxes for graduates. 2 respondents thought better communications could help mitigate impacts and 2 suggested keeping grants and/or replacing current loans with grants.

> [We] believe that to restore trust for existing students no retrospective changes should be made to the terms of student loans. For future students, freezing the threshold for five years introduces an unnecessary level of uncertainty, with the concomitant necessity of review at the end of the freeze. To reduce this uncertainty, the threshold levels, both for repayment and maximum interest, should be set in terms of a percentage of average earnings. And new borrowers should be given definite terms, which should apply for the whole repayment period.
>
> **A charity**

**Question 5: Do you have any other comments that might aid the consultation process as a whole?**

59. 205 respondents answered this question. Most used it as an opportunity to reiterate points they had made earlier in the consultation, or to express a range of views and opinions which were outside the scope of the consultation. 81 respondents used this question to reiterate their fundamental objection to any threshold freeze, believing it to be an unfair retrospective change to the terms of the loans. Two respondents reiterated their support for option 1.

60. 12 borrowers made general criticisms and 10 respondents suggested that the Government should look elsewhere to seek to recoup the financial shortfall. 44 respondents were critical about certain aspects of the consultation itself:
    a. Timing (over the summer period).
    b. Publicity – a number thought that the consultation should have been more widely publicised.
    c. Clarity of questions and concerns that the supporting information was complex to understand and could have been presented in plainer English.

d. Level of information provided - it was felt that more could have been provided to help inform responses, in particular in relation to part-time students, the £41,000 upper threshold and plans following the five-year threshold freeze.

61. 9 respondents were complimentary about the consultation and were grateful for the opportunity to put their views forward. The layout of the Citizenspace website was commented on positively as well, although it was felt that a summary page of questions would have been helpful for reference, particularly for multi-part questions. Six respondents made general comments that the system should be kept as fair and simple as possible, with clear communications and information about any changes.

> "Referencing the wider economic situation is not a relevant consideration for the scope of whether this change should be implemented on borrowers from the past."
>
> **An individual respondent**

> "Avoid implementing an over-complicated system of repayments. Make a decision as soon as possible so that borrowers are informed and can make their own decisions on course participation."
>
> **An individual respondent**

# Analysis of the impacts of freezing the threshold

62. The following section sets out the assessment of the key impacts of each of the options for change. The main purposes of the proposed changes, set out in the consultation, are:
    a. Reducing PSND as proportion of GDP.
    b. Collecting a greater amount of repayments to support sustainability of the system.
    c. Graduates to contribute more to meet the costs of their studies.

    The options in the consultation have been assessed against these criteria, and that analysis is set out in the following section.

63. Unlike in the consultation document, this analysis assumes a grants-to-loans switch for all new borrowers. The grants-to-loans switch does not affect existing borrowers. By its nature this change will only affect those from lower income backgrounds, increasing their total amount of student debt, and only where they go on to earn sufficiently high income to trigger additional repayments.

## Option 1 – Freezing the threshold for all post-2012 borrowers

64. The Government's preferred option, as stated in the Consultation Document, is to leave the April 2016 threshold of £21,000 unchanged for five years, until April 2021. This change will affect all English borrowers in repayment of Plan 2 (post-2012) loans. In 2017 this is estimated to be around 0.9 million borrowers, rising to 2.1 million in 2020. From April 2021 the threshold will be reviewed again.

65. All other aspects of the loan repayment will remain unaltered;
    a. Borrowers become eligible to repay once they pass the Statutory Repayment Due Date (SRDD) from April of the year after they graduate, or leave their course, and once their gross earnings rise above the repayment threshold.  Below the threshold that they do not need to make repayments.
    b. Loans are repaid at 9% of earnings above the threshold.
    c. The upper interest threshold, of £41,000, will also remain unchanged ('frozen') to ensure that the relationship between the lower and upper interest thresholds is unaltered. This will ensure that the Variable Interest Rate calculation for loans will remain unaltered.

