Department for Education

Tailored Review

Student Loans Company

July 2019

Contents

Forward

Supporting students from all backgrounds to be able to access further and higher education is a vital component of our world class education system and the Student Loans Company plays an integral role in enabling this.

The SLC as an organisation is unrecognisable from its inception in 1989. From one maintenance loan product offered to all UK students, to over 25 loans and grants with 86 different variants, from fewer than 100 staff to over 3000, from 180,000 customers to over 8.5 million. The scale of expansion is clear, and unsurprisingly, the SLC has had a number of successes and challenges along the way.

Since 2010-11, customer satisfaction rates for applicants have increased from 70.5% to 83.1%, and Higher Education funding applications assessed within 20 days of submission have increased from 72.6% to 94.5%.

In 2018-19, the SLC processed 2 million applications, made over 7 million payments and handled over 6 million telephone calls. 99.7% of students who submitted their applications on time had their funds in place for the start of term and the SLC received just 2.48 complaints per month per 10,000 applicants and 0.84 complaints per month per 10,000 repayment customers. This is particularly impressive when set against industry averages.

Of the 43 performance targets it was formally set by shareholders, it achieved or exceeded 38.

The SLC has also achieved a number of notable accomplishments including being named as an ‘Exemplar’ Digital Delivery Programme by the Government Digital Service, implementing new 24+ Advanced Learning Loans and Postgraduate Masters Loans and effectively supporting the first 2 loan book sales.

This impressive progress, however, has not been without its challenges and it is widely recognised that the SLC still faces an efficiency gap. Its IT systems are outdated and drive complexity and cost. Its staffing, both at the front line and leadership level, has faced instability and high levels of churn over recent years. The process for developing new products and services is not as efficient as it could be and often results in delays and products that need subsequent changes and upgrades.

So whilst the SLC is meeting the majority of its targets, it could still improve the customer service and value for money it provides. Previous attempts at addressing these issues have not fully resolved them. However, the lessons learned are being used to shape a new Transformation Programme that should make it easier, quicker, safer and cheaper for the SLC and its government partners to run the student financing system. The recommendations in this Review are focused on developing the enabling environment for such a transformation.

Given the expected rise in student numbers in the years to come, the ambitious new suite of recommendations put forward by Dr Philip Augar’s recent independent panel report (‘the Augar Review’), and the constant level of digital innovation, it is vital that the SLC is supported to be the best that it can be, maintaining a high quality student finance system as a key plank of our world class higher education system.

Chris Skidmore

Minister of State for Universities, Science, Research and Innovation

Chapter 1: Introduction

1.1 Glossary of Abbreviations

ADG: Adult Dependants' Grant

ALBs: Arm's-Length Bodies

APRA: Annual Performance and Resource Agreement

AY: Academic Year

BAU: Business as usual

CCG: Childcare Grant

CCS: Crown Commercial Service

DAs: Devolved Administrations

DfE: Department for Education

DSA: Disabled Students' Allowance

ELT: Executive Leadership Team

FY: Financial Year

GDS: Government Digital Service

SLC: Student Loans Company

FEPs: Further Education Providers

GovCo: Government Company

HEIs: Higher Education Institutions

KBOs: Key Business Objectives

KPIs: Key Performance Indicators

NEDs: Non-Executive Directors

NDPB: Non-Departmental Public Body

OfS: Office for Students

PLA: Parents' Learning Allowance

SFE: Student Finance England

SFNi: Student Finance Northern Ireland

SFS: Student Finance Scotland

SFW: Student Finance Wales

UCAS: Universities and Colleges Admissions Service

UKGI: UK Government Investments

1.2 Table of Figures

1.3 Review Scope

As a Non-Departmental Public Body sponsored by DfE, the SLC is required under Cabinet Office guidelines to undergo a Tailored Review at least once every parliament[1]. This is the first such review for the SLC.

The principal aims of a Tailored Review are to ensure that public bodies remain fit for purpose, are well governed and properly accountable for what they do. The Reviews are intended to:

- provide a robust challenge to and assurance on the continuing need for individual organisations, both in function and form; and

- where it is agreed that an organisation should be retained, review its capacity for delivering more effectively and efficiently, including identifying the potential for efficiency savings, complying with the principles of good governance, and where appropriate, any alternative delivery models.

This review is structured into three sections:

i. An assessment of how the SLC is operating in terms of its form and function, governance, effectiveness, and efficiency.

ii. An overview of key factors and trends that are likely to impact how the SLC operates in the years to come.

iii. An outline of recommendations to improve the operational and strategic outcomes for the SLC over the next 3 to 5 years.

As the SLC is a major delivery body serving a large customer cohort and managing a significant asset base, this Tailored Review is classified as Tier 1. In accordance with Cabinet Office guidelines, this review has had the governance of both a Challenge Panel and a Steering Group to test the emerging analysis and provide insight and feedback on the recommendation. Each group met 3 times and their membership is outlined in Annex B.

The review has been conducted over 7 months by an independent team based at DfE, with contribution and support from the SLC and other key stakeholders. A list of all those interviewed is provided in Annex B. The review has gathered evidence in a range of ways including:

- desk based analysis of a number of sources and reviews
- engagement with the SLC (in the form of site visits, Board observations and interviews)

[1] Tailored Reviews: Guidance on Review of Public Bodies
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/570290/Tailored_Review_Guidance_v 1.1_Nov_2016.pdf

- interviews with a wide range of stakeholders and functional leads
- testing with the Steering Group
- testing with the Challenge Panel

The terms of reference for the review is included in Annex A.

The review team would like to put on record their thanks to the SLC Chair, Chief Executive and senior management team for their engagement with the review, and to the staff who facilitated meetings and responded to requests for information.

1.4 Executive Summary

The Tailored Review

The Tailored Review of the Student Loans Company (SLC) was launched in October 2018 and announced in a Written Ministerial Statement in both Houses on 21st November 2018 by Ministers from the Department for Education (DfE).

Tailored Reviews are part of the Cabinet Office's public bodies reform programme. They seek to review the functions, form, performance, and governance arrangements of public bodies to ensure that they remain fit for purpose, are well governed and properly accountable for what they do.

The SLC is a non-profit making Government-owned company (GovCo), which pays loans and grants to students, universities and colleges in the UK. As a Non-Department Public Body (NDPB) sponsored by DfE, the SLC is required to undergo a Tailored Review at least once in every parliament.

As this is a Tier 1 Review, an independent Challenge Panel, chaired by a DfE Non-Executive Director, was used to examine and challenge the findings at all stages of the Review.

The Review is split into 4 chapters, covering:

Chapter 1: An introduction including a glossary, figure list, review scope and executive summary.

Chapter 2: An assessment of the current 'operational health' of the SLC, reviewing its form, function, governance, effectiveness and efficiency, including recommendation summaries at the end of each section.

Chapter 3: An analysis of the contextual factors likely to impact the SLC over the next 5-10 years including the Post-18 Review, EU exit, loan sales, technological developments, constitutional issues and changes to the claimant and customer base.

Chapter 4: An assessment of ways to optimise the SLC, providing recommendations to complement and enhance activities in preparation for the SLC's own Transformation Programme.

Main Findings

Section 2.1 Form and Function

This section provides an overview of the SLC, its purpose, structure and main functions. It explores the impact of the growth of products and functions that the SLC has taken on since its inception 30 years ago.

The Review notes that there is broad consensus that the 4 key functions of the SLC - processing applications, making assessments, paying individuals and institutions and collecting repayments - continue to be integral to the role that government plays in supporting students through Further and Higher Education.

Cabinet Office guidance is used to assess the form of the SLC against 3 tests; technical function, political impartiality and establishing facts and/or figures with integrity. Given that the SLC operates a technical level of expertise, it passes at least one of the tests for being classified as an NDPB. It concludes that despite some concerns around the SLC's status as both a GovCo and NDPB, the majority of these challenges are centred around governance and leadership, and will not be resolved simply by changing the organisational status or form of the SLC at this time.

Finally, this section examines the public perception of the SLC and notes that the Augar Review has concluded that the current terminology used to describe student finance (loans, debt, interest, liability etc.) can be unhelpful and misleading, including the SLC's name.

Section 2.2 Governance

This section examines the overall governance structure of the SLC including ministerial responsibilities, shareholder structure, the Sponsorship team, the Executive Leadership team and the Board.

It recognises that the SLC and its governance partners have improved various aspects of its governance including a refreshed Framework document, new CEO and CFO, a widening of the remit of key Committees and the recent recruitment of 2 new NEDs.

It is noted, however, that there remains a tension in the role of the Board and that improvements in risk management and long term strategic management are required.

Section 2.3 Effectiveness

This section explores the SLC's performance against its objectives and operational targets. It recognises the Company's accomplishment of meeting the majority of its targets with relatively low customer complaints, despite delivering in an environment of increasing scale, scope and complexity.

The Review notes a number of challenges for the SLC's effectiveness, including high levels of management churn, a complex policy commissioning process, historically unfocused KPIs, under developed strategic vision and increasing pressure on repayments and loan sale support servicing.

A brief overview of improvement activities is outlined, including a focus on the SLC's refreshed Transformation Programme, which would involve significant investment over several years for which the SLC is currently seeking Treasury approval. Application of this activity with a revamped policy commissioning cycle will be crucial for improving effectiveness.

Section 2.4 Efficiency

This section explores the growth in the SLC's financial spend and projections, alongside its commercial practices and key processes for identifying fraud and error.

It also investigates the SLC's current technology and digital platforms, concluding that despite some incremental improvements, the SLC will need to address the pressing issue of its overwhelmed and outdated IT infrastructure, as well as growing its diagnostics and data management capabilities. This is especially important given the new policy initiatives that may come on stream from the Post-18 Review, increasing devolved divergence and portfolio changes.

The Review notes the SLC has had recent success in securing pay upgrades for its lowest paid staff but needs to make significant inroads into embedding a comprehensive People Strategy to offer a more competitive package in support of recruitment and retention.

The SLC's Transformation Programme, if approved and successfully implemented, should help to resolve many of these issues, enabling the company to deliver changes much more quickly, safely and cost effectively.

Section 3 Contextual Factors

The analysis of the contextual factors likely to impact the SLC over the next 5-10 years include the Post-18 Review, EU exit, loan sales, technological developments, constitutional issues and changes to the claimant and customer base.

The Review concludes that the SLC appears to be preparing relatively well for an impending EU exit, with contingencies for 'no deal' and 'deal' scenarios. It has also made good progress on improving data sharing and GDPR compliance.

The growth in student numbers, more complex working patterns, increase in the loan book size and continuance of loan book sales will mean that strengthening the SLC's strategic and technological capabilities in support of repayments and loan sale servicing will grow in importance.

Shoring up the SLC's effectiveness and efficiency, particularly in its IT and business functions, will also be a vital enabler for any Post-18 reforms and to combat ever developing cyber security threats.

Main recommendations

This report contains 39 individual recommendations for both the SLC and its governance partners. All recommendations can be found in Chapter 4, with linked summary recommendation boxes at the end of each section.

The recommendations cover a number of areas which are grouped into the 4 categories below, with the most significant focused on:

- Embedding refreshed key business objectives;
- Transforming the policy commissioning cycle;
- Delivering the Transformation Programme aimed at improving staff retention and stabilising IT and data systems;
- Conducting feasibility studies on transferring repayments to HMRC and future loan sale servicing options; and

- Improving governance practices whilst maintaining the SLC's status as a GovCo NDPB for the next 3-5 years.

Optimisation of leadership

The recommendations around the optimisation of leadership focus on reforming the policy commissioning cycle in order to provide improved effectiveness and efficiency for the development of new products and business processes.

These recommendations also highlight the need to strengthen the overall vision and forward strategy for the Company, establishing robust project management for the Transformation Programme and embedding improvements in loan sale support servicing.

Clarity of governance

These recommendations emphasise the ongoing need for the SLC to streamline and clarify governance arrangements between the board, executive leadership team, shareholders and sponsors, with a particular focus on improved risk management and strategic oversight. With regards to the SLC's form and function, it is recommended that the SLC should remain a GovCo NDPB while it focuses on delivering the Transformation Programme, with more radical structural changes possible in the medium to long term future once systems are more stable and new policy initiatives better understood.

Stabilisation of systems

Recognising that there are a number of planned activities already in train under stabilisation of systems, these recommendations focus on creating an enabling environment for the Transformation Programme which seeks to address inadequacies in staffing, IT and business architecture. It also recommends a continuation of the current functional model (with a more strategic commercial outsourcing approach for IT and back office functions, and potential streamlining of targeted grants), alongside feasibility testing for establishing a separate Asset Company to manage loan sale support servicing for future sales.

Future options

While the scope of this Tailored Review is focused on changes that can be feasibly delivered in the next 3-5 years, the final set of recommendations reflect on additional opportunities to deliver wider benefits over a longer time horizon.

These include exploring the possibility of moving the administration of repayments in whole to HMRC, the appropriateness of a name change for the SLC and recommending that that the next Tailored Review should be conducted in 3 years (rather than 5 years), once the implications of EU Exit and the Post-18 Review have been more clearly established.

Next Steps

The Sponsorship Team, in partnership with the SLC, should produce a plan to take forward these recommendations. This should include monitoring progress to ensure that shareholders are actively engaged in implementation, reporting to the sponsor Director.

Acknowledgements

The review team would like to thank everyone who contributed to the review process. Particular thanks go to the SLC for its continual co-operation, the Board, the Challenge Panel and colleagues across various organisations who made the time to participate in interviews.

Chapter 2: How is the SLC currently functioning?

2.1 Form and Function

Purpose of the SLC

The Student Loans Company (SLC) is a non-profit Government-owned company (GovCo) and Non-Departmental Public Body (NDPB), set up to pay loans and grants to students, universities and colleges in the UK on behalf of its 4 shareholders.

The specific responsibilities of the SLC are to:

- make payments to individuals, Higher Education Institutions (HEIs) and Further Education Providers (FEPs) in accordance with the student support regulations and relevant public policy objectives;
- ensure that repayments (whether through HMRC or direct to the SLC) are collected on time from those due to repay;
- provide accurate and timely information to students/customers and to inform the shareholders' policy making and analysis; and
- perform related activities to assist in achieving the Departments' policy objectives as required.

The SLC's mission is to 'enable people to invest in their futures through further and higher education by providing trusted, transparent, flexible and accessible student finance services'. This is working towards a vision were the 'SLC is widely recognised as enabling student opportunity and delivering an outstanding customer experience in the efficient delivery of the four UK governments' further and higher education finance policies'.

Structure of SLC

The SLC currently has nearly 3500 employees and administers a student loan book totalling more than £135bn.

The SLC is a both a GovCo and a NDPB, meaning that it is both:

- a government-owned company, a legal entity that undertakes commercial activities on behalf of its government shareholders; and
- a body that has a role in the processes of national government - but is not a government department or part of one - and which accordingly operates to a greater or lesser extent at arm's length from ministers (though a minister will be responsible to Parliament for that NDPB, and will appoint the Chief Executive Officer (CEO), Chair and Non-Executive Directors (NEDs)).

The SLC is managed by a CEO, has a Board and, as a company, has 4 shareholders: DfE (85%), Advanced Learning and Science Directorate, Scotland (5%), Skills, Higher Education & Lifelong Learning, Wales (5%) and the Department of the Economy, Northern Ireland (5%). This structure has been in place since 2013.

The SLC is located at 5 sites across the UK, 3 in Glasgow (Bothwell Street, Hillington and Europa House), 1 in Darlington and 1 at Llandudno Junction. They also have access to office space in Finlaison House, London.

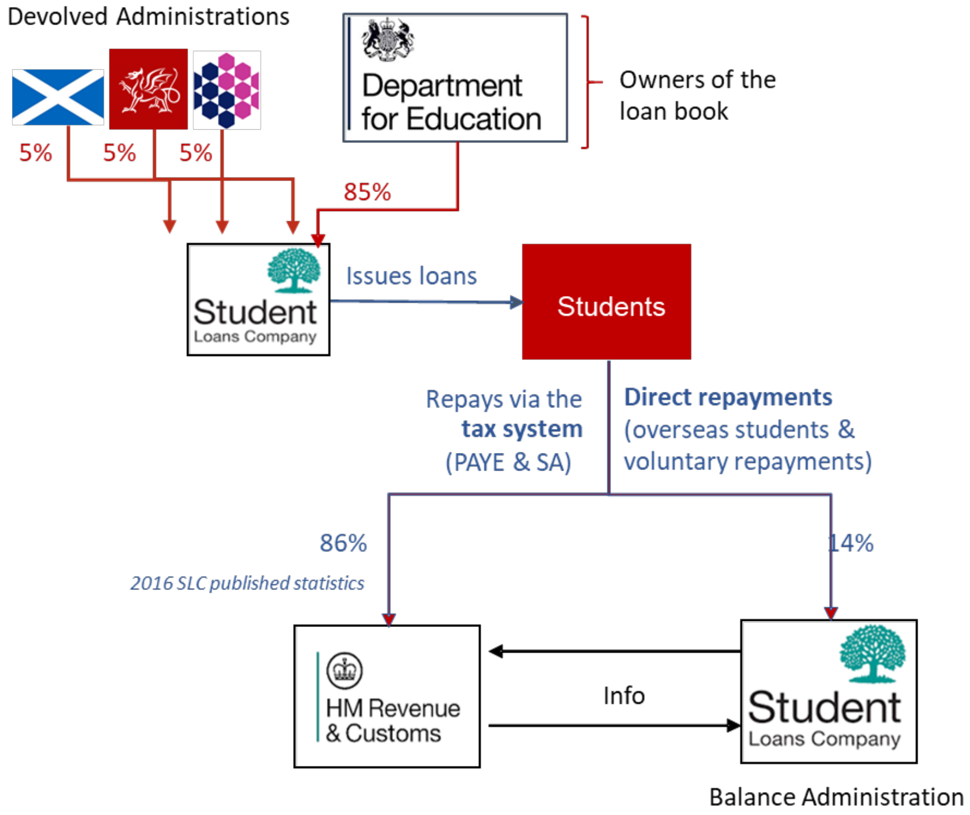

Figure 1: SLC Shareholder Schematic

Source: UK Government Investments (UKGI)

Brief history of the SLC

The SLC was set up as a Company Limited by Shares under the Companies Act, originally constructed to be owned by 4 UK banks to provide mortgage-style loans[2] regulated by the relevant consumer lending acts. It was incorporated in 1989 and began operating in 1990. When the arrangement with the 4 UK banks fell through, the English and Scottish governments agreed to be joint shareholders of the organisation (since extended to Wales and Northern Ireland). The SLC has been classified as an executive NDPB since 1996 and now supports the strategic aims of all 4 devolved administrations (DAs).

The role of the SLC has changed significantly from its inception 30 years ago - when

[2] Loans with a fixed repayment rate, regardless of income

it provided a basic non-means tested loan service for higher education students - with a marked increase in the scale and complexity of its current product and functions, particularly in the last 7 years. For example, the variation of products has increased from approximately 46 in AY 2012/3 to over 86 in AY 2018/19. The addition of supporting the sales of parts of the student loan book has also added extra functionality, putting additional pressures on a system which was not structured to carry out the vast role it is now commissioned to undertake.

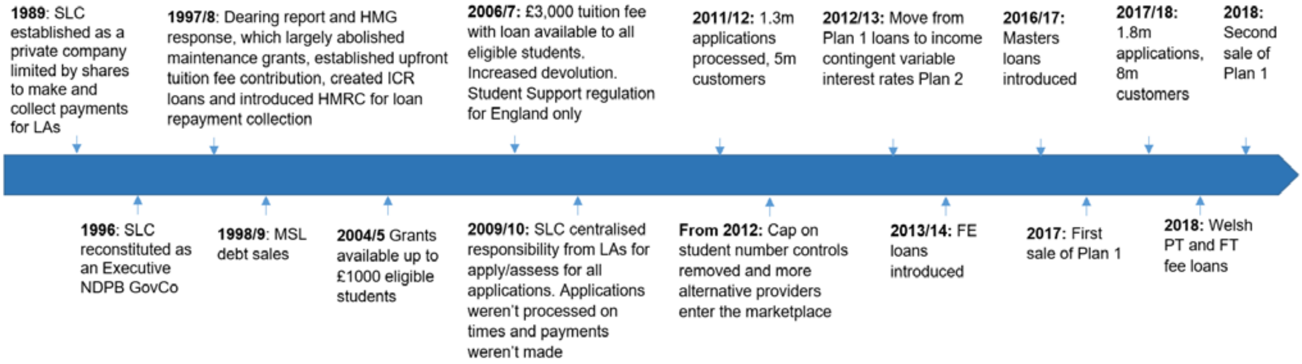

Figure 2: Timeline of key SLC events from 1989

Source: SLC

Core functions and services of the SLC

The SLC services around 2 million applications per year and has 8.5 million customers.

SLC broadly provides 4 main functions;

1. Apply: the receipt and processing of the initial application for a loan or grant from the student
2. Assess: the process of assessing the applicant's eligibility and entitlement to the various student support products available
3. Pay: the payment of the loan or grant to the student/institution/provider
4. Repay: the recovery of the loan, based on the income of the repayer

For England and Wales, the SLC manages the full, end-to-end process, for Scotland (for loans) and Northern Ireland it provides the payment and repayment parts only, although Northern Ireland uses SLC-developed systems for assessing their students' applications.

CONTEXT

Processes are modelled at the level of 125 sub-processes, structured into 12 processes and 7 groups

Student Loans Company

Process group	Process	Description of sub-processes
Apply	Apply	Documentation, data entry and pre-assessment
Assess	Identity and Residency	Identity and residence checks, HMPO exception handling, evidence collection
	Means Testing	Non-product-specific means testing (e.g., automated income verification)
	Product-Specific Assessment	Product-specific assessment (e.g., eligibility, exception handling)
Contact	Contact	All contact-to-resolution (e.g., guidance, complaints and account queries)
Pay	Payments	Payment processing (e.g, assurance, final checks and banking)
Repay	Overpayment Recovery	Recovery and clawback of loan and grant overpayments
	Repayments	Repayments including HMRC Income Contingent Repayment
Cross-Journey	Mail and Documentation	Mail processing, scanning/digitisation and evidence management
	Marketing	Marketing and customer insight costs
	Partnerships	Partnership and provider relationship management costs
Overhead	Overhead	Non-product overheads for sub-processes (e.g. additional pension contributions, central property, working groups)

Description of processes

- 125 sub-processes are modelled, sourced from the SLC Finance ABM[1]
- The process groups are based on the major components of the apply/assess/pay/ repay value chain, with additional categories for sub-processes that do no map directly to one part of the chain
- The process categorisations allow for further detail within major process groups, e.g. assess

1 Sub-processes are sourced from the Activity Based Costing Model and are defined by variously by process, product-specific process and/or product

Table 1: List of processes and sub processes

Source: SLC

It is important to note that in addition to the services for students and those repaying loans, the SLC directly distributes funding to HEIs and FEPs and this forms a crucial component of the funding structure for these institutions, for which they currently do not pay any direct administration fees or have any formal service level agreements with the SLC. In England in 2016/17, the total income to the HEI sector was £30 billion. Of this, the three largest contributions were £10.9 billion from home/EU tuition fees, £1.3 billion from the teaching grant and £4 billion from international students. This means that monies paid out by the SLC comprise the largest proportion of the total income for the majority of HEIs.

