

The Education (Postgraduate Master's Degree Loan) Regulations 2016

Department for Education

RPC rating: fit for purpose

The impact assessment (IA) is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

The Government are introducing loans to provide financial support to students eligible for postgraduate master's degree courses commencing from 1 August 2016. The regulations provide for repayment provisions that allow HMRC to collect payments directly via PAYE for UK residents, and for the Students Loan Company to arrange repayments directly for non-UK residents. The regulations essentially introduce a system that is very similar to that already used to collect repayments of undergraduate student loans. The IA explains that without the repayment regulations, introduction of loans for master's degree courses would be unsustainable.

Impacts of proposal

The IA uses HMRC modelling, which was used to assess the impact of the postgraduate loans themselves, to estimate the cost of administering their repayment.

All businesses that operate PAYE schemes will have to familiarise themselves with postgraduate loans repayment system guidance. The IA states that, in the first year, this will require five minutes of a functional manager's time for 1.4 million businesses to understand whether the new process applies to them. There will be an additional 15 minutes of a functional manager's time for the estimated 45,000 businesses that employ staff with a postgraduate loan, as they will have to carry out more detailed familiarisation with the guidance to understand the process fully. Assuming an hourly wage of £36.18, the IA estimates familiarisation costs in the first year to total £4.6 million. The IA estimates that, in subsequent years, on average, 281,000 businesses will enter the market and incur general familiarisation costs, of which 54,000 businesses will incur detailed familiarisation costs. Using the same assumptions as in the first year in which costs are incurred, the IA estimates that ongoing familiarisation costs to business in each subsequent year will total £1.3 million.

In addition, the IA explains that there will be ongoing administrative costs associated with facilitating the repayment system through PAYE. This includes recording details in payroll software and providing the necessary data to HMRC to collect repayments made. The IA estimates that this will take businesses approximately 22 minutes of an accounts and wage clerk's time, at an hourly wage of £14.59. Using HMRC modelling on the number of master's degree graduates in employment, the IA estimates the costs to business to be around £0.4 million initially and then at around £0.1 million each year thereafter.

Quality of submission

The IA provides a clear and reasonable assessment of the impacts and provides detailed monetisation of the costs and benefits. The Regulatory Policy Committee (RPC) verifies the estimated equivalent annual net direct cost to business (EANDCB) of £1.9 million. This is a qualifying regulatory provision under the business impact target.

Issues addressed following RPC's initial review

As initially submitted for RPC scrutiny, the IA was not considered fit for purpose. This was because of a material inconsistency between the IA and the supporting EANDCB calculator spreadsheet in the treatment and profile of familiarisation costs. The Department has addressed this inconsistency and explains that costs to business are not expected until two years after the loans are introduced because this is the point at which loan repayments will begin.

Other comments

The Department has also improved the IA by addressing two other points in the RPC's initial review notice.

The IA now provides a clearer distinction between the impacts of the loan repayment regulations and the impacts of the introduction of the master's degree loan product itself. The IA explains that the EANDCB consists solely of the administrative and familiarisation costs associated with the loan repayment system, whereas the NPV also includes the impacts of introduction of the master's loan product. The Department states that the former is the main focus of the IA and that the latter is a spending decision and has, therefore, been appraised separately outside of the better regulation framework. However, as the benefits spring from the master's loan itself, and not the loan repayment regulations, which is a regulatory decision, the IA should separate the NPV calculations for the loan repayment system and the introduction of the master's degree loan product.

The IA would benefit from explaining why the proportion of new business entrants conducting detailed familiarisation is much higher than the proportion of existing businesses needing to conduct detailed familiarisation.

Small and micro business assessment (SaMBA)

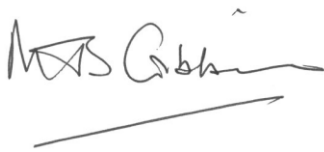
The SaMBA now explains that, although the administrative burden on smaller businesses will be proportionately greater than for large businesses, excluding small and micro-sized businesses would reduce the amount recovered and/or make the system less efficient. The Department explains that there are no data to show how postgraduate students are distributed across different sizes of business although, according to business population statistics, nearly 50 per cent of people are employed in businesses that are classified as small or micro businesses. Assuming that master's graduates are just as likely to be employed by small businesses as they are by large businesses, excluding small and micro businesses could mean that nearly 50 per cent of loans may not be recovered. The SaMBA also explains that financial aid to mitigate the impacts on small and micro businesses would not represent value for money for the tax payer, and additional guidance for small and micro businesses would not add any additional benefit as businesses are already familiar with the undergraduate loan repayment system.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£1.9 million
Business net present value	-£17.04 million
Societal net present value	£44.33 million (includes the impacts of the introduction of the loans themselves)

RPC assessment¹

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated	£1.9 million
Business impact target (BIT) score	£9.5 million
Small and micro business assessment	Sufficient



Michael Gibbons CBE, Chairman

To avoid any potential/perceived conflict of interest, committee member Jonathan Cave did not participate in the scrutiny of this case.

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000