## Government fiscal impact

66. This option (freezing the threshold at £21,000 from April 2016 to April 2021 for all borrowers with post-2012 loans) will contribute to all of the Government's published objectives. Extra repayments would be made by all borrowers earning over the £21,000 threshold. This will both help to reduce Public Sector Net Debt (PSND) from April 2017 and change the balance between outlay and recovery to support the long-term financial sustainability of the system.

67. This option will generate an increase in loan repayment collections from April 2017 (when the threshold would otherwise increase). We expect an additional £680 million of repayments in cash terms over the five years of the freeze (up to April 2021).

68. Over the lifetime of the loans we expect to recover £3.2 billion (NPV) more of the loan outlay from existing borrowers (2012-13 to 2015-6 cohorts) than under the current policy. For future borrowers (September 2016 onwards) we expect additional repayments of around £1 billion per £15 billion of loan outlay. This will make the system more affordable to Government and the taxpayer. The Further Education (FE) saving to government is around £35 million. **This option therefore meets all three of the consultation criteria.**

## Financial implications for HE Borrowers

69. This option affects all post-2012 loan holders. We expect across all ages that an extra 9% of graduates will start to repay under option 1, compared to option 3. By 2020 there will be around 2.1 million Plan 2 graduates in repayment, and of these around an extra 190,000 are expected to be above the earnings threshold under option 1. Some higher earners will repay their loans more quickly, with the result that in some case less interest will be charged.

70. All borrowers whose earnings are above the repayment threshold will pay slightly more. The increase is expected to be around £6 per week (in nominal terms) by 2020/21 for all borrowers in repayment, or £306 a year. Graduates earning under £21,000 will not be affected by the change in the threshold.

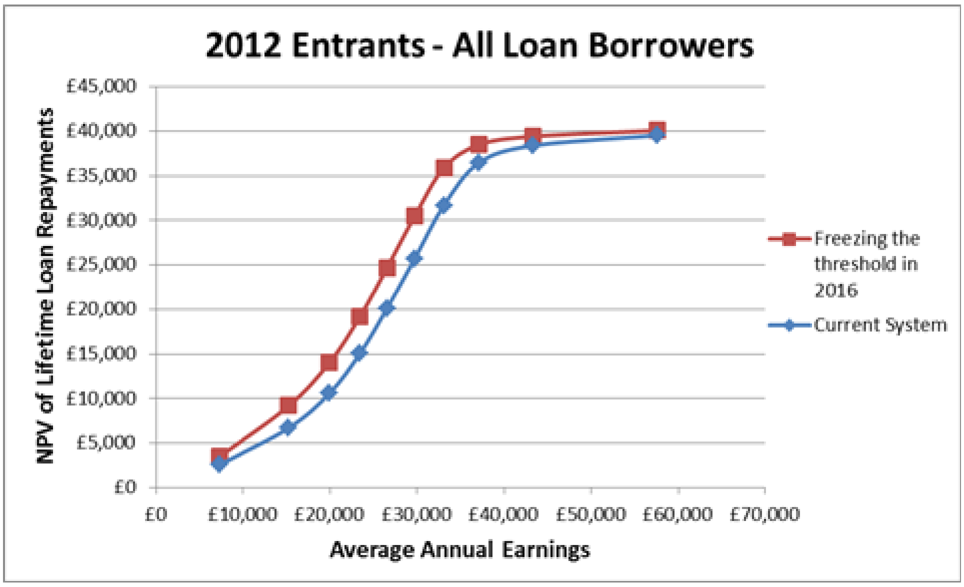
71. While those earning consistently around £35,000 are expected fully to repay under the new proposed threshold. As borrowers with higher earnings make higher repayments they will pay off their loan balances more quickly.