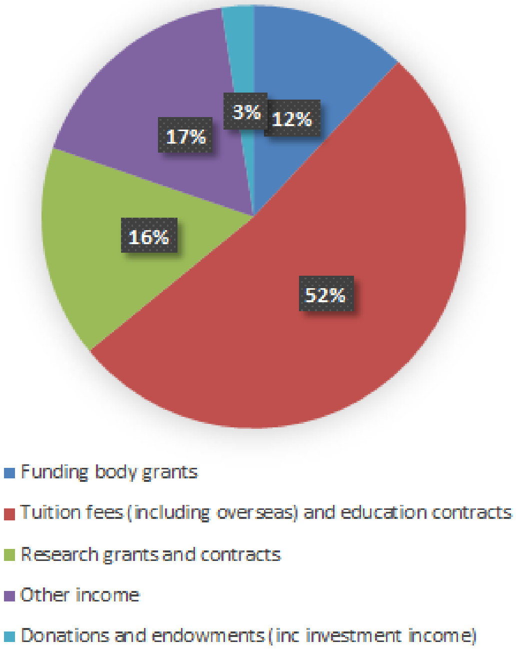

Figure 3: HEI funding in England 2016/17

Source: DFE analysis

The SLC also manages a growing range of Further Education and Postgraduate products and services which are tailored to the differing requirements of individual government administrations, alongside various targeted support grants designed to enable students with disabilities, childcare or other needs to overcome barriers to participation in higher and further education. For AY 2018/2019 the SLC provided 25 active products (with 86 variations). The trend has been for product numbers and variations of products to increase without retiring older products. The SLC also administers bursary payments on behalf of UK education providers.

Category	Products	Details
Loans Paid to Provider	HE Tuition Fee Loan (Split into FT/PT) HE ROI Fee Loan FE (Advanced Learner Loans)	Tuition fee loans, non-means-tested, paid to the provider; repaid via ICR
Loans Paid to Student	HE Postgraduate Master's Loan HE Postgraduate Doctoral Loan HE UG Maintenance Loan HE UG Long Courses Loan Extra Weeks Loan	Predominantly means-tested products (except PGL) paid to FT students to assist with living costs; repaid via ICR
Grants Paid to Provider	HE UG Tuition Fee Grant Part Time Fee Grant	Grants to assist with tuition fees; no repayment
Grants Paid to Student	HE UG Maintenance Grant HE Welsh Government Learning Grant Special Support Grant Adult Dependants' Grant - GfD Parents' Learning Allowance - GfD Childcare Grant - GfD Travel Grant Part Time Course Grant FE Welsh Government Leaning Grant FE Educational Maintenance Allowance	Range of grants and payments including Wales-specific HE/FE grants and a range of Grants for Dependants (GfD); generally with specific eligibility requirements as well as means-testing
Grants to Third Party	DSA - Non-Medical Personal Help DSA - Specialist Equipment DSA - General Allowance DSA - Travel Postgraduate DSA	Grants paid to service providers on behalf of students eligible for disability support; typically provided as a cross-product package

Description of products

- 25 products are shown (with HE Tuition Fee Loan being split into FT and PT)
- This product split allows understanding of the eligibility and entitlement attributes of different policy features
- The product categories are based on who the payment is to (student, provider or third party) and whether the product is a grant or a loan

Table 2: The SLC's product range for AY 2018-19 (ICR – Income Contingent Repayment)

Source: SLC

An independent study[3] conducted for the SLC highlighted that there are significant costs driven by the complexity of product variants and policy rules. As highlighted in table 3, a notable proportion of these costs are derived from targeted grant payments, with Disabled Students' Allowance (DSA) and Grants for Dependants (GfD) having the highest unit costs.

PRODUCT

Highest unit costs are in GfD and DSA product groups, and in Contact and Assessment process groups

Lowest unit costs
Medium unit costs
Highest unit costs

Student Loans Company

Unit costs, £ BAU FY17-18

Process Group	Process	Loans Paid to Provider (Tuition)	Loans Paid to Student (Maintenance)	Grants Paid to Provider	Grants Paid to Students (Incl GfD[1])	Grants Paid to Third Parties (DSA[2])
Apply	Apply	0.9	0.7	0.5	0.9	1.3
Assess	Identity & Residence	0.9	0.7	0.7	1.0	1.3
	Means Testing	0.0	2.5	0.1	1.8	<0.1
	Product Assessment	3.1	2.2	3.2	10.2	17.8
Contact	Contact	5.4	6.0	3.9	4.2	13.7
Pay	Payments	0.5	0.4	0.4	0.4	16.2
Repay	Overpayments	0.2	0.2	5.9	5.2	2.9
	Repayments[3]	4.8	5.1	-	-	-
Cross-Journey	Mail	1.3	1.1	1.2	1.2	1.7
	Marketing	0.6	0.6	1.1	0.7	0.8
	Partnerships	1.1	0.4	0.4	0.9	0.5
Overhead	Overhead	<0.1	<0.1	<0.1	<0.1	<0.1
Unit cost (weighted by vols)		**£19**	**£20**	**£17**	**£27**	**£56**
Volume		1.4m	1.6m	60k	520k	160k
Total product-related cost: £86m		**£29m**	**£32m**	**£1m**	**£14m**	**£10m**

Highest unit costs from low volume product groups are in GfD and DSA

- GfD drive costs into Product Assessment process
- DSA drives costs into Product Assessment, Contact and Payments

High unit costs are also seen in some process areas for high volume product groups

- Loans Paid to Provider and Loans Paid to Student drive costs in Contact and Repayments processes

This view suggests mixed economies of scale are achieved

[OFFICIAL-SENSITIVE] 1 Grants for Dependants 2 Disabled Students' Allowances 3 Repayment unit costs based on ICR volumes 12

Table 3: Costs by product group

Source: SLC

Disabled Students' Allowances

DSAs provide funding for specialist support, such as equipment, software, non-medical help (i.e. personal support) and travel for disabled students in higher education. The number of students declaring a disability at English HEIs has risen by 25% from 183,005 in AY 2012/13 to 229,470 in AY 2016/17.

The SLC currently determines students' eligibility and enables eligible students to have their needs assessed through a network of assessment centres. The SLC then ensures that the support recommended in the assessments is provided to students, and directly pays the providers of those goods and services. DSA evaluation research

[3] Cost of Complexity, McKinsey & Company, 2017

published in January 2019 shows that overall, students are positive about the support they get via DSAs, including how their needs are assessed. The research also shows, however, that students find some parts of the application process problematic (e.g. providing suitable evidence) and that some also found difficulties in accessing the support recommended for them. The application process takes on average 14 weeks for a student to complete, with 25% of evidence not meeting policy requirements and 20% of needs assessment reports having insufficient information.

Overall, whilst offering valuable support to disabled students in higher education, the system has a number of suboptimal elements, particularly around assessment, contact and payment.

In order to address these issues, DfE Ministers have agreed the following reforms:

i. The SLC will procure central contracts for the supply of DSA equipment and assessment providers. Contracts for the supply of equipment should be in place from autumn 2019 and for assessment services from autumn 2020.

ii. DfE will seek the higher education and disability sectors' views on adapting the DSA system so that funding for students' non-medical help (NMH) is directed to higher education providers. The consultation will run over summer/early autumn 2019 with any changes effective from AY 2021/22. Scotland, Wales and Northern Ireland are also reviewing funding arrangements for disabled students and operational enhancements.

iii. DfE will increase the cap on the single postgraduate DSA for academic year AY 2019/20 from £10,993 to £20,000, and will seek to replace the separate postgraduate scheme in AY 2020/21 with a single product that covers both postgraduate and undergraduates.

<u>Grants for Dependants</u>

The SLC provides three means-tested grants to students from very low-income households with children or adult dependants: Childcare Grant (CCG), Parents' Learning Allowance (PLA) and Adult Dependants' Grant (ADG). These grants are available to eligible students in addition to maintenance loans.

Childcare Grant

Student parents can apply for a CCG if they have children in Ofsted (or equivalent) registered childcare. The grant helps with childcare costs for children under 15, or under 17 if they have special educational needs. The CCG is means tested and non-repayable. Payment covers up to 85% of child care costs with a registered provider throughout the academic year, i.e. during term time, short vacations and the longest vacation, up to a maximum amount (currently up to £169.30 per week for one child or £290.27 per week for two or more children).

CCG Reform

An internal government audit in 2015 identified a number of high level risks:

- CCG payments obtained through deception and misrepresentation;
- Funding claimed for childcare which has not been provided; and
- Funding not used for the purpose intended.
-

In order to address these issues a number of reforms have been implemented:

i. Improvements in auditing and checks of a higher proportion of cases: increasing audit checks from 15% to 30% and targeting high fraud risk students/providers.
ii. Introducing SLC data sharing arrangements: a data share process with HMRC and DWP to enable SLC to rule out double funding of childcare.
iii. Improving information requested from providers: asking providers for the number of children on their childcare provider roll which could highlight any volume discrepancies for Ofsted registration.
iv. Suspending payments when audit forms are not returned: not only for CCGs but also making a student unfit for all support if the childcare provider and student failed to respond to audit requests, depending on the circumstances.
v. Paying providers direct on receipt of an invoice: implementation of an automated system where childcare providers and students submit information independently of each other and the provider is paid directly on receipt of an invoice. This has been successfully implemented for AY 2019/20 with the application process launching in February 2019.

Parents Learning Allowance (PLA)

Parents Learning Allowance is paid to student parents to help with learning costs other than childcare. Students may be eligible for up to £1,716 per annum.

Adult Dependants Grant (ADG)

Adult Dependants Grant is paid to help students continue to support adults who are financially dependent on them – usually a spouse or partner who is low paid or is receiving unemployment or disability benefits.

Options considering the continued utility and value for money of the PLA and ADG have recently been put to Ministers, which will be considered in the round with Spending Review and Post 18 Review advice.

Loan Sale Support

In addition to administering loans and grants, the SLC also services a growing loan book, worth over £136.7 billion, and works in partnership with HMRC to recover payments through PAYE and self-assessment (approximately 85%), as well as directly collecting from those borrowers outside the UK tax system (or those nearing the end of their repayment term). It also has the additional role of providing point of sale, pre and post loan sale support (in partnership with DfE and UK Government Investments (UKGI)) for securitised student loan sales, the first and second of which were completed in 2017 and 2018. These sales introduced a new asset class to the market and collectively raised £3.6 billion of proceeds. It is the government's policy to continue with this programme of sales, targeting total proceeds of £15bn by FY 2022-23.

These functions are outlined each year in the Annual Performance and Resource Agreement (APRA) letter, sent from DfE to the SLC's CEO (who is also the delegated Accounting Officer). The letter also outlines the SLC's allocated annual budget and a number of target performance indicators.

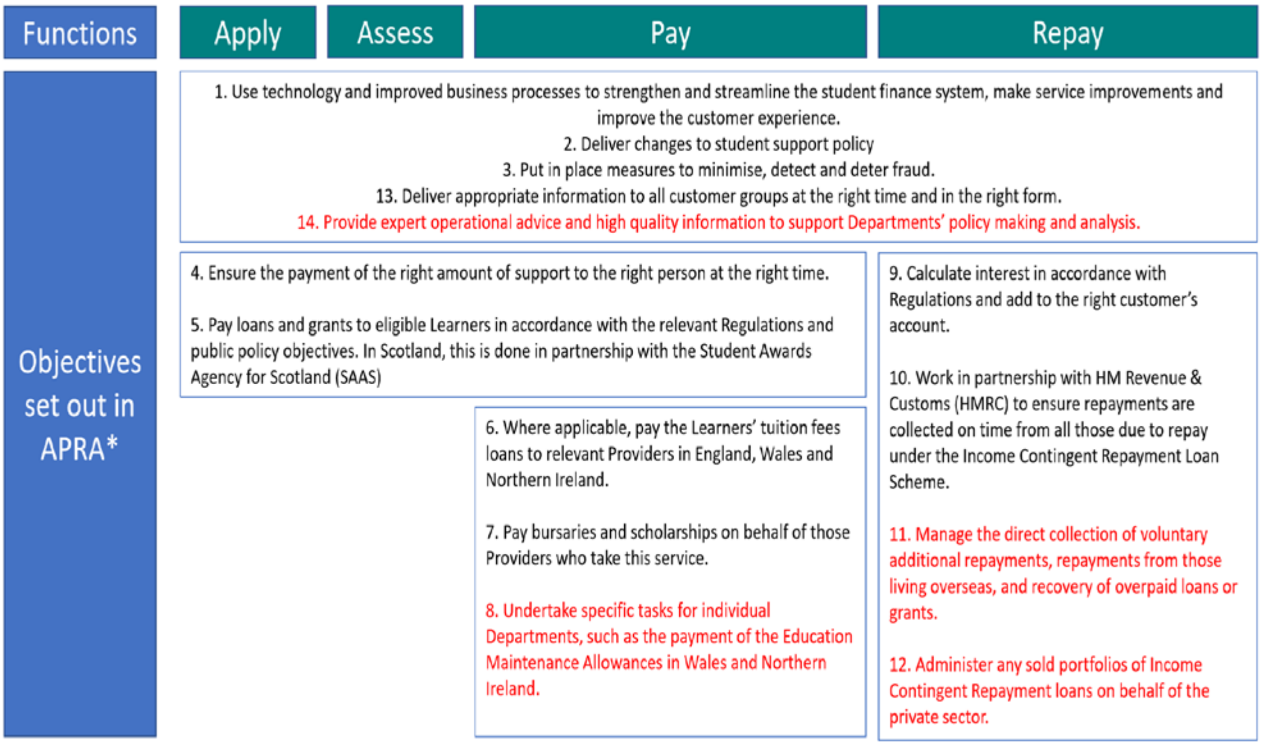

Figure 4: SLC functions for FY 2019-20

*Those objectives highlighted in red are areas of greater challenge for the SLC

Source: APRA

Are these functions still required and are they the right ones for the SLC?

There is broad consensus that the 4 key functions of the SLC continue to be integral to the role that government plays in supporting students through Further and Higher Education and should be retained. However, many interviewees highlighted the fact that the SLC is not necessarily the only place within government (or externally) where these functions can or should be administered. A more in depth analysis and recommendations on whether the functions - for both mainstream loans and specialist grants - should remain within the SLC is outlined in section 4.3.

Is a GovCo NDPB the correct form for the SLC?

The government's presumption is that if a public function is needed then it should be undertaken by a body that is democratically accountable at either national or local level. A body should only exist at arm's length from government if it meets one of three tests:

1. It performs a technical function which needs external expertise to deliver

2. Its activities require political impartiality

3. It needs to act independently to establish facts

The review team considered the SLC's functions against these three tests.

Test 1 - Technical function (met)

All 4 main functions of the SLC (Assess, Apply, Pay and Repay), as well as loan sale support, are technically complex and require a significant level of operational expertise. The SLC has built up a functional capability to administer these functions - particularly in Apply, Assess and Pay – and also works with contractors to help deliver services, specifically in contact centre and IT support.

Test 2 - Political impartiality (not met)

Unlike other NDPBs such as Ofsted, which provide independent scrutiny of government functions, the SLC does not need to work in an environment of absolute political impartiality. In contrast, it is preferable for the SLC to have early exposure to government policies to ensure that delivery implications are properly considered and costed. However, it does provide services for 4 different administrations and does not in itself make political decisions.

Test 3 - Establishing facts and/or figures with integrity (not met)

Data on student finance administration does not need to be collected independently of government. However, there are benefits to the SLC having a degree of independence from Ministers in scrutinising operational effectiveness. Both GovCo and NDPB structures enshrine a pivotal role for an independent Board which provides oversight and assurance for shareholders, and which may be less robust within an Executive Agency structure. This independence also ensures that the Devolved Administrations (DAs) have, as shareholders, a 'protected' voice, and can feel more confident in the impartiality of the information that the SLC produces.

In conclusion, the SLC operates a technical level of expertise and therefore passes at least one of the tests for being classified as an NDPB. In addition, there are benefits of the NDPB model including the potential for having a degree of independence and impartiality given the scope of operations and representation for the DAs.

As well as being classified as an NDPB, the SLC is also a Government Company and a number of those interviewed, including members of the Board, expressed the view that there are challenges with this classification and company incorporation. In particular, there is broad consensus that the purpose, focus and agency of the Board is not always clearly understood, and not necessarily commensurate with typical Companies Act Company functions. Board members reported a sense of a tension between enacting fiduciary responsibilities as laid out in the Companies Act and adhering to government NDPB obligations (these are provided at Annex C).

Whilst some of the issues are inherent within this arrangement and echoed by other GovCo NDPBs, the majority of SLC's challenges will not be resolved simply by changing its organisational status or form. In addition, the GovCo incorporation ensures some legal standing for the smaller shareholders (which is still feasible but likely to be less formalised in other types of incorporation). Crucially, in order to change its legal status, the SLC would need to be legally established in another manner. The most likely route would be either via Royal Charter, or through primary legislation, neither of which are currently practical.

Governance issues are further explored in section 2.2 and a full analysis on alternative structures and recommendations on both governance and organisational form are outlined in section 4.2.

Public perception

Despite delivering the vast majority of its performance targets – including relatively high customer satisfaction rates – the SLC has often suffered from negative media coverage focusing on significant but rare cases of poor customer service or disputed practice. In addition, the SLC and shareholders have not always created opportunities to present the public with greater confidence in the products and services that the SLC provides.

Furthermore, a number of those interviewed expressed the view that the SLC would benefit from a rebrand, in particular to highlight the fact that the payments they make to individuals are not traditional loans but exhibit characteristics more akin to a tax (income contingent repayment obligations).

For England, Wales and Northern Ireland, a customer's initial contact with the SLC is normally through its 'domicile brands': Student Finance England (SFE), Student Finance Wales (SFW), or Student Finance Northern Ireland (SFNI).

It is generally not until a customer is approaching repayment that the SLC (as a brand) becomes more prevalent in communications (despite being listed in footers/agreements/content within their loan application). Customers have noted confusion at the SLC's perceived use of multiple brands.

The Augar Review[4] has also made comment on this:

> *It is widely recognised that the current terminology used to describe student finance (loans, debt, interest, liability etc.) can be unhelpful and misleading. For*

[4] https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report p. 175-176

conventional debt such as bank loans, mortgages and consumer credit, total balance and interest rates are central to a correct understanding of what will ultimately need to be repaid. The student finance system by contrast behaves quite differently for most borrowers, for whom it operates in effect as an additional tax on earnings for the length of the repayment period. This leads to a gulf between perception and reality, to a misalignment of concern about how much is owed and how much will in fact be repaid. Indeed, the consumer champion Martin Lewis, and the Treasury Select Committee in its 2018 report on student finance, have advocated scrapping the term 'loan' altogether[5].

We have also heard students point out that the name 'Student Loans Company' does not aid understanding because some borrowers perceive it as a commercial enterprise that profits from the interest rates charged on student loans[6].

A recommendation on addressing this issue (aligned to the Augar Review's recommendation to introduce new finance terms under the banner of a "student contributions system") is outlined in section 4.4.

High level recommendations related to the issues raised in this section have been summarised in the table below. Full analysis and rationale for these recommendations are outlined in section 4.

[5] House of Commons Treasury Committee (2018) Student Loans: Seventh Report of Session 2017-19, p29-32.

[6] This view was also expressed by the SLC's non-executive chair in discussion with the Education Committee https://www.parliament.uk/business/committees/committees-a-z/commons-select/education-committee/newsparliament-2017/accountability-hearings-student-loans-evidence-17-19/

Summary of recommendations relating to form and function

23. The SLC should remain a GovCo NDPB for at least the next 5 years. The next Tailored Review should explore whether it would be appropriate to change the SLC's status to an NDPB established by legislation.

31. The Student Finance Policy team should conduct a review across products (and specialist grants in particular) to identify where means testing and eligibility protocols can be rationalised and streamlined.

36 HMRC should carry out a comprehensive feasibility study (within 3 years) to explore the viability of HMRC taking on the repayment accounts in their entirety.

37. Shareholders should not enact functional splits at this stage, given the fragility of the SLC's IT infrastructure.

38. Consideration on a name change for the SLC should be taken forward as part of the government's conclusion to the Post 18 review.

Table 4: Summary of form and function recommendations

2.2 Governance

Good corporate governance is central to the effective operation of all public bodies. All arm's length bodies (ALBs) require clear and compliant governance arrangements to drive performance, strategic direction and provide effective accountability and oversight. The Cabinet Office provides a range of guidance documents on good governance for public bodies[7].

The SLC's broad governance arrangements are set out in the company's Framework Document[8], which has been recently refreshed. The SLC has also appointed a new CEO and CFO (in 2018); has widened the remit of its Audit and Risk and Remuneration, People and Organisational Design Committees; has appointed 2 new NEDs; and is in the process of recruiting a new chair, as the current Chair is planning to stand down in 2020.

Ministerial responsibility and the shareholding structure

DfE holds the primary relationship with the SLC as the main sponsor department in all matters of corporate governance. The Secretary of State for DfE is the Responsible Minister for the SLC, however, in practice, the Minister with responsibility for Higher Education acts on behalf of the Secretary of State and accounts for the SLC's business in UK Parliament. The DfE's Permanent Secretary is the SLC's Principal Accounting Officer and designates this responsibility to the SLC's CEO, who is accountable to Parliament for the governance of the SLC.

The current shareholding structure – as outlined in section 2.1 - has been in place since 2013. DfE and the DAs set the strategic direction for the SLC in the APRA, hold it to account for its activities and directly commission it to develop and deliver services for its national student financing policies.

The majority of interviewees noted that historically, there has been a 'top down' relationship with shareholding departments – particularly DfE – where requests for new products or changes in processes have come in late and stacked in complexity, without always having early engagement with the SLC on feasibility or operational impact.

Furthermore, there has often been a lack of alignment and prioritisation of shareholder requests to the SLC, leaving the company in the position of having to broker between departments to finalise policy commissions. Given the sensitivities of sharing early policy initiatives between different political parties in DAs, it may be the case that this will never be fully resolved in a devolved political system.

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[7] Cabinet Office Guidance: Public Bodies, Information for Departments https://www.gov.uk/government/collections/public-bodies-information-for-departments

[8] https://www.slc.co.uk/media/10196/slc-framework-document.pdf

However, interviewees have noted that over the past year there have been improvements in the engagement and prioritisation process between shareholders and the SLC, with more effort to align commissions, earlier engagement and attempts to limit requests to free up resource for system stabilisation work. The policy commissioning cycle is further explored in section 2.3.

Other issues identified by interviewees and previous governance reviews include:

- the dominance of DfE shareholding and funding creating an asymmetric relationship between the shareholders, even though this does not represent their relative reliance on SLC operations; and
- the fact that the sponsorship and shareholding functions are undertaken by the same teams by all shareholders, which has led to questions about whether they can provide independent shareholder challenge.

The Sponsorship team

As the majority shareholder, DfE also operates the main sponsorship function for the SLC. It was widely reported by those interviewed that in past years there has been a 'disconnect' between the SLC and this function, There was a broad consensus that some important issues were 'lost in translation' and that the sponsorship team had to spend a significant amount of time amending and translating SLC business documents and explaining the realities of what is (and isn't) feasible. Whilst this is improving, the SLC Executive Leadership Team (ELT) reported having minimal face time with Directors General, Permanent Secretaries and Ministers and that the operational parameters of the business were not always fully understood, by Departments and Ministers.

This effect may have been compounded by the fact that the SLC has multiple interfaces with DfE, making it difficult for its sponsorship team to have full visibility of all requirements and requests on the SLC. Resourcing pressures and turnover of DfE personnel often add to this difficulty, as well as a plethora of meetings with similar agendas and underdeveloped terms of reference. Consequently, the added value of a sponsorship function with deep institutional knowledge is not always being maximised.