72. Looking across average lifetime earnings of graduates – taking account of different earning pathways and time out of employment – existing borrowers with lifetime average earnings between £20,000 and around £35,000 are most affected by this change, and are expected to make an extra £4,000 of repayments (lifetime NPV) over the 30 years of their loans. New borrowers with average lifetime earnings between £20,000 and around £30,000 are most affected by the change, and are expected to make around an extra £4,000 of repayments (lifetime NPV) over the 30 years of their loans. These additional

lifetime payments compare to an estimated average lifetime net benefit, under the current system, of going to Higher Education of over £100,000.

73. Under the current system the average lifetime loan repayments (lifetime NPV) for 2012 entrants will be around £22,700, rising to around £25,500 with the threshold freeze (in 2016 terms). The average lifetime repayment for new borrowers is estimated to be around £24,500 under the current system and £27,800 with threshold freeze (in 2020 terms). Those most affected most from the grants to loans switch will be those who now receive the maintenance loan and go on to earn £35k per annum or more on average across their lifetimes so that they repay the additional loan they are now receiving.

74. The chart below illustrates the distribution of net present value of lifetime loan repayments with the threshold freeze of existing borrowers. The greatest nominal impact is on those with earnings between around £20,000 and £35,000. The chart for new borrowers is very similar (please refer to the Equalities Analysis for full discussion and charts).




## Protected Characteristics

75. Women, ethnic minorities, people with disabilities and mature students are more likely to fall into the range of income that is most affected. If the repayment threshold were to be uprated by earnings, around 50% of existing male borrowers will fully repay, compared with 26% of existing women borrowers. For new borrowers, from 2016, 58% of men will fully repay compared to 52% in the current system, and 34% of women will fully repay compared to 28% on the current system. The other terms remain the same for borrowers – 9% of income above the threshold and all loans are written off after 30 years.

76. It is not possible to estimate the lifetime repayments for ethnic minorities and those with disabilities using the BIS repayment model. Analysis of the Labour

Force Survey indicates that both of these groups of students earn less over their lifetimes than their white and non-disabled peers, so they are increasingly likely to be represented in the group of 'middle-earners' with higher average repayments.

77. Our equalities analysis also considers the concern flagged by some respondents that the prospect of greater loan repayments would deter future participation. It concludes that while this is a risk for those groups affected, the continued growth in participation since the 2012 Reforms (where more of the cost of HE was passed onto students) suggests that this effect is likely to be small. A degree of risk remains, however, as the different nature of past changes means that the past may not be an accurate guide to future behaviour.

## Further Education Learners

78. The median borrower in Further Education (FE) has a lower income, earning around £19,000 in 2016/17 terms. The two options will thus not have an impact on the median FE learners but will have an impact on borrowers whose income is near the threshold. The impact on additional repayments made is the same as for HE loans illustrated above.

79. Analysis suggests that 8% more FE learners would be brought in to repayment and just less than 20% more would fully totally repay their loans (which are smaller than HE loans). A slightly higher proportion of women would be brought into repayment under Option 1 than no freeze (74% compared to 72% with no freeze). This is considerably higher than the proportion of women in the 19-65 population (50%) but around the same proportion of women in the FE sample. There is broadly the same distribution by age of those that are brought into repayment under Option 1 compared to no threshold fixed.

## Administrative impacts for Government and businesses

80. This option is the most straightforward for HMRC, SLC and businesses (employers) as no change from the current loan arrangements would be required. The threshold of £21,000 is already set in the Education (Student Loans) (Repayment) Regulations 2009 (as amended); no legislative change would be required for a ‘freeze’ and there would be no need to specify the rules for raising the threshold.

81. This option also minimises the impact for employers, as they already have the systems in place to manage Plan 1 and Plan 2 (i.e. pre- and post-2012) ICR loans. No further changes would need to be added to payroll or tax systems for HE loans and no additional administration would be required. A policy that that affects all post-2012 borrowers in the same way will have little impact on employer administrative burden, but options that create different thresholds for different set of employees is likely to increase the complexity of borrower pay management, increasing the resource requirements. A separate system of loans for postgraduate courses is already under development.