There has, however, been notable recent improvement in relations and co-development of key business initiatives. DfE and the SLC have worked in partnership to secure approval of an increase in pay for frontline staff in the SLC and are doing the same for the development of the Transformation Programme business case. This joint working includes initiatives such as providing access to professional expertise within DfE e.g. commercial, project management, regular site visits and co-development of key documents.

The Executive Leadership team and the Accounting Officer

DfE's Permanent Secretary designates Accounting Officer responsibility to the SLC's CEO, who is responsible for safeguarding public funds and ensuring value for money in accordance with Managing Public Money[9]. The ELT is responsible for controlling and monitoring the SLC's operational and financial management. The strategic direction of the SLC is set by the shareholders, meaning that the ELT does not retain the traditional controls of a company executive function, which often limits the SLC's capacity to make strategic decisions that align organisational objectives with capacity.

As well as having limited say on strategic direction, the SLC also has a number of controls on its operational activities e.g. in areas of remuneration, procurement and IT spend. Whilst these are in line with other NDPBs and central government departments, these constraints often impact the leadership's ability to manage risks as it sees fit and therefore there would be merit in exploring whether any exceptions would aid business delivery. However, it is not clear that the SLC ELT has always fully understood or utilised either the freedoms it does have or the clearances it should be seeking. A recent example of this is the low pay / high staff turnover issue. This is seen by the ELT as one of the biggest risks to the business, and yet the development of the business case to raise payment thresholds faced delays related to refining the content such that it met key Treasury requirements. In addition, some approvals were not obtained for confidentiality clauses that deviated from standard Cabinet Office wording, an error for which (in part) the SLC's 2016-17 accounts were qualified.

Furthermore, the GovCo NDPB corporate structure adds a degree of complexity in relation to the CEO's reporting lines and responsibility – with obligations to shareholders, the sponsorship team and the Board.

The Board

The SLC's Board is appointed by the Secretary of State and is responsible for establishing and taking forward strategic aims, and providing appropriate support and constructive challenge to the ELT. The Board is responsible to the shareholders for the SLC's performance.

The Board consists of: a non-executive Chair; the CEO (who may not hold the position of Chair); the Deputy CEO; the CFO; 7 NEDs and the Company Secretary. Of the 8 serving non-executive board members (including the Chair), 5 are male, and 3 are female. There are also 1 male and 2 female executive members. There are currently no board members from a BAME background or who have a declared disability. As part of efforts to recruit from a more diverse field, the DfE has been seeking to proactively target a wide range of candidates via networking events; reviewing the CVs of 'near misses' in other DfE Public Appointment campaigns; promoting roles via social media and specialist media outlets; and potentially utilising recruitment consultants where necessary.

As noted in section 2.1, almost all of those interviewed felt that there was a tension between the fiduciary responsibilities of the company Directors and the operation of

[9] Managing Public Money https://www.gov.uk/government/publications/managing-public-money

the shareholders having numerous decision-making and veto powers, over and above that of typical shareholding arrangements for traditional companies.

In addition, all parties felt that a cultural norm has developed over the years, where in practice, the Board feels a constraint on its ability to freely and effectively manage risks and performance as it sees fit, for example, pushing back on commissions from the shareholders, scrutinising unit costs or having enough oversight of the Transformation Programme. Whilst this is improving – e.g. recent changes to the Board's structure, the update of the Framework document and the Board's push back on a potential APRA letter delay – the Board still often acts as an advisory or assurance body rather than driving strategy or having a decisive say on significant areas of operation. There have also been questions about the role of shareholder 'assessors' on the Board, in particular, whether they are acting as shadow directors and how to establish clarity about whether actions and decisions have been formally noted and/or ratified by them.

Good practice recommends that internal board effectiveness reviews take place annually, and external reviews every three years. An internal board effectiveness review was undertaken in 2014, and in late 2018, Board Evaluation Limited (BEL) was appointed to provide a comprehensive assessment of the Board's effectiveness. BEL identified 8 priorities, the most pressing being the tension over the GovCo NDPB status, role of the Board and succession planning. The Board has since revised its format, alongside a refresh of the Framework Document. Recommendations from this review will also be incorporated into future changes.

Risk management

The SLC uses a structure of risk identification, assessment and escalation to assess the various challenges that the Company encounters and operates a cautious risk appetite. Risks are assessed against the SLC's corporate risk matrix and are submitted to the Board on a quarterly basis. A number of regular forums are in place within directorates which allow the escalation of risks to the Corporate Register or the re-scoring of an existing risk. A separate but complementary process is in place to manage and escalate risks within the programme environment.

The SLC is currently in the process of implementing a 'Three Lines of Defence' model to create and embed a strengthened assurance environment and align SLC's risk management capability with industry best practice. Parallel to this, the SLC has been working with the DfE Sponsorship Team to improve risk governance between the Company and the Department and formalise the escalation procedures between SLC and DfE.

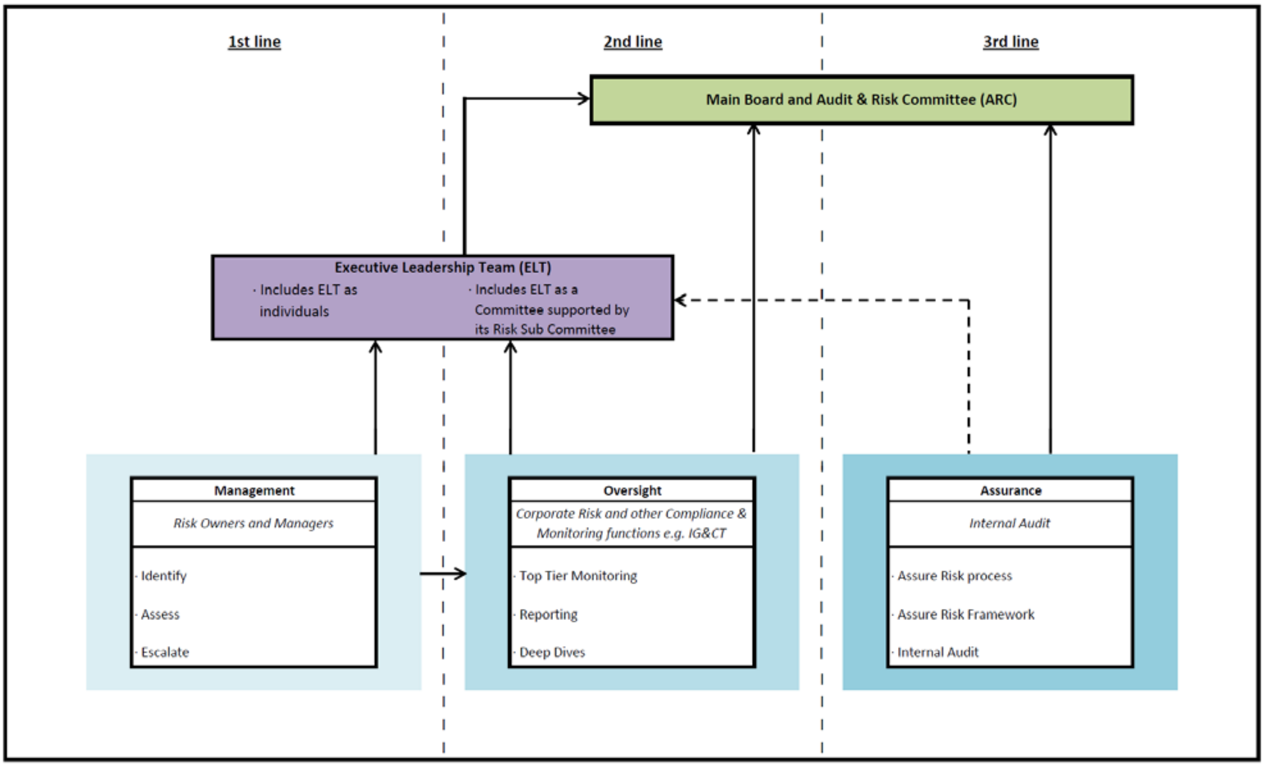

Figure 5: Three lines of defence at SLC

Source: SLC

In addition, progress has been made as follows:

- Transition from Audit Committee to Audit and Risk Commitee, providing Board level sponsorship of Risk Management activity from 'top down';

- Increased profile of Risk Management activity at Board and ARC, including representation by Chief Financial Officer/Chief Risk Officer and delivery of new reporting suites specific to the Board and ARC;

- A move by Corporate Risk to independently assess previous reporting practices and risk descriptions, e.g. removal of the organisation's use of caveats and qualifying statements (which diminished the efficacy of the risk description) and a greater focus on independently validated mitigation;

- Further embedding the role of Corporate Risk as a 2nd line assurance function. This recognises the independence of the team and their capacity to raise and escalate risks that have not been identified directly by the business; and

- Updating of the business continuity major incident plan

Whilst progress has been made on improving the risk management architecture, the SLC has had a tendency to focus on operational *issues* that it can directly address, and not on wider *strategic risks* such as reputational damage and mitigation of potential future events such as a change of government. DFE's monthly Performance, Finance and Risk meetings have not always provided a high level of scrutiny and challenge, tending to be more procedural than tactical. In addition, the SLC's method of reporting risks is not easily accessible and is not underpinned by a mature Risk Management Framework which clearly aligns to a risk appetite statement and key business objectives.

The ELT and Board is increasingly conscious of these issues and has recently moved risk management responsibility from the Company Secretary to the Chief Financial Officer's directorate. Further developments to be delivered in year include reviews of:

- Refreshed Risk Appetite including enhanced guidance for Risk Owners;
- Assessment procedures, risk classification, tools and techniques (including technology requirements);
- Training and communication requirements; and
- Risk Management Policy in line with output of the above.

Auditing arrangements

The SLC has both a third party external auditor, alongside an internal audit function responsible for testing for error across the business[10] (more information on fraud and error available in section 2.4). The external audit function was previously provided by KPMG, and will now be conducted by the National Audit Office (NAO), in line with best practice corporate governance in the public sector and following recommendations from the 2018 NAO report[11] on SLC governance. From 1 April 2019, the SLC's internal audit function is being provided by the Government Internal Audit Agency (GIAA).

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[10] Working with the NAO and DfE, SLC's Internal Audit team is responsible for testing for error across the student finance assessment system. Each year for DfE student support, Internal Audit test approximately 1,100 payments back to original application, for regularity and compliance with Student Support Regulations. DfE statisticians calculate error rates and confidence intervals using data from SLC and methodology agreed by the NAO.

[11] NAO: Investigation into oversight of the Student Loans Company's governance, and management of its former chief executive https://www.nao.org.uk/report/investigation-into-oversight-of-the-student-loans-companys-governance-and-management-of-its-former-chief-executive/

In FY 2017-18, SLC's accounts were qualified by KPMG for a legacy 'regularity' issue from a previous year. SLC has since taken appropriate remedial actions to improve its governance processes, including the appointment of a permanent CFO in July 2018.

The SLC is not regulated by the Financial Conduct Authority (FCA) or Prudential Regulatory Authority (PRA), which makes sense given the unique nature of their financial products. However, there this is value to some of the guidelines and risk frameworks that these organisations operate with, to which the SLC has had some but limited engagement to date.

Governance documentation

Best practice indicates that the Framework Document should be updated every 3 years (although its recent refresh took place after 9 years). The Framework Document will also be updated as necessary following this review. This will go some way to clarifying the SLC's structures, objectives, interactions and hierarchies.

UKGI assessed the SLC's corporate governance in spring 2018, reviewing against public sector best practice and making a series of recommendations for improvement. The NAO has also conducted a number of reviews, notably on the handling of the dismissal of Steve Lamey (former CEO) and the management of the loan sale process[12].

In addition, the Tailored Review team has assessed the SLC against exemplar governance arrangements as outlined in Tailored Review guidance[13] (Annex D) and against the principles and approach set out in the Code of Good Practice for Partnerships with arm's length bodies[14] (Annex E).

In summary, whilst the SLC (and its governance partners) have made some improvements in performance (see section 2.3), engagement and risk assurance, there are still improvements that are required, particularly with embedding risk management, utilising delegated controls appropriately, clarifying roles and responsibilities and developing purpose/vision.

High level recommendations related to the issues raised in this section have been summarised in the table below. Full analysis and rationale for these recommendations are outlined in section 4.

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[12] https://www.nao.org.uk/report/investigation-into-oversight-of-the-student-loans-companys-governance-and-management-of-its-former-chief-executive/

https://www.nao.org.uk/report/the-sale-of-student-loans/

[13] Tailored Reviews: Guidance on Reviews of Public Bodies Annex C p.30. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/633573/Tailored_Review_Guidance_on_public_bodies_V1.2_July_2017.pdf

[14] https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice

Summary of recommendations relating to governance

10. The ELT should ensure that they continue to embed a clear focus on the strategic deliverables of the company in the years ahead, with the following areas integrated into their business objectives alongside clear deliverables:

- Delivery of Transformation Programme milestones
- System wide embedding of risk management, financial literacy and cyber security
- Development and delivery of vision, including exploration of sector wide links

11. The ELT and shareholders should explore whether it would be feasible and appropriate to implement:

- Retention of a proportion of the savings realised from the successful delivery of Transformation Programme milestones (to be re-invested into agreed business improvement activity)
- An exploration of whether further controls should be delegated to the SLC and/or how to embed better use and understanding of existing controls
- Access for SLC management to the Senior Civil Service development offer

12. The ELT and Board should initiate an exercise to determine appropriate measures from industry best practice guidance against which they can review/monitor the SLC's performance

13. The Chair should be set appropriate objectives (commensurate with their role as set out in the Framework Document and in relation to the ELT and other NEDs)

14. Mandatory induction and refresher training should be established for Board members (and the ELT/Ministers)

15. The Board should continue to push to improve scrutiny and focus on strategy, performance, risk and finance

16. Shareholders (with sponsorship team co-ordination) should continue to ensure earlier alignment on policy requests

17. Shareholders should agree to operate in a more typical GovCo NDPB arrangement; setting the objectives, priorities and budget within a specified deadline, and giving the ELT and Board more autonomy to deliver

18. The DfE sponsorship team should continue to act as shareholders for the SLC. In addition, shareholders should not sit as formal NEDs on the Board

19. There should be a focus on continuing to improve and strengthen the functional capacity and relationship between the SLC, shareholders, sponsorship team, CO and HMT 20. The Sponsorship team should streamline/amalgamate meetings, and ensure stakeholders are clear of the aims/purpose, with well-established Terms of Reference 21. The Sponsorship team should ensure that there are clear structures in place to review the Framework Document periodically (at least every 3 years) 22. The SLC should develop and implement a comprehensive Risk Management Framework

Table 5: Summary of governance recommendations

2.3 Effectiveness

Performance overview

In FY 2018-19, the SLC processed 2 million applications, made over 7 million payments and handled over 6 million telephone calls. 99.7% of students who submitted their applications on time had their funds in place for the start of term and the SLC received just 2.48 complaints per month per 10,000 apply-to-pay customers and 0.84 complaints per month per 10,000 repayment customers. These include both complaints about policy – largely outside of the SLC's control – and about operations and service. This is particularly impressive when set against industry averages[15].

Since FY 2011-12, customer satisfaction rates for applicants have increased from 78.9% to 83.1%, and Higher Education funding applications assessed within 20 days of submission have increased from 85.6% to 94.5%.

For FY 2018-19, the SLC had 43 performance targets which are formally set out every year in the APRA letter sent from DfE to the SLC's CEO, 34 of these measures reported green (above target), 4 green-amber (adequate), 2 amber-red (of concern) and 3 red (below target).

		RESULT	TARGET
Customer Satisfaction:			
Apply To Pay	GA	83.06%	≥ 85%
Repayer	G	73.48%	≥ 72%
HE Undergraduate Timeliness:			
By Start of Term	G	99.73%	≥ 99%
20 Working Days	G	90.95%	≥ 70%
30 Working Days	G	97.74%	≥ 95%
Postgraduate Loans Timeliness:			
20 Working Days	G	99.33%	≥ 70%
30 Working Days	G	100.00%	≥ 95%
Targeted Support Timeliness:			
DSA Apps (10 working days)	G	97.91%	≥ 95%
Needs Assessments (10 working days)	G	96.50%	≥ 95%
Childcare Grant - Estimated - 20 woring Days	AR	85.19%	≥ 95%
Childcare Grant - Actuals - 20 woring Days	R	71.08%	≥ 95%
Advanced Learner Loans Timeliness:			
5 Working Days	G	98.35%	≥ 95%
20 Working Days	G	98.61%	≥ 95%
EMA / WGLG Timeliness:			
7 Days (peak)	G	100.00%	100%
14 Days (peak)	G	100.00%	≥ 90%
21 Days (non peak)	G	100.00%	100%
15 Days Evidence Return	G	100.00%	100%
Payment Timeliness:			
Maintenance - 1 Day	G	>99%	≥ 95%
Maintenance - 2 Days	G	>99%	≥ 99%
Tuition Fees	G	>99%	≥ 99%
FE (Weekly / fortnightly deadline)	G	>99%	≥ 96%
Assessment Accuracy:			
Net Variance	G	0.04%	≤ 0.5%

		RESULT	TARGET
Repayment Channels:			
New Cohort	G	97.17%	≥ 96%
UK Past Cohorts	G	94.14%	≥ 90%
UK Citizens Overseas	G	73.89%	≥ 73%
Non-UK Citizens Overseas	G	60.10%	≥ 57%
No. Found; No. Unmatched	NA	759; 199,842	NA
Contact			
SFE - % Calls Answered	G	96.13%	≥ 90%
SFW - % Calls Answered	G	95.57%	≥ 90%
ICR - % Calls Answered	G	98.71%	≥ 90%
SFNI - Answered in in 60s	G	92.21%	≥ 87%
EMA Wales - Answered in in 180s	G	93.99%	≥ 90%
EMA NI - Answered in in 180s	G	93.82%	≥ 90%
Change Programmes			
HE Programme On Track	GA	GA	G
FE Programme On Track	G	G	G
Repayments Programme On Track	GA	GA	G
Counter Fraud			
10:1	AR	6.2 to 1	≥ 10 to 1
Forecasting Accuracy (Cash Requirement)			
Loans, at Mid Year	G	0.98%	±2.25%
Loans, at 10 month	G	0.00%	±1%
Grants, at Mid Year	G	-0.24%	±1.75%
Grants, at 10 month	GA	-0.96%	±0.75%
Budget Variance			
Admin	R	-8.05%	+10% / -0%
Programme	G	-2.98%	+/- 5%
Capital	R	+26.27%	+/- 5%
Total (No target)	NA	+1.55%	NA

Figure 6: FY 2018-19 Performance against APRA targets

Source: SLC

[15] https://www.fca.org.uk/data/firm-level-complaints-data-sortable-table

This performance is particularly impressive given the significant change in scale, scope and context that the SLC has been operating in over the past 7 years. Figure 7 illustrates the substantial change in customer base and loan book size since FY 2011-12, which has been in addition to the considerable leadership churn of 5 CEOs, 5 CFOs, 2 departments, 5 ministers, 5 Director Generals and 6 Directors, not to mention the challenges around the dismissal of the previous CEO and the difficulties of recruiting and retaining highly skilled and specialist staff within an increasingly competitive jobs market (alongside the restricted remuneration historically available at the SLC).

Other key contextual factors include:

- the growth in product range;
- a tripling of tuition fees post the 2012 Browne reforms;
- the related lifting of the student numbers control cap;
- the continued divergence of policy across the devolved administrations; and
- the switch from mortgage-style loans to income contingent repayment obligations (ICRO).

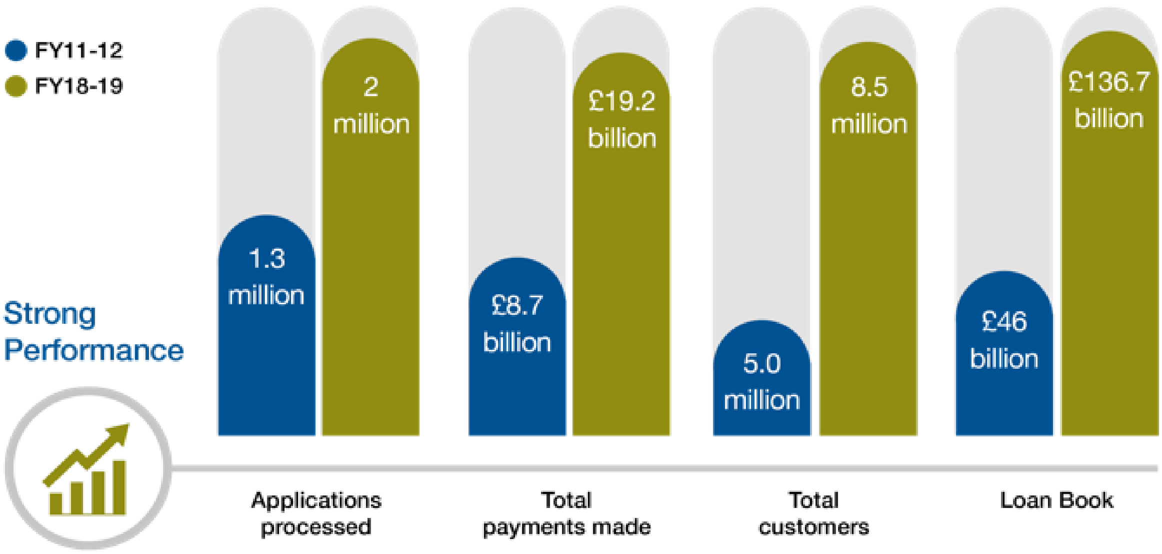


Figure 7: Increase in SLC operations since 2011/12

Source: SLC

In addition to the performance targets set out in the APRA, the SLC has developed its own performance dashboard (figure 8) and set of business objectives (table 8).

Despite the broad achievement of objectives and performance targets within a demanding context, the SLC has also had a challenging few years. The removal of Steve Lamey as CEO in 2017 and the subsequent investigations, reviews and churn in the ELT have required significant focus and energy from the SLC, sponsors and shareholders, impacting on wider objectives and the morale of staff in general.

Satisfaction rates for borrowers in repayment have remained low compared to the rest of the business at 73.5% (although this is above the target satisfaction rate for repayers, which is 72%). The Company still receives over 6 million phone calls each year – despite its improvement of the digital customer experience - from a total customer base of 8.5 million. It has faced significant levels of staff attrition and a number of its core IT systems are under-supported and/or out of date. It has also received negative publicity in relation to eligibility verification practices and had to deal with a number of system processing errors.

Staff survey results show an engagement rate of 5.7 out of 10 in 2018, with particularly low scores in reward and career path development.

In addition, as indicated in the Corporate Performance Dashboard below, whilst the delivery of current, inflight products are broadly effective, timely and within target parameters, there are significant and growing issues related to efficient and effective call handling; maintaining a productive and engaged workforce; and budget management. Many of these issues are correlated with the significant efficiency challenges outlined in section 2.4.

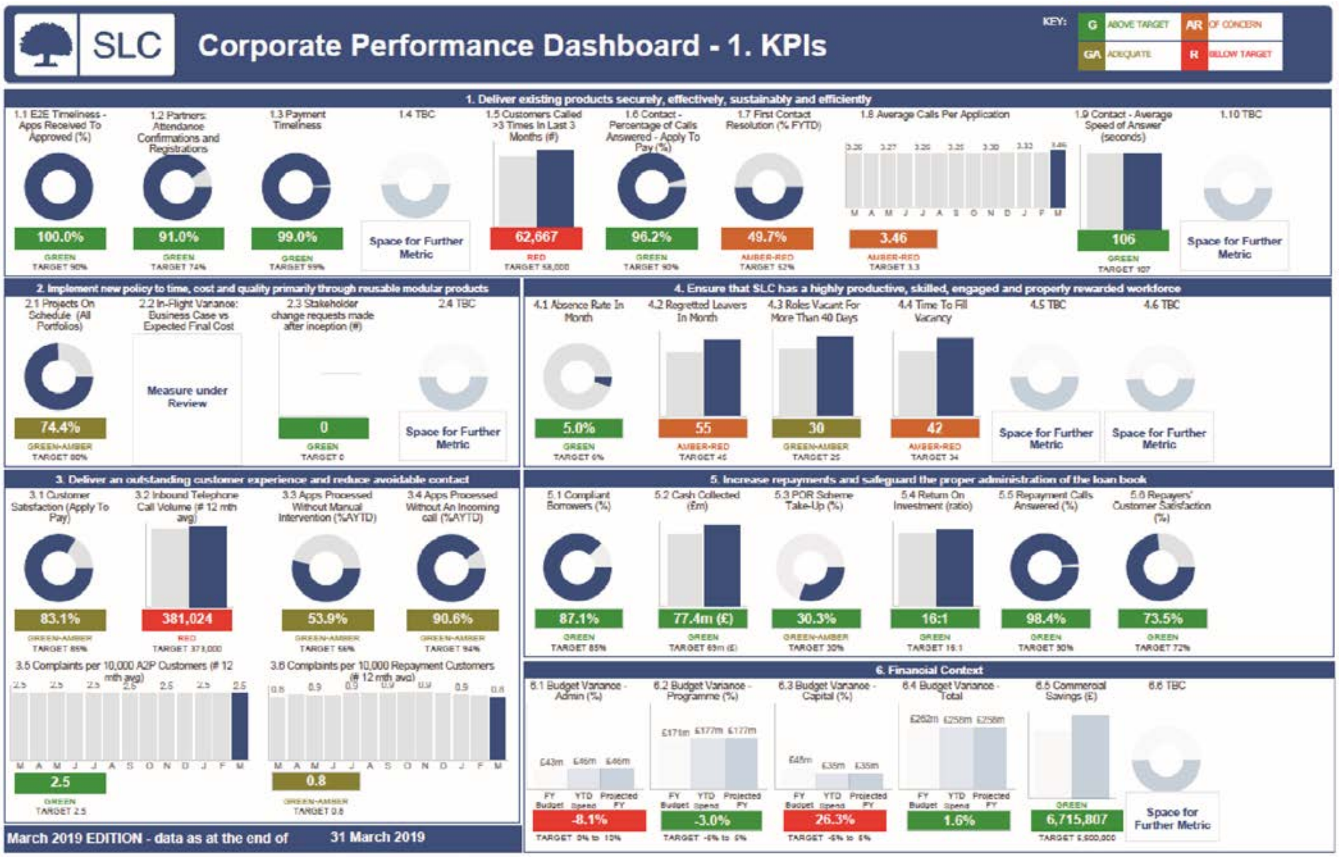


Figure 8: Corporate Performance Dashboard FY 2018-19

Source: SLC

Challenges to effectiveness

The SLC itself has highlighted the areas of considerable challenge for its effectiveness. These include:

- recruitment and retention issues caused primarily by uncompetitive remuneration;
- the back log of activity from complex policy/product demands and ongoing activity from sizeable change programmes;

- the inflexibility of the technology architecture and niche nature of the skill sets required to manage and modify it;
- commercial challenges in moving from a large number of fragmented input-based resource supplier contracts to a smaller number of outcome-based performance managed service contracts and/or sourcing new contracts that can produce high impact and vfm given the constraints on the business; and
- the need to implement strategic change, policy change and regulatory change (such as GDPR) in parallel.

Indeed, in its Corporate and Business Plan FY 2018-19 to FY 2020-21[16], the SLC identified seven key challenges (figure 9) grouped around the issues of digital deficit, staffing inadequacies, system complexity and the impact of the rapidly growing loan book. The first two of these issues are investigated in section 2.4 on efficiency. The latter two, alongside issues of strategic leadership and performance measurement, are further explored below.

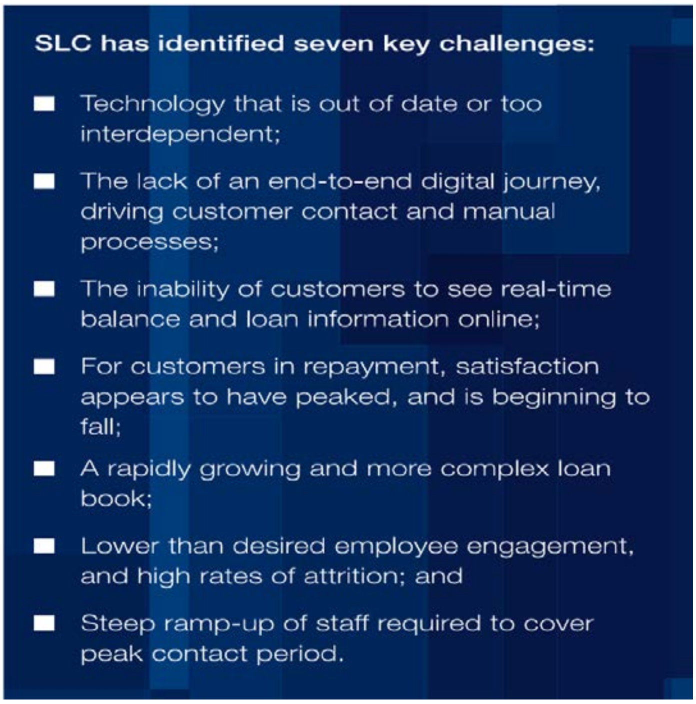


Figure 9: Strategic challenges for the SLC

Source: SLC Corporate and Business Plan

Objectives/KPIs

There is broad consensus from all key stakeholders that the SLC has historically had too many KPIs (43 set by the shareholders in FY 2018-19 and another 40 measured by the SLC's corporate performance dashboard - which was originally developed with a view to being the only set measured - in addition to 5 key business objectives) and

[16] https://www.slc.co.uk/about-us/remit/business-plan.aspx

that they were not necessarily measuring the things that would really drive strategic improvement, effectiveness and efficiency. For example, there were no KPIs on unit cost per application or staff engagement.

In addition, there is a sense of disconnect between the high performance on KPIs and the acknowledgment that the SLC is facing significant delivery challenges and strategic risks. It is also not immediately apparent how the KPIs are tracked and driven throughout the business, whether they provide appropriate stretch or whether they are linked to leadership performance and remuneration. The DAs have also noted that they would find a country breakdown more useful to help nuance and highlight any pertinent performance issues related to their customer base.

In order to address these concerns, the shareholders have streamlined the performance targets set for the SLC in the FY 2019-20 APRA letter to 16 targets. This is a welcome reform and should go some way to help streamline strategic focus. Further recommendations on restructuring the performance targets are outlined in section 4.1.

Development and delivery of strategic vision

In addition to a more focused set of performance targets, many interviewees expressed the view that the SLC could be more proactive and robust in articulating both its sense of an optimal long-term vision for the future and its operational parameters and red lines.

The SLC has done this in part by recognising that its operating model is facing chronic efficiency issues and devising a Transformation Programme to address this. The programme aims to introduce clear ownership of end-to-end customer processes and improve data management, technology, business architecture and staffing issues.

With the appointment of a new CEO in September 2018, the SLC's ELT and Board have spent time devising new a vision statement, mission and strategic objectives. Section 4.1 outlines additional recommendations to support this process.

The policy commissioning cycle

The policy commissioning cycle has been identified as one of the most significant challenges to the effective management of business processes, product development and budget forecasting for the SLC. The scale and growing complexity of products, shareholder divergence, extremely tight delivery timelines (with a fixed start date every academic year), limited early engagement and an efficiency deficit are all key factors feeding into the ever growing backlog of product development, alongside increasing pressures on SLC resources.

Historically, the student finance policy landscape has been relatively stable. However, in recent years there has been a significant increase in policy development together with divergence across the DAs. The product range now includes HE full time undergraduate loans and grants, HE part time undergraduate loans and grants, FE loans and most recently postgraduate doctoral and masters loans: There are now 25 products and more than 80 product variations (as outlined in section 2.1). Chart 1 illustrates the growth in new commissions and roll over or ‘in flight’ activity year on year, which risks becoming unsustainable over time.

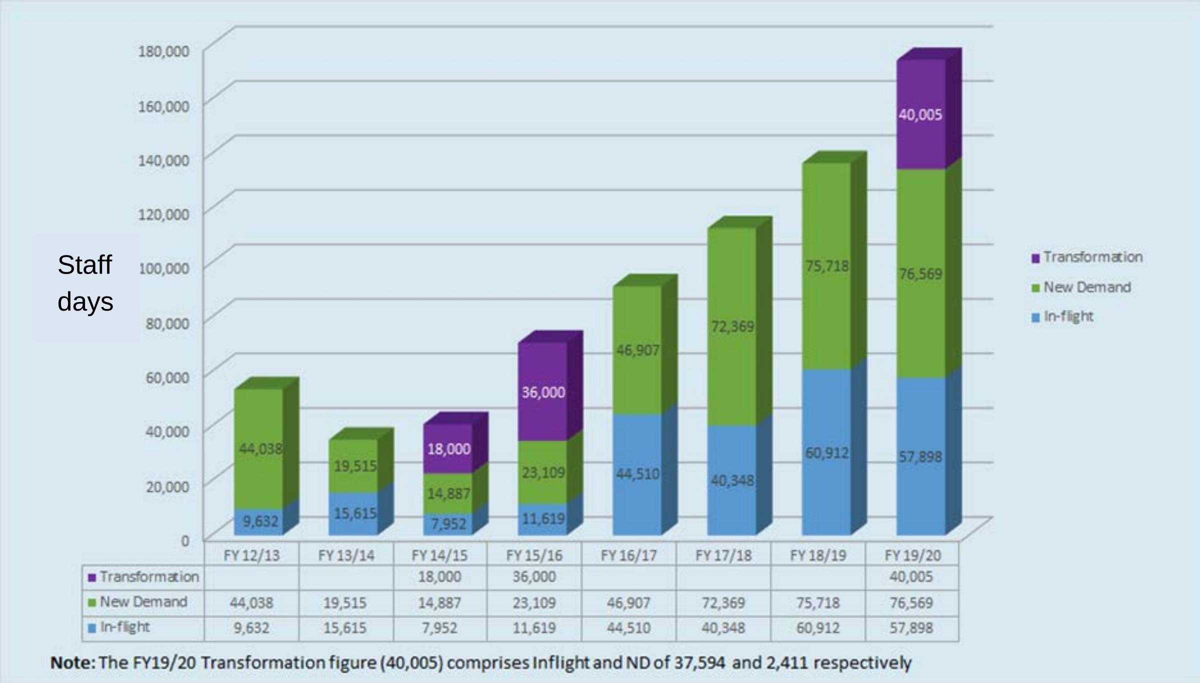


Chart 1: Increase in change portfolio since FY 2012-13

Source: SLC

Annex F outlines the key issues and challenges with the current commissioning cycle. Whilst the establishment of DfE’s Policy, Planning and Engagement Group (PPEG) has sought to act as the single governance board for SLC policy requests from England, there still remains a lack of alignment on commissioning between the shareholders and even from other parts of central government (although the management of this has improved during FY 2018-19). This, coupled with:

- insufficient development timelines;
- a lack of mutual understanding of each others’ contexts;
- late engagement on policy initiatives;
- inaccurate resource estimates;
- late change requests from shareholders;
- processing errors;
- complex and outdated IT infrastructure;
- uncertain commercial arrangements; and
- an increasing reliance on lower quality ‘minimum viable products’

has resulted in SLC’s service launches being more numerous, later in the cycle and of poorer quality/functionality than would be desired. It has also meant that less capacity is available to work on strategic and tactical improvements to the operating system, creating a vicious cycle of ever greater inefficiency and reduced effectiveness. This is especially important given the work underway to deliver the Transformation Programme (more information below). If the policy commissioning cycle is not reformed, it may be the case that the efficiency gains of new technological capacity become gradually eroded with an ever complex product landscape and unrealistic development windows.

The sponsorship team in DfE has started work, in partnership with DAs and the SLC, to develop strategies and new protocols to address these issues.

Repayments and loan sale support

Since FY 2011-12, the size of the loan book (value of all the outstanding loan debt owed to government) has increased from £46 billion to over £136.7bn, significantly increasing the volume of repayment traffic that the SLC and HMRC manage. Table 6 also highlights the substantial increase in the average loan balance and annual voluntary repayment of borrowers.

Average loan balance on entry to repayment increasing to £34.5k for England in 2018

Year	England	NI	Scotland	Wales
2018	£34,800	£22,440	£13,230	£21,520
2017	£32,420	£20,850	£11,650	£19,000
2016	£24,430	£19,610	£10,360	£15,870

Average Voluntary Repayment per year increasing to £2,260 for England in 2018

Year	England	NI	Scotland	Wales
2018	£2,260	£1,260	£1,410	£1,080
2017	£1,770	£1,180	£1,270	£910
2016	£1,830	£1,270	£1,290	£940

Table 6. Average increase in loan balance and repayments

Source: SLC

The SLC and DfE have a working relationship with HMRC, which currently collects approximately 85% of loan repayments via PAYE and Self-Assessment; a service for which it receives an annual payment from DfE. The SLC directly collects the remainder of loan repayments for those outside of the UK tax system. Table 7 shows how rapidly the volume of overseas collection activity has grown in the past few years alone, in part as a direct result of the growth in the size of loans as per Table 6.

I

The table below shows Direct Collection amounts for the Prevent Over Repayment Direct Debit Scheme, Scheduled Repayments for Overseas Customers and Voluntary Repayments:

Collections Category	FY15/16	FY16/17	FY17/18
Prevent Over Repayment Direct Debit Scheme	£23,699,427	£21,240,232	£27,002,101
Scheduled Overseas Repayments	£31,340,389	£38,647,312	£48,302,790
Voluntary Repayments	£256,830,066	£346,731,920	£434,526,762

The table below shows Direct Collection amounts for customers in arrears across ICR Overseas and for recovery of Grant and Loan Overpayments:

Product	As At April 2017	As At April 2018
ICR Overseas Arrears	£151,807,469	£190,630,570
Recovery of Grant Overpayment	£291,626,779	£311,899,300
Legacy Loan Overpayment	£123,232,779	£154,003,170
GLOP (New Grant and Loan Overpayments)	N/A	£24,602,543
Totals	**£566,667,027**	**£681,135,583**

Table 7. Growth in overseas repayments

Source: SLC

Millions of pounds worth of repayment collections are lost or 'leaked' every year due to SLC system inefficiencies, legal loopholes, error or fraud. In addition, the interface with HMRC - as well as a complex product base and outdated communications mediums e.g. annual paper based balance statements - often results in lower level customer satisfaction rates compared to the rest of the customer journey. Repayments is also the one area of the business that has experienced an increase in call volumes instead of a reduction. Whilst many of the calls and complaints are driven by customers unhappy with policy decisions outside of SLC's control (or by the SLC making extra efforts to collect repayments), there is also an indication that the system and processing itself is not as streamlined and user friendly as it could be.

In order to address some of these issues, the SLC and HMRC have commenced the 'More Frequent Data Sharing' (MFDS) project. From April 2019, HMRC has been sending repayment data to the SLC on a weekly rather than annual basis. This will allow the SLC to calculate and manage customer accounts on a much more up-to-date basis, and supports the SLC's move to online balance information and its efforts to reduce the scale of over-repayment by customers nearing the end of their repayment term. The SLC has also instigated additional work to increase collections from customers overseas.

It is important to note that the quality of data (which impacts on collection yield) is not solely the responsibility of the repayments function, but largely reliant on the accuracy and profiling of information collected during applications and assessments, as well as returns from HEIs and FEPs. Receiving accurate information about borrowers, including the timing of their participation in study, is crucial to being able to trigger the correct repayments at the right time. It is the case that education providers occasionally provide inaccurate or late data returns, and currently there is no disincentive or penalty for this.

In addition to the maintenance and optimisation of general collections, the SLC also has the role of supporting loan book sales managed in partnership with UKGI and DfE. The first securitised student loan sale was completed in December 2017 and the second in December 2018. The SLC have received positive reviews regarding the handling of their data production and asset rationalisation in support of the loan sales and investor payment processing. A number of external audits have been conducted on these processes and to date, none have flagged any significant concerns.

That being said, the current operating model does have a number of issues it needs to address, namely improving data integrity, modernising IT architecture, continuing to streamline the loan sale process across the cycle and ensuring adequate skill and staffing levels.

In addition, the pressure and complexity of this function will increase significantly as the programme of sales continues, an issue that is further explored in section 3.3.

Alongside operational optimisation challenges, UKGI has highlighted some governance issues in regards to the loan sales programme. It stated that HMT stakeholders believe that the current arrangements do not provide them - or UKGI for that matter - with sufficient visibility and engagement (particularly with the Board) on some aspects of the business, namely data quality management, error mitigation and loan book administration. This is a sentiment that was echoed in interviews for this review.

The SLC has recently developed loan sale optimisation strategies centred around process standardisation and automation, improving performance metrics and increasing the capacity of data warehouses. However, given the scale and ambition of the loan scale programme, additional options may have to be explored to ensure long term effectiveness in this space and this is further explored in section 3.3 and 4.3.

In summary, whilst the SLC is performing relatively well and delivering the majority of its KPIs, there are a number of issues impacting the successful achievement of its key business objectives.

FY 2018-19 Key Business Objective (KBO)1	TR RAG rating	
KBO 1 Through each academic cycle, deliver existing products securely, effectively, sustainably and efficiently	A	Most targets delivered but with increases in call volume
KBO 2 Implement new policy in a timely manner, balancing lowest practicable cost against quality, primarily through reusable modular products	A/R	Significant issues with the policy commissioning cycle (as outlined above), minimum viable products and IT inefficiency (more in section 2.4)
KBO 3 Deliver an outstanding digital customer experience and reduce avoidable contact	A	Making progress on the digital offer but further to go (more in section 2.4 and 3.2)
KBO 4 Ensure that SLC has a highly productive, skilled, engaged and properly rewarded workforce	R	Critical issues with staff retention and recruitment (more in section 2.4)
KBO 5 Increase repayments and safeguard the proper administration of the loan book	A/G	Managing repayments and loan book servicing well, potential for greater optimisation (as outlined above and more in section 3.3)

Table 8: Performance against Key Business Objectives

Source: Tailored Review analysis[17]

[17] SLC Corporate and Business Plan FY2018-19 to FY2020-21

Transformation Programme

Programme overview

The SLC developed a 2020 strategy in 2016 with the aim of modernising the company such that by the middle of the next decade it:

- has significantly lower real terms operating costs;
- is digitally secure;
- is able to implement student finance policy more quickly; and
- provides its customers with a user experience comparable to the best available in the financial services industry.

Figure 10 outlines the high level deliverables of the early strategy as segmented into 4 main themes: digital, technology, operational and repayments.

Figure 10: SLC 2020 Strategy strands

Source: SLC 17/18 Annual Report

Strategic refresh

Following the arrival of the new CEO in September 2018, a review of the 2020 Strategy was undertaken and concluded that:

- SLC's technology is not fit for a sustainable future;
- multi-year investment (4 year proposition) is essential to make strategic transformation; and

- better ways of working are needed between DfE and the DAs and between them and the SLC on the commissioning of new policy.

To this end, and in support of a new business case to secure multi-year funding (which is still subject to review and to decisions taken at the Spending Review), the SLC has re-packaged the transformation strands to focus on:

- Improving the policy commissioning process
- Digitising the customer and user journey
- Re-imagining the underlying business architecture
- Developing a target operating model for optimising data
- Embedding an effective People Strategy
- Accelerating service improvements using Lean techniques

A key to the success of the Programme will be to ensure that the SLC has the space and resource to deliver this transformational change. Previous operational reviews noted that the SLC already has the comparable size and complexity of a small retail bank and that its ‘change’ costs had risen 10 times faster than BAU costs since FY 2014-15. In the absence of policy simplification and/ or rationalisation, the requirement to meet non-negotiable delivery timescales for an increasingly complex portfolio of products will continue to drive up costs, error and risk, and drive down effectiveness across the board. This, in turn, will constrain and delay the ability of the Transformation Programme to affect positive change.

In addition, holding the SLC to account and providing high quality scrutiny and support for the Programme will need to be a key focus of the Sponsorship team, with a much enhanced programme management function than that currently undertaken by the Whitehall Strategy Programme board which has overseen earlier iterations of transformation activity.

It will also be worth exploring whether the SLC can be further incentivised by, for example, being able to keep a small proportion of any benefits realised over and above projected savings (to re-invest back into agreed business activities) or having enhanced/repackaged delegations were appropriate and useful.

High level recommendations related to the issues raised in this section have been summarised in the table below. Full analysis and rationale for these recommendations are outlined in section 4.

Summary of recommendations on improving effectiveness

1. Future – SLC leadership should spend the time to clearly develop and confidently articulate their vision and strategy for the company

2. Engage - As part of a revamped policy commissioning cycle, it is essential that the SLC ELT communicate - in a clear and consistent manner - to the shareholders, sponsorship team and Ministers what their operating/change capacity is - and crucially, the risk impact of any new commissions

3. Deliver – Robust programme management governance should be established to oversee the implementation of the Transformation Programme

4. Performance targets should reformed and rationalised

5. The policy commissioning process should be reformed

6. As part of the objectives refresh, the SLC should ensure that they have adequate Board and leadership support to help embed their new target of optimising collections and loan sale support servicing

7. The Board should request an annual ‘deep dive’ or formal reporting meeting outlining progress on the loan sale programme and any key risks or challenges for the SLC

8. As part of the refreshed Transformation Programme, SLC should develop options for:

- building a stronger analytical and data management/cleansing skills base
- investing in robotics/smart diagnostics and advanced analytics

9. OfS and the SLC should explore how to strengthen enforcement of the F3 condition of registration which stipulates that HEIs must provide the SLC the information that it requires to perform its statutory duties

35. The SLC and UKGI should focus on optimising in house resource, data and IT capacity within the existing loan sales model. If required, future options on outsourcing should be investigated via a full feasibility study

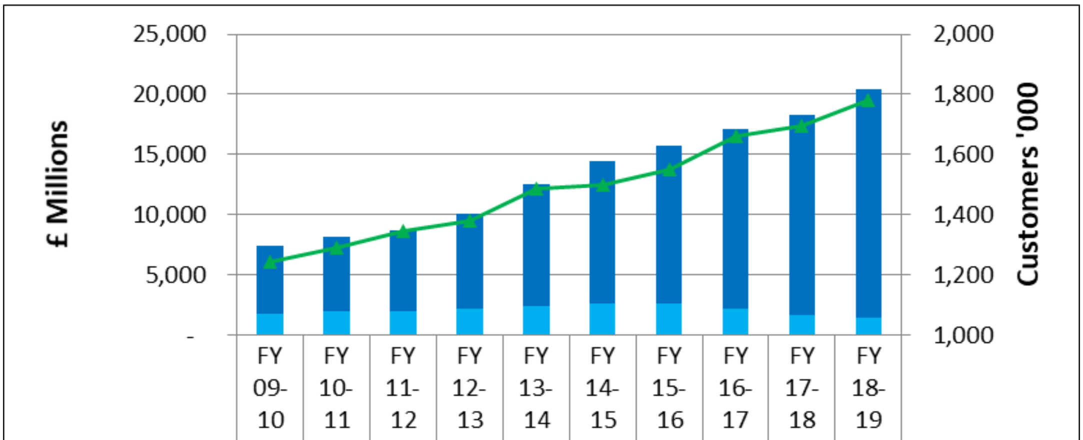
Table 9: Summary of effectiveness recommendations

2.4 Efficiency

With an ever-changing landscape and numerous policy demands, the SLC needs to ensure that it optimises its working practices and systems as far as possible. This includes understanding its financial projections whilst delivering value for money on behalf of the government, as well as setting out clear strategies to manage risk; counter fraud and error; upgrade IT and data management systems; and effectively enhance its workforce and estates strategies. The company’s top risks are generally centred on recruitment and retention, policy change overload, data integrity/security, technological risk and the wider political context.