82. Minimising the overall number of loan thresholds will also reduce the burden on employers administering the loan deductions through PAYE as they will not have to consider as many different rule sets as they make pay deductions. We must avoid implementing an over-complicated system that is not readily understood by borrowers and their employers.

## Option 2 – Freezing the repayment threshold for new students from September 2016

83. The second option proposed was to freeze the threshold only for new borrowers who enter HE or FE from the academic year starting in September 2016. The repayment threshold for existing borrowers would be uplifted by earnings from April 2017 as previously set out.

### Government fiscal impact

84. The threshold for borrowers starting HE courses in September 2016 would be frozen from April 2020 for five years, when the September 2016 borrowers become liable to repay. This option will affect a smaller number of borrowers than option 1 as existing borrowers (from 2012-2016) will not be affected.

85. As higher repayments would not be immediately applied to existing borrowers, this would reduce the short-term positive impact Public Sector Net Debt (PSND)by comparison with Option 1, with none of these benefits being realised within the current Parliament. Further, as it only applies to a subset of all borrowers it also reduces the mid- to longer-term PSND benefits. **This option meets only two of the three assessment criteria.**

86. This option would result in marginally higher repayments being made by new borrowers over the lifetime of the loans, from April 2020. This is estimated to generate around an additional £1 billion per £15 billion loaned, assuming a grants to loans switch. This increase in repayments is due to earnings (and the repayment threshold) continuing to rise. This option will require creation of a new administrative ‘plan’ with practical delivery and technical system implications for HMRC, SLC and businesses.

### Financial implications for borrowers

87. The number of people becoming liable for repayment in 2020 is estimated to be around 350,000 per year rising to 400,000 per year within a few years, and is expected to remain at a similar level thereafter. The threshold is currently expected to be around £24,000 by that point and it would then be frozen until April 2025, when it will be reviewed. As the repayment threshold has increased each year since April 2017 under this option, rather than remaining at £21,000 until 2021, it is relatively more generous to new borrowers than would be the case under option 1.

88. The repayment increases for individual borrowers, expressed in net present value terms, are similar to those arising from option 1. The key difference being the smaller number of borrowers affected as existing borrowers would not be affected. Although not a financial impact, borrowers would need to understand exactly which ‘plan’ their loan(s) were on so they can correctly inform their employer. Any borrower who files Self-Assessment Tax returns would need to be clear of their loan ‘plans’ in order to correctly complete their tax returns and make the correct loan repayments.

## Equalities impact

89. The impacts of this option are similar to option 1, though they only affect future rather than current borrowers. The financial impacts will be concentrated on those with around median lifetime earnings for graduates (although in percentage terms the effect will be greatest for those in the lowest deciles, the proportional impact decreases moving up the earnings distribution).

90. Looking across average lifetime earnings of graduates – taking account of different earning pathways and time out of employment - those borrowers with average annual lifetime earnings between £20,000 and around £30,000 will repay around £4,000 more over the lifetime of their loan, in Net Present Value terms. The average lifetime repayment for new borrowers is estimated to be around £24,500 under the current system and £28,000 with threshold freeze (in 2020 terms).

91. Those borrowers most affected are also more likely to be women, ethnic minorities, people with disabilities and mature students. Our equalities analysis considers the concern that the prospect of greater loan repayments would deter future participation. It concludes that while this is a risk for those groups affected, the continued growth in participation since the 2012 Reforms (where more of the cost of HE was passed onto students) suggests that this effect is likely to be small, though again, the different nature of this change makes future behaviour difficult to predict with any degree of certainty.

## FE Learners

92. Under option 2, freezing the repayment threshold at around £24,000 from April 2020, around 6% more FE borrowers will be brought into repayment, and just less than 15% more will fully pay off their loans.