Financial spend

Charts 2 and 3 depict the significant increase in both the customer base and concurrent cost base of the SLC year on year from FY 2009-10. While Chart 4 demonstrates that the SLC has largely been able to manage down its unit cost per application, this is starting to increase; a trend related to the impact of staffing shortages and cumulative system inefficiencies and pressures.



	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Loans	5,68	6,26	6,69	7,92	10,1	11,9	13,1	14,9	16,5	18,9
Grants	1,72	1,91	1,96	2,12	2,37	2,56	2,58	2,20	1,67	1,44
Customers	1,24	1,28	1,34	1,37	1,48	1,50	1,55	1,66	1,69	1,77

Chart 2: Increase in applicants and payment base since FY 2009-10 (does not include repayment customers)

Source: SLC

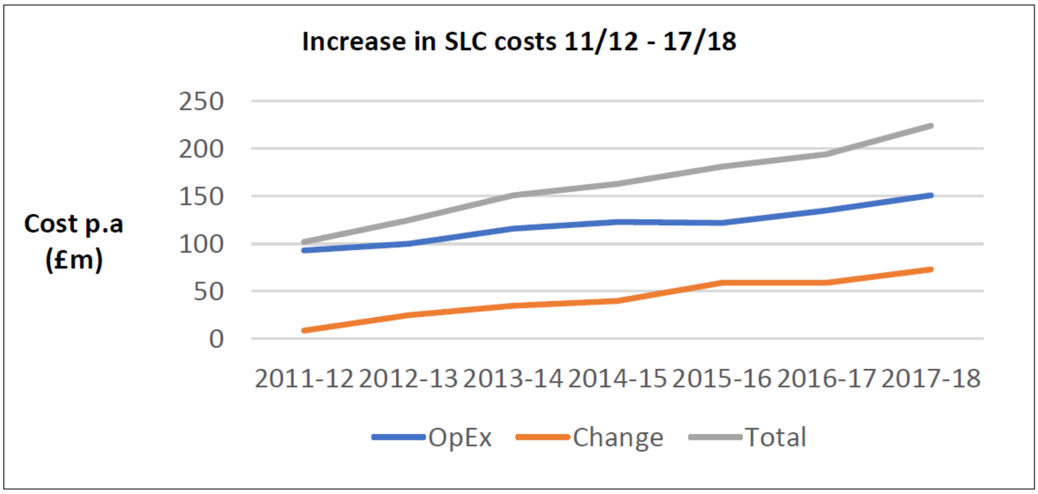


Chart 3: Increase in SLC costs from FY 2011-12

Source: SLC

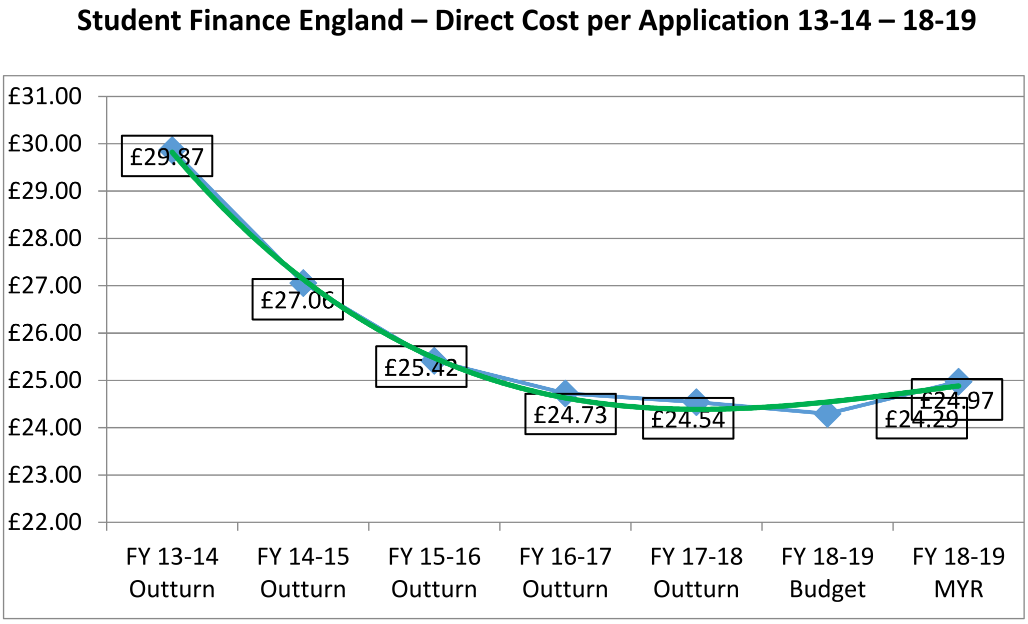


Chart 4: Unit cost per application from FY 2013-14

Source: SLC

Digital delivery and operational improvements resulted in steadily reducing application unit costs from FY 2013-14 to FY 2017-18 for both Student Finance England and Student Finance Wales[18]. This trend has not continued into FY 2018-19 because recruitment and retention issues (as outlined below) have resulted in lower staffing within processing areas and increases in overtime and incentives to meet service levels. Indeed the operational costs of providing the “business as usual” services are

[18] Cost for SFNi and Scotland are not readily comparable because a different service is provided.

forecast to rise from £135m in FY 2017-18 to £180m by FY 2020-21 (before projected transformation benefits of approximately £12m).

Under the direction of the new CFO, the SLC has focused on strengthening forecasting skills, control and compliance arrangements. The SLC has carried out a thorough review of the classification of expenditure (i.e. Admin, Programme and Capital) to ensure that it complies with HMT guidance. This resulted in reclassifications of expenditure in FY 2018-19, which will impact on the SLC's overall results for the financial year. As outlined in figure 6, admin and capital variance targets were red for FY 2018-19, mainly as a result of reclassifying some activities between Admin and Programme.

Moving forward, to ensure that all budget holders have a strong understanding of HMT guidance on how to classify types of expenditure, as well as Cabinet Office spending controls, the SLC launched a new mandatory training programme for all budget holders in early May 2019. A new team in the CFO Directorate is to be established that will have specific responsibility for further developing a robust compliance framework and culture across SLC.

Commercial relationships

The SLC currently has 12 live contracts with a value of £5 million or more, with the biggest areas of spend on contact centre services, IT services and building leases. Whilst the SLC's spend on individual contractors has steadily reduced over the years (£7.8m in FY 2013-14 to £2.2m FY 2017-18), its spend on 'managed services' – predominantly IT– has increased exponentially (£6.6m in FY 2013-14 to £37m in FY 2017-18 and £47.8m in FY 2018-19). This has been fuelled by a number of factors including an expansion of the student base, significant increases in product commissions, complex legacy IT systems and severe recruitment and retention challenges.

The SLC's strategy and approach to outsourcing is beginning to mature, moving away from tactical/ad-hoc spend on individual contractors to an aspiration to have a few key strategic partners on multi-year outcome-based performance contracts with shared risk/accountability and a more blended approach in terms of supplier payment mechanisms e.g. payment by performance, time & materials (where appropriate). This transition has historically been hindered by a lack of long term funding and an inability to commit to longer term contracts; reliance on time-constrained statements of work (typically quarterly) that reduce economies of scale and vfm; under-developed commercial acumen (in terms of articulating outcome based deliverables and managing the supply chain to achieve the same); platform/system interdependencies and integration; and limited engagement/leverage across government via the Crown Commercial Service and Government Digital Service (engagement with the latter has improved significantly over 2018-19 as described in the technology section).

The CCS has established a number of positive features including recently recruiting regional account managers to help drive cross-sector collaboration, looking at ways to maximise commercial benefits from frameworks and developing a spend reporting tool. However, the CCS would welcome a deeper relationship with the SLC to embed best practice and compliance e.g. with the Functional Standard for Government General Grants[19].

Fraud

The SLC adheres to the Counter Fraud Functional Standards and was last reviewed against these by the Cabinet Office in April 2018. SLC scored 84% in this review and was found to be meeting 7 of the 11 standards. Of the 4 it did not meet, one required the SLC to provide an un-redacted version of a document, which has since been provided. The other 3 outstanding functions and the mitigating actions are:

FS03 - The Fraud Risk Assessment: The absence of post mitigation scores and a narrative on residual risk made this an amber. Mitigation: Additional detail has been added to the SLC's counter fraud team local risk register to show the post mitigation score and information on residual risks, if any, remaining after corrective action has been taken.

FS04 - Policy & Response Plan: Fraud was not clearly defined and no standards of expected behaviour within the document. Mitigation: A Fraud Policy was finalised in April 2019. This contains clearly defined responsibilities for all staff within SLC when fraud is suspected or identified.

FS06: Have outcome based metrics summarising what outcomes they are seeking to achieve that year. No Metrics Provided. Mitigation: Metrics were developed to show the segmentation of customer groups. This allows the SLC to understand the volume of customers in each group, sample check each category in a structured way and understand the risk associated with each.

The SLC was reviewed again in April 2019 and achieved 11 out of the 12 Functional Standards, with the missed score relating to the Fraud Savings audit which had not been completed in time for evidence to be submitted, but is currently underway.

Error

The SLC's Internal Audit team, working with the NAO and DfE, is responsible for testing for error across the student finance assessment system. For FY 2017-18, true error was calculated at between £17-180m, this was a significant improvement from FY 2016-17 at £36-317m. This represents a broadly reducing trend since the FY 2011-12, within a context of significantly increasing payments. For FY 2017-18 results, 95% of the error value arose from 5 key issues and the internal audit team has made recommendations to address each of these, which are currently being implemented.

[19] https://www.gov.uk/government/publications/grants-standards

Technology

Service delivery

The SLC has a customer base that has grown up with access to digital information and has increasingly high expectations for digital service offerings. Reconciling the expectations of its customers with the complexity of its product offering is a significant challenge for the SLC.

The Company has made some progress in this regard, for example in AY 2018/19, 93.5% of applications were made online. The introduction of e-signatures in 2018 made the application process fully online for most customers for the first time. The SLC also enabled online password reset in 2018 and work is underway to introduce digital evidence upload for a range of products. Of particular note is the introduction of full customer service via social media (Facebook and Twitter) in December 2017 – one of the first government entities in the UK to do so.

Although digital delivery improvements have been made, paper applications remain the only option for some of the more specialist product offerings and the SLC acknowledges that, on the whole, its service does not always meet the expectations of its digitally-enabled customer base.

Customer calls

The SLC has seen a consistent reduction in the propensity to call (customer calls per application) and overall call volumes (Chart 5) across all product types for apply-to-pay customers in recent years. SFE reduced from 3.3 calls per application in FY 2013-14 to 1.9 for FY 2018-19. This is particularly notable given the significant increase in the customer base and range of products over the years. In tandem, overall contact experience relating to call centres has increased from 83.6% in FY 2013-14 to 89.8% in FY 2018-19 for SFE. SFW saw a smaller increase from 89.6% to 90.7%.

These volumes and experience rates are not uniformly mirrored across the user journey, with increased call volumes and decreasing contact experience relating to repayments. Overall experience relating to repayment customers contacting call centres has decreased from 87.3% in FY 2013-14 to 79.8% in FY 2018-19 (however the propensity to call has remained more less stable at 0.2 and customers have grown as per Chart 6).There are a mix of reasons cited for lower customers satisfaction, some of which are outside SLC's control. These include repayment terms (interest rates, over-repayment), how funding is assessed when studying, level of debt, a poor online offering, lack of current balance availability and limited contact channels for repayers.

Despite this general progress with apply-to-pay calls, the SLC still handles a large number of avoidable, high duration, complex calls that often require evidence from the customer, and in turn further manual processing. This additional call volume is exacerbated by a seasonal demand profile over the peak period where the SLC contract two outsourced contact centre service providers. Despite best efforts, given the short term nature of the work and the very steep ramp in resourcing (both up and down), it is often the case that these third party providers deliver lower levels of service than SLC's own permanent and experienced staff.

Top ten call reasons FY18-19 Apply to Pay

Evidence query	13.4%
Application query – status of application	12.0%
Application query – help with completing application form	6.3%
Unable to login	5.5%
Application query – change of circumstances	5.5%
Application query – eligibility/entitlement query	4.5%
Application query – payment not received	4.3%
Application query – child care query	4.2%
Application query – award query	3.0%
Application query – Disabled Student Allowance query	1.9%

Table 10: Top 10 call reasons FY 2018-19

Source: SLC

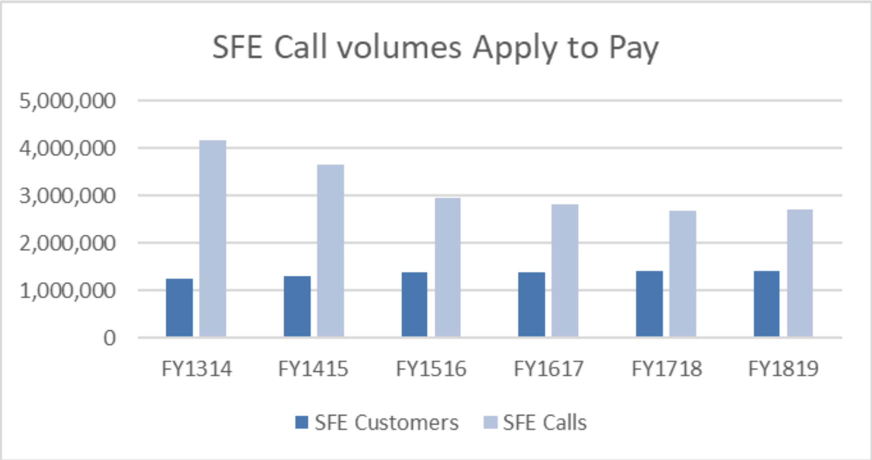


Chart 5: SFE Apply to Pay Call volumes since FY 2013-14

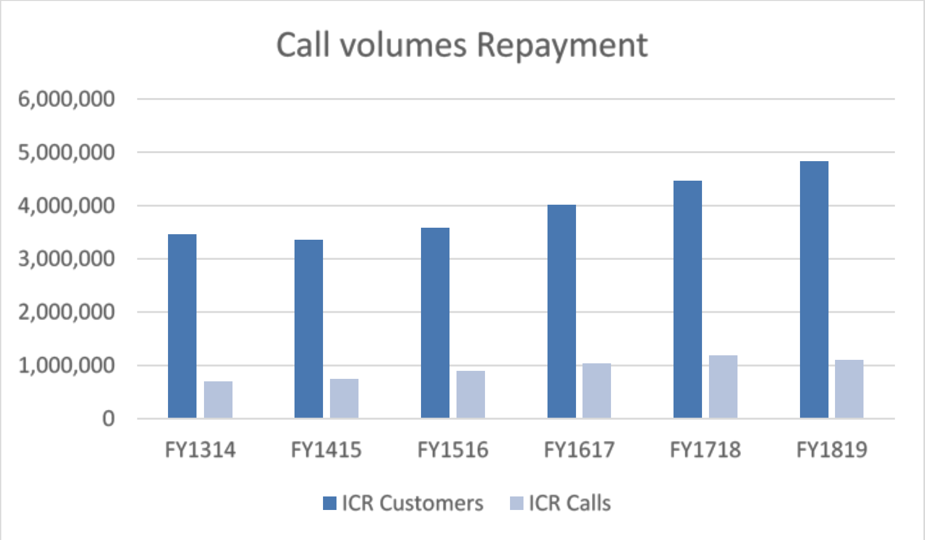


Chart 6: Repayment Call volumes since FY 2013-14

Source: SLC

Stability of SLC's technology

The SLC's current technology architecture was created in the 1990s for a much simpler, lower volume service. The need to upgrade the SLC's ageing systems and adopt new technologies is now critical. As new products have been introduced, scalability challenges and limited re-use of business rules have led to a fragmented digital offering and an inflexible ICT estate which significantly lengthens delivery timescales, pushes up customer calls, and increases the cost and risk of operational failure. These issues are coupled with the cyber security risks of a Company of this scale and historically poor data integrity, resulting in a technological architecture that is in critical need of reform.

Over the past 4 years, the SLC has been working to update its systems to achieve industry standard levels of customer service and operations, most recently through the SLC 2020 strategy outlined in section 2.3. Whilst these have created more short term stability in the system, they have not always been comprehensive, in part due to the demands of the policy commissioning cycle and misalignment with IT partners. While some progress has been made, many of the remaining business services still carry some operational risk and until recently, there has been no clear IT roadmap, with tactical investment only partially reducing the risks of data loss and service downtime posed by increasing cyber challenges and overall complexity.

In order to address these issues, the SLC has started a robust security programme which focuses on pro-active and re-active security measures, investing in the recognised key areas of identify, protect, prevent and recover. This is against a backdrop of market wide increasing cyber threats from attackers. The SLC is also commissioning a new Security Operations Centre to continue to evolve maturity of the practice and provide a major incident centre, for all business continuity. In addition, as outlined in section 2.3, a significant proportion of the Transformation Programme is dedicated to modernising and streamlining the IT estate.

It should also be noted that the relationship between the SLC and Government Digital Service (GDS) has substantially improved over the last 12 months, and there has been a renewed focus from the GDS and DFE on spending more time with the SLC through, for example, monthly visits. Since early 2018, the SLC has worked collaboratively with the GDS to move towards using the government digital platform (gov.uk) and to set up quarterly engagement forums in support of implementing the new Cabinet Office pipeline approval process. The forums are also being used to ensure that the SLC receives appropriate clearance and challenge from the GDS at the right stage of project development/service delivery.

Workforce and shared services

Pay and conditions

At the start of 2019, the SLC had a significant number of staff earning less than those working for the Civil Service in all UK nations, and less than those in similar roles in banks. It was facing unsustainable rates of attrition, struggling to recruit staff both in front line customer facing roles and more technical specialist positions. Information on the gender pay gap[20] (GPG) shows that the SLC had a median GPG of 2.5% (and mean of 10.87%) in 2018, both of which have increased since 2017. The SLC are undertaking a number of measures to address this, including developing a new pay and grading approach, improving support and advice, investing in women leadership programmes and seeking best practice from across government.

The SLC monitors external market data and participated in the Civil Service Salary Survey. These showed that the SLC is on average c.31% below the private sector and c.18-34% below the public sector.

The number of leavers per annum in the SLC's Operations Directorate has risen from 190 to 378 over the last five years at Grades 1 to 3, which is an increase from 14% to 23% of headcount. Without any increase in pay rates, this was forecast to rise to 500 by 2020, an increase to 32%. This would be the same across the Glasgow and Darlington sites, with the Welsh site having even higher rates; currently 34% and expected to increase to 52% by 2020 before any pay upgrades. Most of those leavers are at the bottom two grades within the SLC pay bands.

The levels of attrition are putting the SLC's front line processing and contact centres at heightened risk of failure and the organisation is working with levels of occupancy in these roles that are unsustainable. To mitigate these risks, the company has increased the use of outsourced providers, who typically offer a lower quality service than the SLC's own staff. The quality issues experienced from the outsourcer stem from tenure of their staff, training time and access issues to multiple systems. Additionally, incentives to work overtime have had to be offered to staff to encourage them to fill the capacity gap, which in turn has driven up unit costs per application.

[20] https://www.slc.co.uk/about-us/equality-diversity-and-inclusion.aspx

The Welsh government implemented the Living Wage Foundation (LWF) rate for Wales-based SLC staff from 1 April 2017, which created a disparity between SLC colleagues performing the same roles in different locations. This was a response to a more competitive labour market position faced in Wales and also to the Welsh government's policy that all public sector staff should be paid at the LWF rate. Although improved, attrition rates remain high at the Welsh SLC site, pointing to the fact that improving recruitment and retention is not solely related to pay rates.

The SLC submitted a business case to HMT seeking approval to increase the base pay for the lowest paid staff in the SLC, removing the disparity with Wales-based staff. This was approved in March 2019 with pay uplifts due to be implemented by October 2019. A second pay case (which will be integrated with the Transformation Programme) addresses more systemic structural pay and grading issues across the whole organisation. Both cases are aligned to the future shape of the organisation and the savings that will be achieved through its delivery.

A holistic people and wellbeing strategy with clear development and progression routes for staff who feel valued is also of critical importance. The SLC's recent Employee Engagement Survey showed that whilst there have been improvements in management support, peer relations and mentoring, most measures are below industry benchmarks, with significant lag in rewards, career path development and freedom of opinions.

The Transformation Programme will develop and implement a strategic workforce plan which outlines the size, shape, skills and location of the SLC workforce in the future state. The Programme will set a new cultural tone based on the 'SLC Way' and embed defined SLC behaviours across the business. This will need to include career progression pathways for the frontline staff that will increasingly focus on complex cases as digitisation and automation remove manual and mainstream processing.

Property

The SLC has 5 offices across Glasgow, Darlington and Llandudno Junction as well as access to an office in London, which is shared with the Office for Students. At each site, the sq.m per FTE is below the Cabinet Office-defined workplace standard maximum of 8 sq.m per FTE. The average across all SLC sites is 5.17 sq.m per FTE. This efficient use of space is particularly concentrated at Lingfield Point in Darlington and Bothwell Street in Glasgow where the SLC operates a back-shift (a shift outside of regular 9am-5pm office hours). There are no staff permanently based at the London office. This is used by SLC's Board and staff for London-based meetings including Main Board meetings and stakeholder forums.

The SLC Estates team has recently carried out a benchmarking exercise on the London Office, based on current utilisation and it was identified that better value for money could be achieved. The SLC is liaising with the Office for Students (who occupy the building) to explore options for optimising arrangements.

The SLC is also working with the Government Property Unit (GPU) to ascertain whether or not the Glasgow Hub Phase 2 is a viable option for them (this forms part of the UK Hubs programme, the aim of which is to deliver modern, flexible shared spaces in regions across the UK to allow government departments to be located together and realise value for the tax payer). However, given the pending Transformation Programme with its inherent changes to the future size, shape and potential operating locations for the SLC, the company is not currently in a position to be able to commit to a long term location lease for the time being.

The SLC's other locations provide good value for money and the location in Darlington in particular – where the SLC is one of the largest employers – supports economic growth and the regeneration of the North East. The SLC currently experiences significant recruitment and retention challenges at all three sites (Glasgow, Darlington and Llandudno Junction). The buoyancy of local job markets is a factor, however, the primary drivers of these challenges are SLC's own constraints on pay, progression and conditions (as discussed at above).

Shared services
The provision of internal audit services for the SLC transferred to the Government Internal Audit Agency on 1 April 2019. Apart from this, the SLC does not currently utilise a shared services model for any back office support. Staff conditions, contractual terms and HR policies and procedures are not aligned to those of the civil service, which might present challenges in utilising a shared services model for HR functions. The SLC and DfE are, however, exploring the feasibility of transferring the SLC Pension Scheme to the Civil Service Pension Arrangements (CSPA), with a staff consultation to be launched in Summer 2019. Despite some potential complexities to adopting shared services with other organisations, these may well offer economies of scale, vfm and greater expertise than delivering functions solely for the SLC. This has not previously been explored fully and with recent moves on pensions and auditing, as well as the wider commercial approach, it may be beneficial to assess the scope for further shared service functions.