## Administrative impacts for Government and businesses

93. Option 2 (freezing only for new borrowers) would require the Student Loans Company (SLC) and HMRC to introduce an additional borrower ‘plan’ to reflect the different repayment terms. Both SLC and HMRC have indicated that to do so would require additional technical and operational development and subsequent administration, adding further cost and complexity to the repayment system.

94. Although the repayment functionality for the new frozen threshold would not need to be available until at least April 2020, the SLC would have to introduce systems

to ensure that customers are allocated to the correct plan type as from the 2016/17 academic year. HMRC has more time to make changes, but also has capacity constraints. Changes to the tax system take 18 months to 2 years to deliver due to various contractual commitments and the need for employer interfaces to be updated.

95. In addition to the administrative costs to government, the implications for, and impacts on, employers – UK businesses – are considerable. All employers will be required to familiarise themselves with the frozen threshold (which will become "plan 4", assuming postgraduate loans are "plan 3") and understand the requirement to deduct repayments alongside plan 1, 2 and postgraduate loans.

96. Employers will need to find out whether a new employee has a loan, as now, but with the additional requirement through the "starter checklist" to find out which loan types are applicable. Any individual borrower could have multiple plan types, also increasing the risk of error. Having multiple rates of repayment across different loan plans may cause confusion in understanding repayments due and total outstanding balances.

97. All employers would need to pay for software upgrades (usually through incremental increases to their monthly/ annual subscriptions) and they will need to train staff to understand and operate the new system, and be able to assist employees with queries about deductions. Employers who are employing a borrower with a plan 4 loan will need to;
    a. Record employee and plan details in payroll software.
    b. Understand the start notice and apply the correct threshold to the correct employee.
    c. Understand how the application of multiple thresholds operates.
    d. Understand how to deduct repayments from a single employee who may have multiple plan types.
    e. Deduct repayments from salary.
    f. Report deductions in a Full Payment Submission (FPS) to be submitted to HMRC.
    g. Understand and act correctly on receipt of a stop notice.
    h. Recognise when things go wrong and determine whether and how to adjust for errors.
    i. Make end of year adjustments on the FPS and P60.

## Option 3: Not changing the threshold policy of rising with earnings from April 2017

98. Leaving the policy as it currently stands, uplifting the repayment threshold by earnings, will not meet any of the current Government's objectives to reduce the national debt and to bring the loan system onto a more self-sustaining basis. This option will leave borrowers' loan repayment rate unaltered.

# Government response

99. The majority of those who responded to the consultation did not support the freezing of the repayment threshold. All responses to the consultation have been considered carefully in the wider context of the detailed analysis of impacts, including most particularly on the public finances, and the Equality Analysis. All of these factors have been taken into account in the Government's decision making process.

100. We consulted on freezing the repayment threshold for all English borrowers on loans taken out since the 2012 student finance reforms. These are “Plan 2” borrowers, and the first graduates with these loans are expected to start repaying from April 2016. We have assumed for planning purposes that any change to the policy on uprating the repayment threshold (the ‘lower’ threshold) will be reflected in the uprating of the ‘upper’ interest threshold. This will ensure that the way in which interest is applied to customer accounts (and thus the interest rate applied) does not change.

101. Higher Education (HE) and Further Education (FE) provision must remain affordable to Government. We must live within our means and while loan outlay continues to rise, we now forecast that repayments will not be made at the level that was originally expected. All Departments are required to support Government’s efforts to reduce the national debt. With such large amounts of money being loaned the HE system in particular has an important role to play.

102. It remains a fundamental principle that a borrower’s contribution to the cost of their education should be linked to their ability to pay. Graduates generally benefit from higher earnings than those who do not enter HE and we must maintain a fair balance between taxpayers and graduates in the costs of Higher Education.