The SLC is currently introducing a new enterprise resource planning (ERP) tool, Workday, which will provide an integrated HR, payroll, commercial and finance system. It will allow for simpler, digitised and consistent ways of working and deliver and integrated picture for all people and finance related information. This is a significant people, process and technology change for the Company. It will be delivered in two phases with Phase 1 targeted for Q4 2019 and Phase 2 to be completed in Q2 2020.

Transformation plans

In summary, there are specific areas that need investment if the SLC is to achieve industry standard levels of customer service and efficiency of operations. These include higher quality digital customer service; upgraded IT systems; reductions in risk and error; strengthened management capabilities; a more effective policy commissioning process; and a more competitive employee value proposition to achieve stable recruitment and retention rates. The SLC Transformation Programme has been developed specifically to address these.

Specifically, the Transformation Programme's focus on upgrading the IT and data architecture should make it much easier for the SLC to respond quickly and safely to new commissions. These improvements will also drive down the cost per customer for many if not most services and will enhance the digital journey for applicants. Whilst subject to business case approval, securing multi-year funding of the Transformation Programme will help to accelerate what has historically been a slow process of change hindered by new products implemented on legacy systems and making further improvements even more challenging.

High level recommendations related to the issues raised in this section have been summarised in the table below. Full analysis and rationale for these recommendations are outlined in section 4.

Summary of recommendations on optimising efficiency

24. SLC and the sponsorship team should work together to develop a robust business case to HMT to approve multi-year funding for the SLC Transformation Programme

25. The SLC should consider how it can enhance and embed peer support for its tech and digital transformation plans

26. The SLC should determine appropriate best practice measures from industry guidance on IT resilience

27. The SLC should continue its good progress on work to improve the customer digital experience in partnership with GDS

28. Building on the people strand of the Transformation Programme, the SLC should develop a holistic People Strategy, including considering the use of performance contingent retention mechanisms/incentives for staff

29. The SLC should continue to roll out and embed out training for key personnel on financial and commercial acumen, especially on understanding government finance and accurate profiling

30. The SLC should continue to work with the Government Property Agency to assess whether a Glasgow based government hub is a viable option for relocation of its Glasgow sites and assess other sites for vfm and potential consolidation/savings

32. The SLC should focus on securing a few strategic IT partners on a multi-year footing based on payment by results with shared accountability and mixed teams

33. The SLC should commit to investigating options for shared services contracting for back office functions

34. CCS and the SLC should consider options for greater cross government collaboration and commercial leverage, including highlighting performance data and feedback on framework commissioned services

Table 11: Summary of efficiency recommendations

Chapter 3: What factors are likely to impact on the SLC's future functioning?

3.1 Post-18 Review

Background

In February 2018, the Prime Minister launched a major review of post-18 education. The wide-ranging review will be informed by independent advice from an expert panel from across post-18 education, business and academia chaired by Dr Philip Augar, a leading author and former non-executive director of the Department for Education. The Augar Review's recently published report[21] has focused on the following four areas:

- **Choice**: identifying ways to help people make more effective choices between the different options available after 18, so they can make more informed decisions about their futures.
- **Value for money**: looking at how students and graduates contribute to the cost of their studies, to ensure funding arrangements across post-18 education in the future are transparent and do not stop people from accessing higher education or training.
- **Access**: enabling people from all backgrounds to progress and succeed in post-18 education, while also examining how disadvantaged students receive additional financial support from the government, universities and colleges.
- **Skills provision**: future-proofing the economy by ensuring that the post-18 education system is providing the skills that employers need; boosting the UK economy and delivering on the government's Industrial Strategy.

It is now for the government to consider the panel's recommendations, before concluding the overall review.

Implications for the SLC

Many of the panel's recommendations, if adopted, would have significant consequences for the SLC's operations and its strategic direction. In turn, the SLC is a critical delivery partner for potential Post-18 Review (P18R) reforms and, as discussed in chapter 2, it is essential to strengthen its operational resilience to put it on a stable footing to be able to implement any potential changes.The SLC has carried out a very high level, initial delivery assessment of the Augar Review's recommendations (which will need to be reviewed in due course when more details are available, including the government's formal response). In broad terms, the SLC has indicated that it can deliver the panel's key student finance changes in a phased

[21] https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report

programme of work with the first of the major deliverables in place for AY 2021/22.

However, the government has yet to conclude the review. Delivery of any potential reforms is dependent on government confirming the final policy with the SLC early in quarter 1 of 2020 and directly engaging with them in the detailed formulation of policy prior to this to enable preparation, planning and the opportunity to design for optimal end to end delivery. Sufficient time will also have to be provided to the Devolved Administrations to consider their response/cross border impacts and to be able to commission the SLC accordingly.

As ever, the SLC's ability to deliver is constrained by the shareholders' overall delivery ask, which will need to be carefully balanced if delivery of policy change is to be successful.

3.2 Technological Developments

The SLC is heavily reliant on digital and technological processes to deliver its services. Over the next decade, the pace of large scale technological change will provide the SLC with new opportunities to develop, alongside the associated challenges and risks. Technology driven change is likely to accelerate in the future and the SLC will need to adapt to both a shifting landscape and higher expectations from its relatively young user demographic. Technological capacity will therefore become increasingly essential, especially when combined with developments in cyber threats, machine learning, big data, digital profiling and systems alignment.

Better use of technology will reduce the SLC's costs and could also potentially deliver a near seamless customer experience. This section provides a brief overview of how the SLC has planned for large scale technological developments, as well as a RAG rating of their urgency.

The SLC's current technology position

As outlined in section 2.4, there has been historic underdevelopment of the SLC's core IT infrastructure. The Company has frequently needed to prioritise the delivery of each year's new policy priorities ahead of upgrading core systems, which in turn has led to the evolution of functions with multiple independencies that complicate the process of developing new products and services. This is further constrained by the SLC's scale, which is comparable to that of a medium sized bank with an IT system that has over 400 interaction points with other systems.

As the SLC's customer base continues to grow, the systems it currently uses will continue to become overstretched. They will have to be updated to ensure that they meet the expectations of new users, with modern modularised 'building blocks', a fully digitised forward facing platform and accessible, well maintained data. A complete transformation of the IT system will be needed in the next 4 years in order for the SLC to continue to achieve its core functions.

Preparedness for the future

IT infrastructure
Urgency: Critical

The SLC has developed an ambitious Transformation Programme to, in part, address its technological challenges and upgrade outdated legacy systems in ledger, lending, repayment and collections. The Technology component of the strategy specifically seeks to adapt and modernise the structure of the SLC's key IT platforms, with programme goals including disaggregating and layering major system elements to create an environment where new product deployment can be contained within discrete modules, thus enabling faster, lower risk and more cost effective change capability for stakeholders and lower costs per application. As reiterated throughout this Review, updating the IT infrastructure will be a critical enabler for SLC business and delivery of any potential Post 18 Review reforms.

Cyber security
Urgency: Urgent
Cyber-attacks are growing more frequent across the private and public sector, and are sophisticated and damaging when they succeed. This threat to the SLC cannot be eliminated completely, but the risk can be greatly reduced. The SLC is a particularly attractive target given the volume of data that it holds, and vulnerable given the number of endpoints and age of IT systems. As part of the Transformation Programme the company is working to develop and mature its cyber defence capability. A vital part of this - alongside technical preparedness - will be training staff (particularly seasonal contractors) to be hyper aware of security risks. The SLC will need to continue to connect with cross government resources and advances in the market, e.g. the National Cyber Security Council (NCSC) run simulations to test reactions to a cyber-security breach. The SLC will also need to continue to work closely with DfE to ensure compliance with any future Authority to Operate stipulations, which will outline acceptable risk levels and residual risk management expectations.

GDPR
Urgency: Important
The SLC is currently in the process of reviewing and updating its data protection practices to meet the enhanced requirements of the GDPR. It is in contact with the Information Commissioner's Office (ICO) to ensure compliance, has appointed a designated Data Protection Officer (DPO), and reports regular progress at the Board and ARC. The SLC adopted a multi-phase risk based delivery of GDPR change activity. Phase 1 successfully achieved a basic level of compliance with the new regulations by the enforcement date of the 25 May 2018. Key areas of work still to be completed in Phase 2 include targeted bulk data erasure, secure data transfer, enhancements to the Information Asset Register, individual rights provisions, supplier governance framework and delivering an ongoing framework of communications, training and enablement for the culture change required.

Data sharing:
Urgency: Important
The SLC is undertaking a number of improved data sharing initiatives, most notably More Frequent Data Sharing. Other examples include testing whether HMRC's foreign address data can help locate customers oversees and data sharing on benefits claimants to support fraud prevention. Whilst there are broader technical issues that need to be resolved – namely, establishing government wide agreements on data sharing protocols and systems interfaces – there remains significant potential for increased data sharing between government bodies to help feed into intelligent policy design and risk assessment.

Analytics, big data and AI:
Urgency: Important
The SLC is making attempts to use data more intelligently by having a better understanding of the data they currently hold (and how to use it), as well improving data sharing (see above). They are also exploring introducing robotics and further automation as part of the loan sale optimisation programme. That being said, the SLC's modelling and analytics function is fairly underdeveloped and the necessity for this skill set will only increase given the repayments trajectory as outlined in section 3.3. Whilst systems stabilisation must take priority, there are potentially significant

gains in using smart diagnostics processes to understand trends in customer behaviour, flagging risky borrowers and modelling future pay and repay scenarios. The necessity to maximise loan book yield will increasingly drive this requirement for more intelligent use of customer data.

3.3 Repayments and Sales

Future growth

As outlined in section 2.3, since 2011-12, the size of the loan book (value of all the outstanding loan debt owed to government) has increased from £46 billion to over £136.7bn. This significant growth is set to continue in the years to come, with the policy and demographic changes - as outlined in sections 3.1 and 3.5 - likely to mean an uplift in student numbers and those eligible for finance support packages.

Charts 7 and 8 below show that the total value of repayments made each year is projected to increase by c.48% in FY 2022-23, and that over the same period, the number of customers in repayment is expected to grow by c.47%.

Repayments during year projected to be £4.02bn by 2022/23.

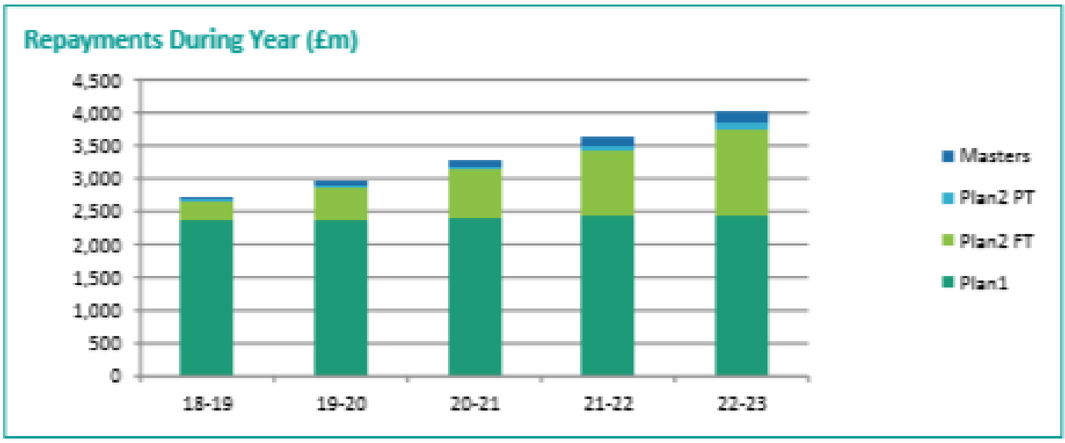


Chart 7: Projected growth of the repayments to FY 2022-23

Source: SLC

Customers in Repayment at start of year projected to be 5.6m by 2022/23.

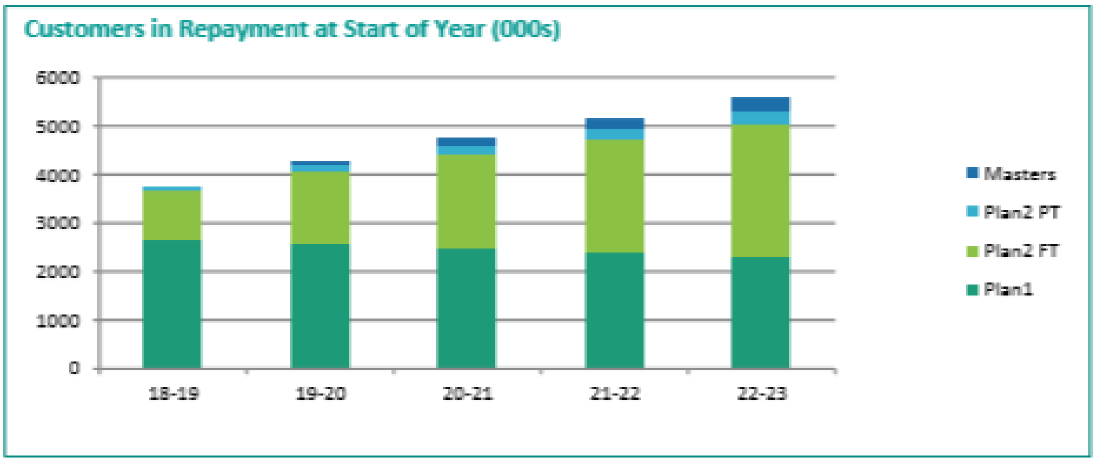


Chart 8: Projected growth of the repayments customers to FY 2022-23

Source: SLC

Loan book servicing

In addition to the growth in collections, the SLC also has a significant role in supporting the programme of loan book sales, and the subsequent servicing of the loans sold to investors. The first securitised student loan sale was completed in December 2017 and introduced a new asset class to the market, raising £1.7bn of proceeds. The second loan sale was completed a year later in December 2018, raising £1.9bn of proceeds. It is the government's policy to continue with a programme of sales targeting £15bn by 2022-23. In support of this process, the SLC has to provide well packaged and detailed tranches of data to aid the sales transaction team in UKGI and conduct a comprehensive asset rationalisation process to verify the annual distribution(s) of funds to investors.

In order to achieve the production of multiple Servicing Reports within the agreed timeframe, the SLC must achieve a significant uplift in optimisation across the current loan sale processes, technology and resource model. Whilst the SLC can manage this process currently, the administrative burden of doing this for more loan sale asset investors is likely to require extra resource and process improvements.

In addition, new EU securitisation regulations - which came in to force on 1st January 2019 - will increase reporting requirements to 4 times a year for new sale assets (there is no impact on the loans sold in December 2017 and December 2018).

Accurate and well maintained delivery of its serving responsibilities is even more critical given that the government carries contingent liabilities in the event of a master servicer failure from the SLC (or HMRC).

In addition to these resourcing challenges, the SLC have identified issues in processes and technology, and have highlighted some improvements that are required to manage the system if the full programme of sales are executed as planned.

As described in section 2.3, the SLC is undertaking a loan sale optimisation programme to address these challenges, supported by a Lean streamlining approach. It has set up a Loan Sale & Asset Management function, implemented a new strategic data warehouse to support the sale programme and increased staff working on the servicing process including a new Data Quality team.

Strategic focus and analytics

Alongside the operational burdens of a growing loan book and increasingly complex servicing requirements, many of the SLC's leadership team recognise that there are underutilised strategic opportunities in the current repayments strategy. As well as a historic prioritisation on 'money out' versus 'money in', the SLC is hamstrung by IT systems which do not adequately facilitate the use of smart diagnostics for effective modelling, proactive use of data analytics and more precise customer segmentation in order to minimise repayment leakage and maximise yield. Indeed, unverified customers account for c. £7bn of uncollected repayments (although many of these would not be in a position to repay). Optimised collections strategies are being developed as part of the Transformation Programme, including a renewed strategy for overseas collections and the launching of the MFDS programme with HMRC.

In summary, the rapidly increasing size of the loan book and the government's policy position to continue and speed up loan book sales underscores the increasing importance and value of having a robust, well-resourced and effective repayment strategy which actively seeks to maximise yield.

3.4 Constitutional Issues

Implications of leaving the European Union (EU) on the SLC

Historically, the UK has the second-largest group of international students in the world after the US. International students bring an economic benefit to the UK and are an important export market, with the government estimating their export value at £20 billion in 2016[22]. Higher Education and Statistics Agency (HESA) data indicates that 27% of first year international students in higher education in AY 2016/17 were from EU countries[23].

The impact of the UK leaving the EU poses new changes and challenges for student support and funding for both EU citizens studying in the UK, and UK students in the EU. Currently, the draft Withdrawal Agreement does not explicitly confirm whether there will be any changes to student funding during the transition period including for those students beginning courses in AY 2019/20. However, given the relatively low number of EU students in the UK and vice versa (c.152,000) and the fact that repayments are typically collected directly (rather than via reciprocal tax arrangements with EU administrations), it is felt that the operational impact on the SLC will be manageable. There may however be indirect challenges if the numbers of students (and therefore collections) drop significantly, as staffing and budgetary profiles are modelled on anticipated numbers of applications.

The SLC is working collaboratively with DfE and a Student Finance EU Exit Implementation Board has been established to formalise the governance around exit preparations, as well as a number of EU Exit planning workshops. External communications plans will be put in place, if required, for both a 'deal' and 'no deal' scenario. At the appropriate point, the SLC will be required to communicate changes in entitlement and residency criteria to future students, whilst collecting bespoke repayments from EU students and UK students residing in the EU.
The EU Settlement Scheme will be a key consideration for the SLC's preparedness. Once the scheme is fully operational, it will allow the SLC to use this database to check the settled status of all applicants, which will greatly support the application process going forward.

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[22] International education strategy, p.4
https://www.gov.uk/government/publications/international-education-strategy-global-potential-global-growth
Impact of International Students in the UK, p.3
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/739089/Impact_intl_students_report_published_v1.1.pdf

[23] https://www.hesa.ac.uk/data-and-analysis/students/where-from

Devolution

As outlined in section 2.1, the SLC has 4 shareholders, split between DfE (85%) and the other three DAs (each with 5%). Education and student funding policy is devolved, and therefore each DA is entitled to devise their own policies and processes with regards to how the SLC administers support to students studying in their countries. This divergence has increased in recent years (and may continue to in light of any potential Post-18 reforms) and is one of the drivers of complexity and cost in SLC's administration. Consideration on a further split of functions between the shareholders is outlined in section 4.4.

Wales

Alongside the SLC's Transformation Programme's vision to address the efficiency and effectiveness challenges, the Welsh government is also currently investigating alternative options for organising future provision, in line with the recommendations in the Diamond review of Higher Education Funding and Student Finance Arrangements in Wales report (2016)[24]. They have commissioned a feasibility study to assess what functions could be administered by the Welsh government directly, if required.

The high level objectives of the review are to:

- understand the customer experience associated with the current delivery of Student Finance Wales (SFW) for grant and loan applicants and wider stakeholder considerations; and
- obtain a clear understanding of how the systems interact.

The review is likely to be completed by Summer 2019.

Northern Ireland

The Northern Ireland (NI) Assembly is currently dissolved, and when Ministers return they may well decide to introduce changes to the current student financing arrangements.

As part of the negotiations involved in the UK exiting the EU, the UK government will need to consider whether students from the Republic of Ireland continue to qualify for home fee status and student loan funding. The government is also considering whether a bespoke NI agreement will need to be drafted.

The NI administration is conducting a review on its policy in respect of Disabled Students' Allowances, as well as reviewing funding for postgraduate study.

[24] https://gov.wales/review-higher-education-funding-and-student-finance-arrangements-final-report

Scotland

In Scotland, the independent Review of Student Support[25], suggested that the Scottish government undertake further work or consider in more detail a number of recommendations. As such, the Scottish government is considering areas such as whether loans should be introduced to FE; the interactions between the social security system and financial support for students; and further consideration of discretionary support and for part-time students. The Scottish government has extended the guarantee of home fee status for EU students to those starting in AY 2019/20 and 20/21.

Divergence

Outlining this activity is a high level demonstration of the likelihood of increasing divergence of policy and approach between the DAs and DfE and its resultant impact on the SLC. Whilst early interaction and alignment on policy commissioning has improved between shareholders, this fragile coalition is always at risk with changes in ministerial direction or differences in political parties between the DAs. The option of a further split in administrative functions between the DAs is outlined in section 4.4.

[25] https://www.gov.scot/publications/independent-review-student-financial-support-scotland/

3.5 Customer Trajectories

Changes in customer base

The Higher Education Policy Institute (HEPI) published a report in March 2018[26] which looked at the demand for higher education in England until 2030. It reviewed the current environment, demographic challenges, strength of the supply chain and emerging political disrupters against the previous HEPI assessment on demand which was published 7 years prior, in 2011. The most significant policy changes between these two studies were the introduction of students paying fees above £9,000 and the removal of controls on student recruitment.

As per chart 9, the 2018 report concluded that, at the current rate of growth, without any increase on current participation, there will be nearly 15,000 more entrants by 2030. With a 26% rise in the rate of participation of young people under 20 (based on the historic trend of 0.75% annual increase in participation rates), the forecasted addition in entrant rate by 2030 would be nearer 105,000.

> *The 14,709 additional entrants arising from demography alone (with a static participation rate) will amount to around 50,000 additional students and the 105,000 additional entrants, if participation continues to increase at the medium-term rate, will require about 350,000 additional places.*[27]

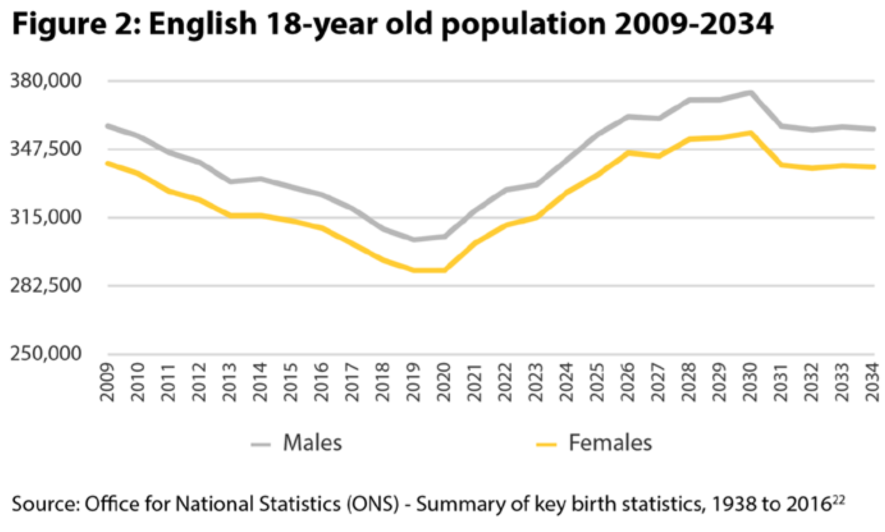

Chart 9: Growth in 18-year old population to 2034

Source: HEPI

[26] Demand of Higher Education to 2030 By Bahram Bekhradnia and Diana Beech, March 2018

[27] ibid, p.32

Table 3. Estimated change in full-time England-domiciled undergraduate entrants due to demographic change and combining demographic change with increases in participation

	Estimated young entrants in 2015/16[32]	Change in entrant numbers in 2030 (with no change in participation rate)	Percentage change to 2030	Change in entrant numbers in 2030 (with male & female participation rate increase of 26%)	Percentage change to 2030
All males	150,565	6,983	4.6%	47,945	31.8%
All females	182,275	7,726	4.2%	57,126	31.3%
All	332,840	14,709	4.4%	105,071	31.6%

Table 12: Growth in full time undergraduates to 2034

Source: HEPI

The report went on to conclude that the increase in demand would be far higher if the groups which are, at present, under-represented in Higher Education - namely young people from disadvantaged backgrounds and males - were to increase their participation significantly. Indeed 'in 2019 the application rate was higher than ever at 38.8 per cent, and it has been growing strongly and predictably over the past decade. Extrapolating this trend forward would give application rates of just under 50 per cent in 2030, making English 18 year-olds 25 per cent more likely to apply than today'[28]

With current government initiatives working to do just that, it is not unlikely that there will be a further upward trajectory on these numbers, although this will need to be countered with the, as yet unknown, impact of the UK exiting the EU. The report estimates that there could be a 'decrease of 56,000 or so from EU students, though that will depend on the details of the Brexit negotiations'[29].