## Freezing the Threshold for all Plan 2 borrowers (Consultation option 1, the Government’s preferred option)

103. When the £21,000 threshold was set by the previous government in 2010, graduate earnings were expected to grow more quickly than they have done. The threshold would now be set at around £19,000 if it were to reflect the same ratio of average earnings. To put higher education funding onto a more sustainable footing, we must ask future graduates to meet more of the costs of their studies. Freezing the threshold at £21,000 from April 2016 for all borrowers with the post-2012 loans, will generate an immediate increase in loan repayment collection. We expect an additional £680 million to be repaid over the five years of the freeze (up to April 2021), contributing to debt reduction targets.

104. Over the lifetime of the loans we expect to recover £3.2 billion more of the loan outlay from existing borrowers (2012-13 to 2015-6 cohorts) than under the current policy. For future borrowers (September 2016 onwards) we expect

additional repayments of around £1 billion per £15 billion of loan outlay. While FE learners generally have lower earnings than those with HE qualifications, those with incomes near the threshold will be affected, producing savings of around £35 million.

105. This change meets all of the objectives set out in the consultation. The Government's goals of increasing loan recovery, supporting system sustainability and reducing Government debt. It is administratively efficient for Government (hence the taxpayer) and UK employers (who make loan repayments for employees who have student loans alongside PAYE tax and National Insurance deductions), as no changes will be required to the current collection system.

106. Our Equality Analysis indicates that the most significant financial impacts of this change will affect median lifetime earners as they will pay more than they would have done under the current system but would still not repay fully – we expect borrowers earning between £21,000 and around £35,000 to repay around £6,000 on average more over the lifetime of their loan, in Net Present Value terms.

107. Borrowers with the lowest earnings will continue to remain below the threshold and those earning over around £35,000 will fully repay. Everyone who would have also repaid under the current system will do so more quickly, and the highest earners (over £50,000) may pay less as they accrue less interest by the time they have fully settled their loans.

108. The average-income borrowers who are most affected will also include a higher proportion of borrowers with protected characteristics. Because the increase in repayment is the same regardless of income once the threshold is reached, it applies equally to all borrowers who are in repayment.

## Freezing for new borrowers only (Consultation option 2)

109. The Government has considered this option carefully. It has concluded that it will not result in any additional repayments during this Parliament (by May 2020) and thus will not contribute to current debt reduction targets, though it would have a benefit in the longer term; in the long term repayments over the lifetime of future loans are estimated to increase by around £1 billion per £15 billion of loan outlay.

110. To make this change a new 'repayment plan' would be required, costing in the region of £3 million to set up and in the region of £1 million per annual 'cohort' to administer. The larger, currently un-costed, implications are for business. The development of a new plan type will introduce another change for payroll systems that will be reflected in business running costs and additional complexity in on-going payroll administration.

111. The distribution of financial impacts on new borrowers will remain as set out under the preferred option, for all borrowers. As it would only apply to new borrowers only, they are able to make informed financial decisions before applying for a loan.

## Mitigation

112. We asked for views on possible mitigations to reduce the impact of a threshold freeze on borrowers. The majority of respondents considered that no mitigation would be adequate and that therefore the freeze should not be implemented. Some thought that option 2 was a potential mitigation. Other suggestions were either impractical or inconsistent with other areas of Government policy. These include;
   a. Abolishing HE tuition and maintenance loans and replacing them with grants.
   b. Granting tax relief for loan holders.
   c. Raising tax rates for loan holders.

113. We have considered carefully the implications of the following potential mitigations that were suggested;
   a. Changing way that interest is charged, either by reducing the top rate of interest or by applying interest at the rate of RPI only.
   b. Writing off the loans earlier.
   c. Giving definite terms to new borrowers which should apply for the whole repayment period.