In addition to the growth in student numbers, it is also important to understand the changes in the circumstances of those repaying loans and how these might impact on their propensity to pay. The Taylor Review of Modern Working Practices 'Good Work'[30], published in July 2017, looked at the changing landscape of employment. As well as greater participation from people aged 50+ and more part-time working, the Review also highlighted research showing that 12% of UK working-age adults who

[28] https://wonkhe.com/blogs/the-great-recruitment-crisis-planning-for-rapid-student-number-growth/

[29] Demand of Higher Education to 2030 By Bahram Bekhradnia and Diana Beech, March 2018, p.40

[30] Good Work – The Taylor Review of Modern Working Practices By Matthew Taylor, July 2017

have not participated in ‘gig’ economy work (short term freelance activity) in the last 12 months were thinking about doing so over the next year. Research from the Chartered Institute of Personnel and Development also shows that a high proportion of gig economy workers (58%) are permanent employees elsewhere, engaging in gig economy activity to top up their more ‘traditional’ employment. This may be significant factor for the SLC and HMRC as it is likely to be more difficult to track individuals with a number of short term or multiple contracts with the systems and infrastructure currently in place. In addition, the increase of gig work income as a ‘top up’ could see people fall within the legal loophole which means that whilst they might earn more than the £25,000 threshold for initiation of loan repayments, they are not earning this from a single source and therefore the system does not recognise that they need to start repaying. The SLC have requested that this loophole is legally amended but this is yet to be actioned by DfE.

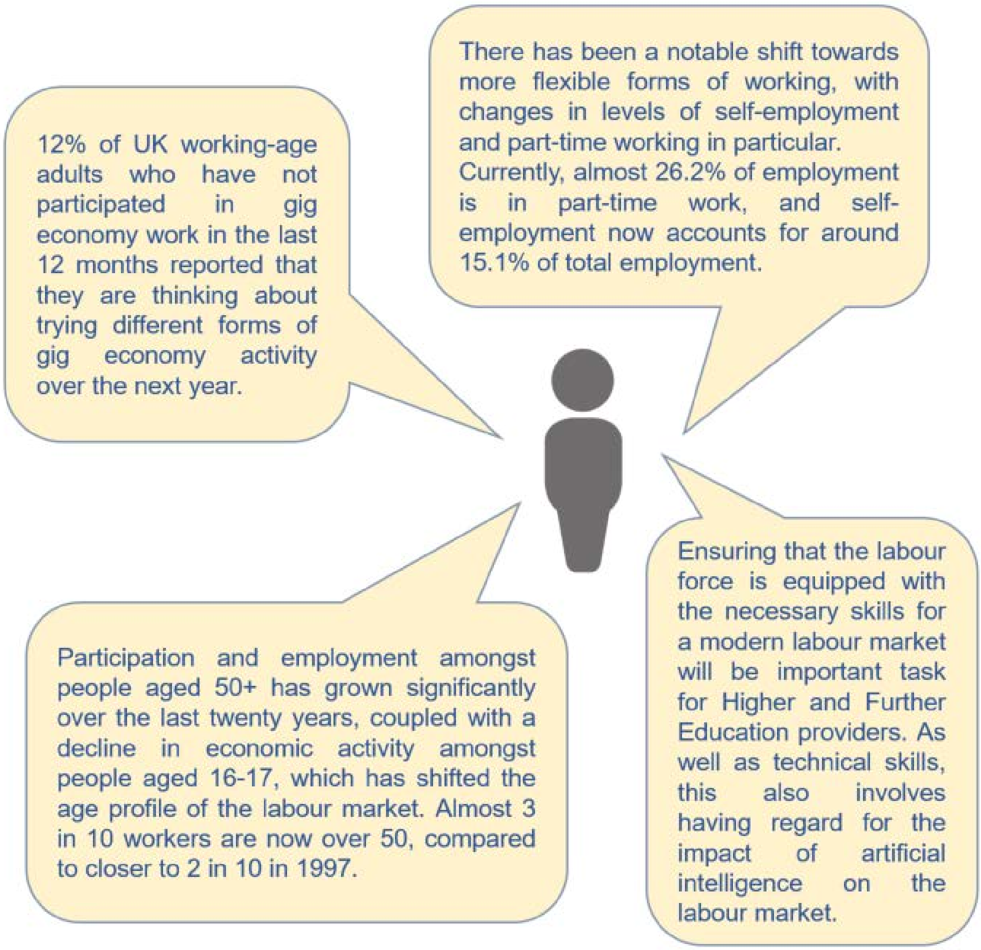

Figure 11: Workforce trends

Source: Tailored Review team analysis

In aggregate, a larger customer base who will go on to form a more diverse labour market with increasingly complex working arrangements will inevitably add extra processing demands for SLC’s systems.

Chapter 4: What are the recommendations for improving the SLC?

As the previous 2 chapters have made clear, whilst the SLC is performing relatively well and delivering the majority of its performance targets within challenging circumstances, it faces significant operational and strategic issues. Chief amongst these are the high level of risk and inefficiency from outdated legacy IT systems, a workforce experiencing high turnover and a complex and time pressured policy commissioning cycle with no multi-year budget settlement. In addition, instability and lack of clarity on governance and leadership has sometimes impacted the confidence of the organisation and its shareholders to clearly articulate its vision and deliver transformation strategies.

Significant improvements have been made in recent years, including:

- successfully introducing a number of new products;
- appointing a new CEO and CFO;
- improving alignment with and between shareholders;
- securing a pay upgrade for lowest paid staff;
- taking on a new loan sale support function;
- introducing the More Frequent Data Sharing programme;
- developing a new Transformation Programme; and
- digitising a number of services and platforms.

The recommendations outlined in this chapter are intended to complement and enhance the positive improvements that are already underway at the SLC. They are focused on ensuring that SLC's staff, IT and governance are well managed and both robust and flexible enough to reduce operational risk and deliver any key policy changes likely to be implemented from the Post-18 Review.

Given the scope of this Tailored Review, these recommendations are focused on changes that can be feasibly delivered in the next 3-5 years. There will be additional opportunities to deliver wider benefits over a longer time horizon, once the Transformation Programme has been delivered and the implications of EU Exit and the Post-18 Review fully established. To this end, recommendations for establishing potential future options are outlined in section 4.4.

4.1 Optimisation of leadership

Strategic Vision

It is essential that both the SLC and shareholders ensure that their management and leadership practices reflect the scale of the task to improve effectiveness and efficiency at the Company.

Recommendation 1

Future – SLC leadership should spend the time to clearly develop and confidently articulate their vision and strategy for the company. This could include, for examples, considerations for greater system wide integration e.g. with the OfS and UCAS to help provide a smooth customer experience and to optimise collections and data management. The agreed vision should be featured in corporate business plans and well integrated with the Transformation Programme. An example list of long term strategic objectives for the SLC is outlined in Annex G.

Recommendation 2

Engage - As part of a revamped policy commissioning cycle, it is essential that the SLC ELT communicate – in a clear and consistent manner - to the shareholders, sponsorship team and Ministers what their operating/change capacity is - and crucially, the risk impact of any new commissions - rather than giving general warnings or continuing to accept commissions that put operational delivery into a precarious position. The Board must have oversight of the commitments that the ELT have made.

Recommendation 3

Deliver – Robust programme management governance should be established to oversee the implementation of the Transformation Programme for both:
a) Sponsorship oversight of delivery and milestones

b) Internal SLC project management

This will need buy-in from all key stakeholders and incorporate established project management protocols with a focus on scrutiny of milestones and benefit realisation. The sponsorship governance function should report into the Quarterly Shareholder Meetings.

Performance targets

As outlined in section 2.3, all stakeholders agree that historically there have been too many key performance indicators and that these have not always measured the things that will really help to drive strategic improvement, effectiveness and efficiency.

Recommendation 4

The DfE sponsorship team, on behalf of all shareholders, and SLC should reform, rationalise and embed performance targets as follows:

- Aligned - one primary set measured by shareholders, the Board and ELT i.e. one set in the APRA and corporate dashboard
- Refined - no more than 5-10 headline targets (with lower level KPIs) centred around digitised customer service, value for money, reducing risk, fraud and error, delivering the Transformation Programme and optimising collections and loan sale support
- Reviewed - annual review of targets including reviewing against similar organisations and historic SLC performance. Where appropriate, stretch and incremental targets should be set to drive continuous improvement, with recognition that this will be an incremental, progressive change
- Embedded - targets clearly reflected in the objectives of all staff (including the ELT, Chair, NEDs) and throughout business documents and processes. Performance should be incentivised e.g. bonuses for performance above target levels. Every governance meeting should be structured around reporting against or developing improvements in the performance targets, especially the Board meetings
- Supported - if feasible, each performance target should have a sponsor ELT Director and NED

Policy commissioning cycle

It is essential that the policy commissioning process is transformed to support sustainable change and BAU capacity, giving enough space for the vital transformation activity as well as time to develop high quality products and reduce manual work arounds and annual carry over of ‘in flight’ projects.

Recommendation 5

The sponsorship team and SLC should reform the policy commissioning process in accordance with the following principles:

- **Streamlined and strengthened governance arrangements**, with a single formal, sign off point for policy/product commissions and regulatory alignment, in response to a single shareholder commission e.g. a shared Governance Gateway Board that would act as the official and final governance body for the commissioning process
- **More clarity** of role, scope, timescales and governance arrangements of specific groups involved in the process, including an annual agenda and stage gates that clearly prescribe the annual window for commissions, whilst also incorporating an element of flexibility and a process for unavoidable changes to be made after the formal sign off point, recognising the political landscape across the shareholders and the impact of this on policy change. This new approach should be agreed by all parties, including Ministers, with everyone aware of their responsibilities and the procedural red lines
- **Better balance** between the ‘responsibility’ of the SLC to clearly outline its annual change capacity and the impact of new commissions on resource, risk and cost, and its ‘right’ to have greater independence to deliver within set parameters once commissions have been agreed without having to seek extra permissions
- **Shared operating language** and continual engagement throughout the policy commissioning cycle, included baked in time and resource for ‘soft’ feasibility testing and formal agreement on how SLC and shareholders will work together
- **Built in protections** for strategic and transformation activity. Continued use of the prioritisation approach started in FY 2018-19 to manage requests, with non-negotiable ‘must dos’ and a longer list of desirables dependent on budgetary and resource capacity once necessary transformation activity is factored in
- **New approach enshrined** in a memorandum of understanding included as an Annex to the Framework document, with relevant sign up from shareholder Ministers, UKGI, HMT, Cabinet Office and GDS as required

Repayments and the loan book

As outlined in section 2.3 and 3.3, it is essential to optimise loan repayments given the scale and growth of the loan book and sales programme. The SLC has developed an approach to this as part of the Transformation Programme and additional recommendations to support this effort are outlined below.

Recommendation 6

As part of the objectives refresh, the SLC should ensure that they have adequate Board and leadership support to help embed their new target of increasing repayment compliance, administering the loan book effectively and efficiently, delivering post loan sale obligations and supporting future sales.

Recommendation 7

The Board should request an annual 'deep dive' or formal reporting meeting outlining progress on the loan sale programme and any key risks or challenges for the SLC. UKGI should conduct this in partnership with DfE and relevant SLC management. The Board should also ensure that it has regular updates from the ELT on ongoing developments and any servicing risks or opportunities for the company.

Recommendation 8

As part of the refreshed Transformation Programme, SLC and DfE should develop options for:

- building a stronger analytical and data management/cleansing skills base (e.g. development of an in-house team, sharing capabilities with DfE analysts)
- investing in robotics/smart diagnostics and advanced analytics for great understanding of borrower characteristics, behaviours and risk factors

Recommendation 9

OfS and the SLC should explore how to strengthen enforcement of the F3 condition of registration which stipulates that HEIs must provide the SLC the information that it requires to perform its statutory duties in relation to students accessing student support, their registration with the provider, the fees charged, the students’ attendance and any withdrawal from a course.

4.2 Clarity of governance

Alongside strong leadership with a clear voice and vision, it is important that all parts of the governance structure understand their role and have the right protocols in place to support each other to effectively govern the company.

The Executive Leadership Team

Recommendations are centred around helping to strengthen stability and leadership, with a particular focus on supporting delivery of the Transformation Programme.

Recommendation 10

The ELT should ensure that they continue to embed a clear focus on the strategic deliverables of the company in the years ahead, with the following areas integrated into their business objectives alongside clear milestones:

- Delivery of Transformation Programme milestones
- System wide embedding of risk management, financial literacy and cyber security
- Development and delivery of vision, including exploration of sector wide links, e.g. with the OfS and UCAS

Recommendation 11

The Sponsorship team should explore whether it would be feasible and appropriate to implement:

- Retention of a proportion of any savings realised above stated targets from the successful delivery of Transformation Programme milestones (to be re-invested into agreed business improvement activity)
- An exploration of whether further controls should be delegated to the SLC and/or how to embed better use and understanding of existing controls e.g. financial/spending controls, clearance gates etc
- Access for SLC management to the Senior Civil Service development offer, including project/programme/risk management, leadership and team building to strengthen team dynamics

Recommendation 12

The ELT and Board should initiate an exercise to determine appropriate measures from industry best practice guidance against which they can review/monitor the SLC's performance e.g. PRA risk framework, UK FRC Corporate Governance Code and FCA principles.

The Board

Recommendations are centred around strengthening the role and scope of the Board, and continuing to enhance scrutiny on risk, performance delivery and a value for money.

Recommendation 13

The Chair should be set appropriate objectives by the sponsorship team (commensurate with their role as set out in the Framework Document and in relation to the ELT and other NEDs), with guidance developed for the Board and shareholders on how (and by whom) annual performance reviews should be conducted and proper succession planning.

Recommendation 14

The sponsorship team should ensure that mandatory induction and refresher training is established for Board members (and the ELT/Ministers where possible and appropriate). This should be offered at set points (e.g. as part of induction/ every 3 years/aligned to significant changes) and cover topics such as the governance structure, appraisal arrangements, delegations and retained permissions, government finance and fiduciary responsibilities.

Recommendation 15

The Board should continue to push to improve scrutiny and focus on strategy, performance, risk and finance by:

- Agreeing and embedding a refreshed vision and mission with the ELT
- Embedding systematic oversight over the Transformation Programme, policy commissions, strategic risk management and unit cost analysis
- Commissioning external board effectiveness reviews every 3 years
- Ensuring that board papers and meetings are focused on the most important issues, risks and challenges with clear updates on mitigation/management & any decisions required, all linked to the key business objectives. Secretariat to be strengthened to support this

The Shareholders

Recommendations are centred around clarifying the role of shareholders, and promoting more alignment in their interactions with the SLC.

Recommendation 16

Shareholders (with sponsorship team co-ordination) should continue to ensure earlier alignment on policy requests, with an objective of agreeing a single shareholder commission request, as outlined in the principles for a new policy commissioning approach.

The meaning of “shadow director” is defined in s215 of the Companies Acts. It stipulates that ‘a person is not to be regarded as a shadow director by reason only that the directors act (c)in accordance with guidance or advice given by that person in that person's capacity as a Minister of the Crown (within the meaning of the Ministers of the Crown Act 1975)’. Given that this is the case for shareholder attendees on the board, they cannot be legally considered as shadow directors.

In addition, it is important for the board to act in the capacity of an external and expert assurance function and should therefore not be unduly influenced by shareholders sitting formally as NEDs. Indeed, if they were to become NEDs, this would likely unbalance the board as each shareholder would want their own individual NED ‘seat’ as opposed to one NED representing all 4 administrations. It is important that the board remains in a position to offer independent advice to ministers should it wish to, without the involvement of shareholders if necessary, especially given the shareholders’ potential spilt incentives. It is important, however, that the secretariat ensures that formal actions or decision for assessor shareholders are clearly logged to avoid any ambiguity of whether these have been registered.

Recommendation 17

Shareholders should agree to operate in a more typical GovCo NDPB arrangement; setting the objectives, priorities and budget within a specified deadline, and giving the ELT and Board more autonomy to deliver (once their capability has been established via delivery of Transformation Programme milestones). This would entail a cultural shift from 'parent-child' to equal partners.

Recommendation 18

Given the fact that policy development sits with a separate team, the DfE sponsorship team should continue to act as shareholders for the SLC. In addition, shareholders should not sit as formal NEDs on the Board. However, the Board secretariat should tighten protocols around formally logging and commissioning actions raised at the Board, and clarify that the shareholders are not acting as shadow directors and any commensurate implications.

The Sponsorship Team

Recommendations are centred around encouraging the positive recent progress towards a more productive and streamlined working relationship with the SLC.

Recommendation 19

There should be a continuation of the improvement and strengthening of the functional capacity and relationship between the SLC, shareholders, sponsorship team, CO, UKGI and HMT by:

- Sponsorship team providing appropriate challenge to the SLC, particularly on risk management, with more focused Performance, Finance and Risk meetings based on rigorous scrutiny of updated risk framework
- More use of e.g. secondments, ‘staff swaps’, site visits, shadowing, teach ins, showcase days, guidance tools, buddying, co-location for very intensive projects
- Organising regular structured ministerial meetings with the CEO and Chair
- SLC/sponsorship further developing expertise on business case development, MI production, public law requirements and CO/HMT processes

Recommendation 20

Sponsorship team to streamline/amalgamate meetings, and ensure stakeholders are clear of the aims/purpose, with well-established Terms of Reference.

Recommendation 21

Sponsorship team to ensure there are clear structures in place to review the Framework Document periodically (at least every 3 years), including holding stakeholders to account for meeting minimum annual requirements.

Risk Management

Recommendation 22

The SLC should develop and implement a comprehensive Risk Management Framework (RMF) which:

- is proportionate to the activities and responsibilities of the SLC as set out in the Framework Document;
- is aligned to the Risk Appetite Statement (which should articulate how much risk the SLC is willing to take in pursuit of its purpose and strategy);
- reflects the key risks to the SLC meeting its strategic and business objectives, including reputational risk;
- has clear ELT Risk Owners, and SMT responsibilities;
- sets out the processes and responsibilities to identify, monitor, manage, mitigate, report and escalate risks; and
- clarifies the role and the reporting requirements of the various governance bodies in the oversight of the SLC.

It is also recommended that there is a dedicated Chief Risk Officer. This person should have the appropriate leadership capability, experience, skill set and resources to develop and implement the RMF in a realistic timeframe.

Structural Form

In addition to the 'three tests' outlined in section 2.1, a further set of questions, as outlined in figure 12, were considered when assessing the potential form of the SLC.

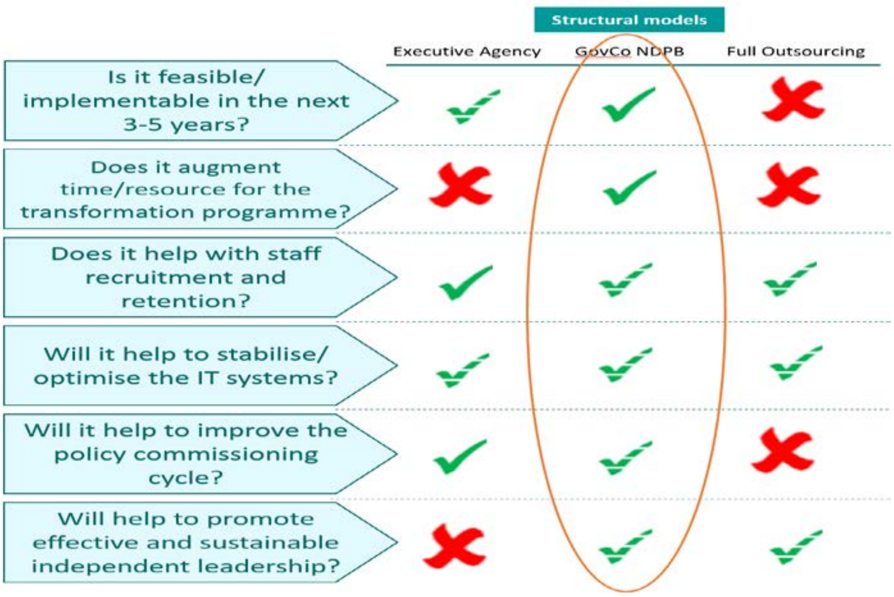

Figure 12: Assessment of structural options

Source: Tailored Review analysis

Remaining as a GovCo NDPB is the only option that:

a) avoids the cost and complexity of enacting a large scale governance change. This is especially important given the multitude of critical efficiency issues that need to be urgently addressed via the Transformation Programme;
b) maintains stability while the implications of the Post-18 review and EU exit are better understood; and
c) retains an independent Board whilst also maintaining a close link to departments for involvement in early policy development.

It may also be possible to convert the SLC to another legal structure, while retaining its status as an NDPB. This would be either via Royal Charter - which are not routinely favoured as they bypass a number of parliamentary checks and balances - or through primary legislation - which would be difficult to secure given that the legislative timetable is very full with EU exit related business.

Whilst it is clear that remaining an NDPB with GovCo legal status is the most practical option for the short to medium-term, there is a wider question about what the optimal structural arrangement is in the long term.

Executive Agency (EA)

EAs are clearly designated business units within departments, responsible for undertaking the executive functions of that department, as distinct from giving policy advice. They have a clear focus on delivering specified outputs within a framework of accountability to Ministers. While they are managerially separate, they are independently accountable within their home department, which also reports to Parliament on their agency-specific targets. Due to this close working relationship, EAs do not have the same level of legal separation from their home departments that other categories of public bodies often possess. They are run by a ministerially appointed Chief Executive and are often supported by an advisory board.

During interviews, a number of stakeholders highlighted the potential benefits of changing the SLC from a GovCo NDPB to an EA in order to address issues such as staff pay, recruitment and retention and improving the working relationship with DfE.

High level EA SWOT analysis

Strengths
- Closer links with largest shareholder
- Closer links to policy commissioning
- More clarity on board responsibility (advisory function without Companies Act stipulations)
- Workforce pay and conditions regulated and aligned with core Civil Service conditions

Weaknesses
- Less autonomy for the Board
- Unclear on how to ensure DA interests are retained
- SLC priorities may be subsumed or caught up with wider departmental considerations
- TUPE issues
- Time/cost/complexity of enacting large scale governance change when urgent resources required for fixing business critical issues

Opportunities
- Potential for closer links to Ministers
- Potential for deeper links with GDS and other government partners
- Potential for improvements in retention rates and wider engagement measures
- Potential for improvements in IT systems stabilisation and upgrading

Threats
- Reducing the 'arm's-length' and independent nature of the SLC might have an impact on ministerial decisions
- Legislative challenges with changing the SLC's legal standing, particularly given tight legislative timetable
- Would not necessarily resolve critical IT, staffing,policy commissioning issues

Figure 13: EA SWOT analysis

Source: Tailored Review analysis

Staff

Under an EA model, the workforce would be brought fully into the Civil Service which would likely reduce some of the ongoing issues of low pay and high attrition rates. This in turn could potentially improve workforce engagement and culture due to Civil Service flexible working policy, access for all staff to wider learning and development and opportunities for promotion and progression across the whole of government.