114. A reduction in the interest rate would see loan balances grow more slowly over the lifetime of the loans. This benefits anyone who is already due to repay their loan in full; those earning over around £35,000. However, below this level the reduction in repayments on average is small, and thus does not serve to compensate middle and lower earners – those who mitigation is intended to help. Although their loan balances would appear to grow more slowly, they would get little benefit from this because they would not be expected to fully repay, yet their total lifetime repayments would still be increased by the threshold freeze.

115. Shortening the loan repayment term from the current Plan 2 length of 30 years would be to the advantage of the low to middle earners otherwise most affected as it would mean that their total lifetime loan repayments are reduced. However, any mitigation that offsets the financial costs of the policy to borrowers would be expected to have an inverse impact on the Exchequer, through the reduction in longer term repayments. This would serve to counteract the overall effect of the threshold freeze over the lifetime of the loan, hence limiting or removing the long term debt reduction objectives of the policy and impacting on long term financial sustainability.

116. Shortening the repayment term by five years would reduce repayments from existing loans (issued up to July 2016) by £1.9 billion in NPV terms over the last five years of the loans, nearly fully counteracting the benefit of the threshold

freeze. A shorter reduction, by two years, would still see a reduction of around £690 million (NPV) in the repayments that would otherwise be received in the final two years of the loans. This would constitute a significant impact on the debt in those years and affects the longer term sustainability of the system.

117. Fixing loan terms and conditions would give more certainty to borrowers, but would reduce the Government's flexibility to manage the loan book in the future.

# Next steps

118. The Government has decided that the threshold freeze will be implemented for all borrowers with post-2012 loans. The repayment threshold will be £21,000 at April 2016, and it will not be uplifted until at least April 2021, when the threshold will be reviewed. The ‘upper’ interest threshold of £41,000 will be frozen at the same time to ensure that variable interest rates applied for those earning between £21,000 and £41,000, remain unaltered.

119. This option:

  a. Improves the sustainability of the Higher Education system and fairness for the tax payer by modestly increasing repayments overall and bringing forward a proportion of repayments.
  b. Supports debt reduction targets by recovering more money in this Parliament, and in increasing long term (loan lifetime) recoveries.
  c. Avoids additional cost and complexity for UK employers, and less importantly, for HMRC and SLC.

120. This increases the financial commitment of borrowers to repaying their loans. In 2020-21 borrowers will be paying £6 per week, or £306 in the year, more than they will be in 2016-17. HE Graduates earn on average more than £100,000 over their lifetimes than those who do not complete an HE course. Student loans are still provided on significantly better terms than are available commercially in the UK.

121. This decision can be implemented without the requirement to amend the Education (Student Loans) (Repayment) Regulations 2009 (as amended).

# Annex A: List of organisations who responded to the consultation

AMOSSHE, The Student Services Organisation
Association of School and College Leaders
Birmingham City University
Bristol Students' Union
Businesses (2)
Cambridge University Students' Union
Career Development Institute
Chartered Institute of Payroll Professionals
Coventry University Students’ Unions
Edge Hill Students' Union
GuildHE
Huddersfield Students’ Union
Institute for Fiscal Studies
Intergenerational Foundation
Leeds City Region Enterprise Partnership
Liverpool Hope Students’ Union
Low Incomes Tax Reform Group
million+
Mixed Economy Group of FE Colleges
Money Saving Expert
National Association of Student Money Advisors
National Union of Students
Office for Fair Access
Open University
Oxford University Student Union
Payroll Alliance
Sheffield University Students' Union
Sutton Trust
The Money Charity
Universities UK
University and College Union
University of Bath Students’ Union
University of Birmingham Guild of Students
University of Manchester Students' Union
University of Northampton Students’ Union
University of Portsmouth
University of Sheffield
University of Strathclyde Student Association
University of Winchester
University of Wolverhampton
Warwick Students’ Union

This publication is available from www.gov.uk/bis

Contacts us if you have any enquiries about this publication, including requests for alternative formats, at:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000
Email: enquiries@bis.gsi.gov.uk

**BIS/15/626**