That being said, the impact of these changes is likely to be minimised for a number of reasons. The SLC and DfE are already working towards the inclusion of all staff into the Civil Service Pension Scheme, bringing greater stability to their workforce benefits. As explained in section 2.4, lower paid staff have already been granted a significant pay rise this year, with a second pay case being developed to address more systemic structural pay and grading issues across the whole organisation. The pay uplift is already having a positive impact on recruitment and retention figures. It is important to note, that whilst the SLC Board has delegated authority as a GovCo NDPB to control pay allocation (how much is allocated to each pay band), as with other NDPBs, it does not control how much money is allocated overall or whether it can breach civil service wide pay rise caps. This would not change if the SLC became an Executive Agency.

In addition, in moving to an EA model, there are various staffing issues that would need to be considered, such as TUPE negotiations, locations strategy, staffing structure and organisational fit. Work would need to be undertaken with staff to alleviate the associated concerns around role tenure, grading, career prospects, location changes and culture shift, which for some (potentially highly skilled and experienced staff) may well lead to further resignations.

In conclusion, whilst there are undoubtedly some benefits to incorporation of staff within the departmental structure, it is unclear how much of a significant impact this would have on recruitment and retention figures, particularly in light of the changes that the SLC already has underway.

Policy Commissioning Cycle
Closer links with the largest shareholder may further improve the policy commissioning cycle, as well as increase access to DfE Ministers, and enable the SLC to be involved in policy development feasibility testing earlier,
However, this is not necessarily guaranteed and a closer alignment with DfE may be to the detriment of the Devolved Administrations. Any change to the SLC delivery model would have to ensure that the DA interests are retained, which is difficult to envisage if they lose shareholdership, board representation and the SLC's full immersion into DfE.

The SLC is currently working with all of the shareholders on improving the policy commissioning cycle. DfE are hosting a number of workshops to set the scale and pace of change needed to develop a more cohesive model that works for all key stakeholders. As with the changes to the pay and people strategy, if these new approaches are well developed and embedded, it is likely that they will yield a similar level of benefit to a full structure change.

Governance
In an EA model, the Board would become an Advisory Board, would have less autonomy and would no longer be expected to make key strategic decisions for the SLC. The CEO would acquire more of this responsibility and would be likely to sit on the internal DfE leadership team.

Given the significant transformational change required at the SLC, this loss of Board autonomy may reduce the effectiveness of their ability to really drive meaningful change and hold the organisation to account. There is also the risk of increased ministerial or political 'interference' of a nature that would not be helpful to keep the focus on effective delivery and appropriate efficiency drives.

On balance, it does not appear that converting to an EA would make securing the strategic changes required at the SLC any more likely than it remaining as an NDPB and enacting its reform programme. In addition, it would absorb significant time and resource and may well undermine the ability of the SLC to maintain its operational independence and procedural expertise.

Full outsourcing/Joint Venture

Another potential option is to contract out the student loan financing function fully, with government either retaining a shareholding stake (Joint Venture) or relinquishing shareholding function and simply setting the legislative environment within which a private organisation would have to administer student loans and grants. Given that the SLC does not own any 'assets' as such (HMT controls 'ownership' of the loan book), this model would not take the form of an AssetCo or Trading Fund (status being phased out), and instead would likely be established as a Statutory Corporation or Joint Venture.

<u>High level full outsourcing SWOT analysis</u>

Strengths	Weaknesses
• Likely to introduce more product commissioning rigour with a more formalised change request process	• Not politically acceptable to the DA shareholders • Under developed commercial and procurement expertise in SLC and DFE to handle this outsourcing • Increased costs and reduced flexibility from charging for change requests
Opportunities	**Threats**
• Potential for better value for money or improved effectiveness if delivered by external organisation • May be able to address some technical and staffing issues	• Would be likely to compromise the close relationship between policy development and operational considerations required to implement effective systems changes • Any data transfer would carry significant risk given IT instability

Figure 14: Full outsourcing SWOT analysis

Source: Tailored Review analysis

At present this option is not viable for a number of reasons.

- As outlined in section 2.3, one of the most challenging aspects is the policy commissioning cycle, and the propensity for minimal early engagement in policy development. This tendency would likely be exacerbated if the student financing function were fully outsourced as there would be security restrictions to sharing emerging policy developments with a private sector company. It would also likely make closer working relationships with mixed teams more difficult to establish.
- In addition, having a private sector organisation field change requests is likely to have a significant impact on costs for product development. Within a

commercial contract, any change requests tend to incur a charge and given the complexity of service design and the product base, these may well be substantial.

- Given the SLC's fragile and complex IT infrastructure, large scale data migration would be extremely risky. The data records of more than 8.5 million customers are held on systems which are highly integrated and difficult to manipulate. Transferring those to an external company would not be advised at this point in the SLC's transformation journey. Even private sector financial companies that have attempted large scale systems upgrades have suffered serious malfunctions, let alone moving data between organisations.
- The Devolved Administrations have made clear that they are not in favour of fully outsourcing the function of student financing and their ministers would not sign off this transition.
- Chapter 2.4 explains that the SLC is on a journey with regards to the maturity of its commercial operation, this is also the case for DfE's commercial function. Whilst this is improving, there is still significant progress that needs to be made with regards to embedding robust contract management, particularly on a contract of this size and complexity. There are also reservations about whether there would be any suitable private sector organisations willing to take on this type of operation.

Changing the legal status of a NDPB

A third option would involve the SLC remaining an NDPB but changing its legal status away from a GovCo, to be established instead via primary legislation. This would allow the SLC to retain a degree of operational independence with a robust Board, but lose the Companies Act director responsibilities which are often the cause of tension and confusion. Although this would not be able to be enacted in the next 3-5 years given the pressure on the legislative timetable and the wider programme of reforms, it is an option that may well offer a workable compromise on governance structure in the long term and its suitability and potential timetable for implementation should be thoroughly considered by the next Tailored Review.

Recommendation 23

The SLC should remain a GovCo NDPB for at least the next 5 years, as long as the SLC and its partners make the critical governance, cultural and systemic changes outlined throughout this chapter. The next Tailored Review should explore whether it would be appropriate to change the SLC's status to an NDPB established by legislation, and if so, what the practicalities and timetable for implementation would look like.

4.3 Stabilisation of systems

The third key area for SLC improvement is the stabilisation of its operational and functional systems. As outlined in section 2.4, improvements in efficiency, particularly with IT and staffing, are of critical importance for the ongoing viability of the Company, reducing risk and securing value for money.

The central mechanism for this work will be via the Transformation Programme. The recommendations outlined below are intended to support and augment the deliverables of that strategy.

Recommendation 24

SLC and the sponsorship team should work together to develop a robust business case for HMT to approve multi-year funding for the SLC Transformation Programme. Enactment of the activity in the strategy will be critical for securing the sustainability of SLC systems and delivery of its business objectives.

IT and Data

Recommendation 25

The SLC should consider how it can enhance and embed peer support for its tech and digital transformation plans (e.g. from other government departments and wider industry), including possibilities for data sharing to feed into intelligent policy design and risk assessment. This could include establishing an IT advisory board to capture sector expertise and best practice or being invited to pre-existing forums.

Recommendation 26

The SLC should determine appropriate best practice measures from industry guidance on IT resilience e.g. Cyber Essentials Plus, PRA principles on effective operational resilience and EBA guidance on IT/security risk management. This should build on the external assurance work already conducted and be linked to recommendation 12. Particular focus should be given to embedding secure practices throughout the business and allocating an appropriate level of cyber security investment and contingency funding.

Recommendation 27

The SLC should continue its good progress on work to improve the customer digital experience in partnership with GDS – including building up digital network connections and learning from other major digital projects e.g. MoJ, DWP, DVLA.

Staffing, training and property

Recommendation 28

Building on the people strand of the Transformation Programme, the SLC should develop a holistic People Strategy, outlining how it will develop its staff, attract and build required skill sets and reduce reliance on contractors. This could include initiatives such as benchmarking their benefits with comparable organisations; implementing a bonus scheme linked to individual objectives, establishing staff wellbeing practices, considering the use of performance contingent retention mechanisms/incentives for staff and improving organisational culture. This will be crucial given public sector restrictions on pay.

Recommendation 29

The SLC should continue to roll out and embed training for key personnel on financial and commercial acumen, especially on understanding government finance and accurate profiling.

Recommendation 30

The SLC should continue to work with the Government Property Agency to assess whether a Glasgow based government hub is a viable option for relocation of its Glasgow sites and assess other sites for vfm and potential consolidation/savings.

Functional model

As outlined in section 2.1 and highlighted in table 3, the SLC has a number of functions which are then split across different products. Given the range in cost and efficiency of administering the various process stages for each product, it is worth considering whether any of these are suitable for outsourcing or configuring in a different way.

Mainstream loans

Administering student loans is a functional strength for the SLC and forms the bulk of volume of its operations. This part of the business also has the lowest unit cost compared to other types of products (£19 compared to £56 for the most expensive product type). A number of organisations - e.g. DWP, DVLA, Rural Payments Agency - currently field and assess applications and then pay out large scale, state funded financial or technical support products to the public and related institutions. Banks also provide similar, private payments to the public. As a comparator - and although more complex - the current unit cost for a DWP Universal Credit claim is £699[31]. DWP is aiming to reduce this to around £175 but this is still significantly more expensive than the current SLC unit cost for any of its products, including the more complex means tested ones.

Given that the SLC has built up a functional capacity in this space and providing good value for money, it is not clear that any existing or new organisation should or could adopt the administration of this function and provide comparable levels of service, value for money and relatively low customer complaint rates. In addition, it is essential that control of this provision remains close to government given the scale and scope of new product development, eligibility changes and the level of early input required to support this.

Repayment

HMRC currently recuperate approximately 85% of monies owed to the government on behalf of the SLC. They have functional expertise with regards to repayments and may be able to deliver greater economies of scope if they took on full administration of all loan repayments, though the customer service benefits of this functional move may well be less significant given the introduction of the More Frequent Data Sharing Programme. A discussion on the viability of HMRC taking on full ownership of all repayment accounts is outlined in section 4.4.

Targeted grants

The number of targeted grants that the SLC administers has grown significantly over its 30 year history. As outlined in table 3, these grants, particularly Disabled Students' Allowance (DSA) and Grants for Dependents (which include Adult Dependants Grants (ADG), Childcare Grant (CCG) and Parents' Learning Allowance (PLA)) drive up cost and complexity for the SLC as they require bespoke, time intensive processing. As explained in section 2.1, the SLC and DfE have undertaken quite a number of reforms to these products and are planning further consultation and improvements. Coupled with the potential for the Post-18 Review to recommend significant reforms, it would not be advised to make significant outsourcing changes at this point. Instead this

[31] https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/1183/1183.pdf p. 18

period provides a useful window to explore how the wider package of reforms can be configured, alongside the Transformation Programme, to deliver a systems wide offer that make most sense for students, institutions and the tax payer.

Policy complexity

It is worth noting that it is not just the complexity of function that drives cost and inefficiencies for the SLC, but also the piece meal and complicated policy rules that sit behind these (66% of product-related cost).

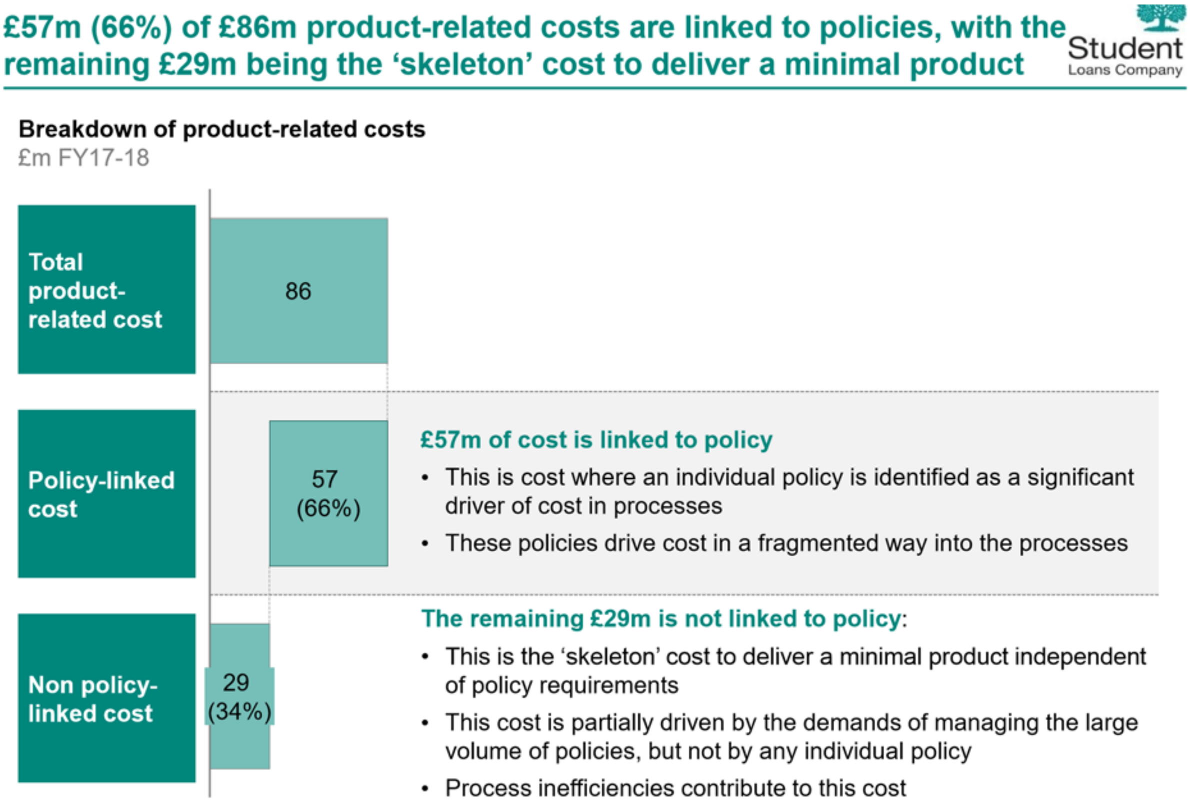

Figure 15: Proportion of policy and non-policy linked costs

Source: SLC

The highest related costs are associated with establishing complex entitlement rules and with repayment protocols. Potential savings are concentrated in streamlining residency and identity rules, means testing, qualifications status and over-repayments.

Policy themes: Policy drives costs into assessment, contact and repayments processes

Policy-linked operations and repayments costs, £m, BAU FY17-18

Highest costs | Medium costs | Lowest costs

Process Group	Process	Personal Eligibility	Course Eligibility	Entitle-ment	Payment	Repay-ment	Change of Circ's.	Total
		Policy Feature Categories						
Apply	Apply	1.0	0.6	0.8	<0.1		<0.1	**£2m**
Assess	Identity Checking	2.8						**£3m**
	Means Testing	0.9		3.3			0.2	**£4m**
	Product-Specific Assessment	2.2	1.3	3.4	2.7	<0.1	1.7	**£11m**
Contact	Contact	3.1	2.3	6.9	2.8	0.2	0.7	**£16m**
Pay	Payments	0.4	0.2	0.2	1.3	0.2	<0.1	**£2m**
Repay	Overpayment Recovery			0.3		1.8		**£2m**
	Repayments					8.3		**£8m**
Cross-Journey	Mail and Documentation	1.9		0.9	0.5		0.2	**£3m**
	Marketing	0.2	0.2	0.2	0.1	0.3	<0.1	**£1m**
	Partnerships		1.1	0.1	0.5		0.4	**£2m**
Overhead	Overhead							**£2m**
Total £57m policy-linked cost		**£13m**	**£6m**	**£16m**	**£8m**	**£11m**	**£3m**	**£57m**

Policy drives cost into policy features

- Entitlement and Personal Eligibility policies drive cost into assessment and contact processes
- Repayments policies driven costs into Repayments contact and processing

Next it is important to understand how policy drives cost

Table 13: Cost by policy process

Source: SLC

Recommendation 31

The Student Finance Policy team should conduct a review across products (and specialist grants in particular) to identify where means testing and eligibility protocols can be rationalised and streamlined. This should be conducted while being conscious of potential changes that the post-18 review may recommend and with recourse to lessons learned from the process of amalgamating benefits and assessment processes under Universal Credit at the DWP.

The same questions used for assessing the SLC's structural form have been utilised for assessing various functional options.

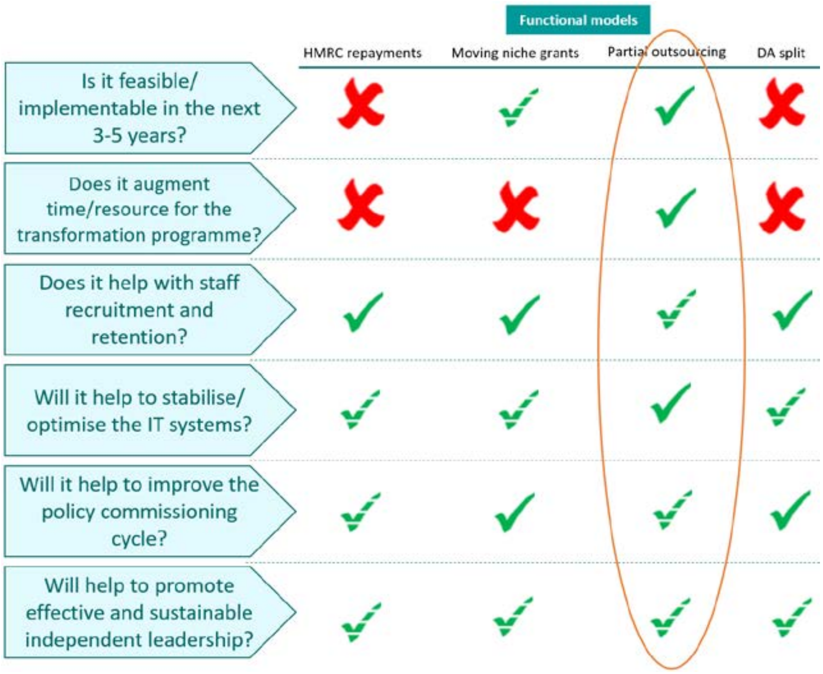

Figure 16: Assessment of functional options

Source: Tailored Review analysis

As with changes in structural form, significant shifts in the functional model of the SLC are not recommended at this point in its transformation cycle, both because they would draw away vital resource and capacity and also because the SLC's IT systems are not stable enough to safely support significant data or business architecture restructures. It may be the case that these options become viable in the longer term and recommendations to explore this are outlined in section 4.4.

Partial Outsourcing

The area that is viable for action over the next 3-5 years is the development of SLC's strategy on outsourcing parts of its business functions. Public sector organisations often find it necessary and cost effective to outsource some services rather than provide them internally, as outlined in Managing Public Money (MPM)[32]. The SLC's operations involve a number of processing stages and component functions. Some of these, such as contact centre, postal and debt collection services are already partially outsourced. Outsourcing other parts of the business to external organisations may provide the SLC with specialist expertise, alongside improved effectiveness and value for money.

[32] https://www.gov.uk/government/publications/managing-public-money

This Tailored Review has considered the following functions as potential areas for further outsourcing:

- IT;
- back office functions such as HR and legal; and
- supporting the loan sale programme

as everything else that is viable for outsourcing is already done so. MPM advises that it is usually desirable for public sector organisations to draw up an outline business case to help evaluate whether outsourcing makes operational and financial sense. This Tailored Review has conducted a high level analysis on partial outsourcing by:

- considering which existing contracts are likely to end soon;
- analysing the SLC's spend over the last 4 years (2014-2018);
- considering the wider strategic requirements of the company; and
- considering the interests of the DAs.

IT support

The SLC's IT supplier spend has increased exponentially over recent years due its outdated IT architecture and recruitment and retention challenges, accounting for more than half of its contractor spend. It has also suffered from poor IT vendor contract relationships in the past. In addition, the SLC's current approach to IT outsourcing is hampered by having to be reactive to the annual policy commissioning cycle, and the absence of a multi-year funding settlement. This has meant that, historically, it has been difficult for the SLC to get suppliers aligned to outcome based pricing as they are unwilling to incur risks. Crown Commercial Service (CCS) agreements are typically for 2 years (and are not always appropriate for SLC objectives), and the SLC consequently relies on quarterly statements of work that reduce economies of scope and value for money. The SLC has also historically had under-developed commercial acumen and limited engagement and leverage across government via CCS and GDS. Given that data integrity and IT systems are one if its fundamental business enablers, it will be crucial for the SLC to secure the right IT partners to support the Transformation Programme.

Recommendation 32

The SLC should focus on securing a few strategic IT partners on a multi-year footing based on payment by results with shared accountability and mixed teams. This should incorporate lessons learned from previously unsuccessful and contentious IT contracting and be based on a risk appropriate migration plan, cross checked against the Transformation Programme.

Business support functions

Historically, the SLC has not routinely outsourced or moved to a shared services model for their back office functions such as HR, legal, commercial etc, and has not fully explored options for doing so.

One area that is making early headway is the pension arrangement. Pension costs have increased significantly (by 77% from FY 2014-15 to FY 2017-18), a consequence of the SLC's employer's contributions rising from 15% to 27% to address issues of underfunding. DfE and the SLC have been working with the SLC Scheme Trustees, Cabinet Office, HMT and the Government Actuary's Department to identify a long-term, affordable solution to place the scheme on a more sustainable footing, and provide secure pension benefits for SLC staff. A staff consultations on this will begin in Summer 2019.

Recommendation 33

The SLC should commit to investigating options for shared services contracting for back office functions.

Commercial Strategy

The SLC's commercial approach to date has been largely tactical rather than strategic and heavily reliant on expensive contractors hired on a Time and Materials basis or inefficient framework arrangements. This approach, however, is beginning to mature. The Company is beginning to withdraw from frameworks that are not providing results or value for money e.g. some Indesser services. In IT services, the SLC is moving towards a partnership model, engaging with the CCS and GDS, and looking to have 2 partners for platform and 2 for software (contracts which went to market in early 2019). The SLC has also engaged with DVLA and DWP to understand lessons learned in outsourcing IT projects. However, the SLC's relationship with central government commercial and procurement is still developing, and there is often a difficulty with regular communication and leveraging of cross-government expertise.

Recommendation 34

CCS and the SLC should consider options for greater cross government collaboration and commercial leverage, including highlighting performance data and feedback on framework commissioned services

Loan sale support

Currently, the loan book sales are carried out in a multi-departmental approach with the DfE Permanent Secretary acting as Accounting Officer (AO), responsible for end to end sale oversight, and UKGI acting as Senior Responsible Officer (SRO) and project base leading the sale. The SLC has to provide well packaged, clean, detailed data bundles of Management Information to aid the sales transaction team in UKGI and conduct a detailed asset rationalisation process to verify the annual distribution(s) of funds to investors. Approximately 30-40 staff are involved in managing the loans sales (across all of the organisations), with an annual cost of c. £10million.

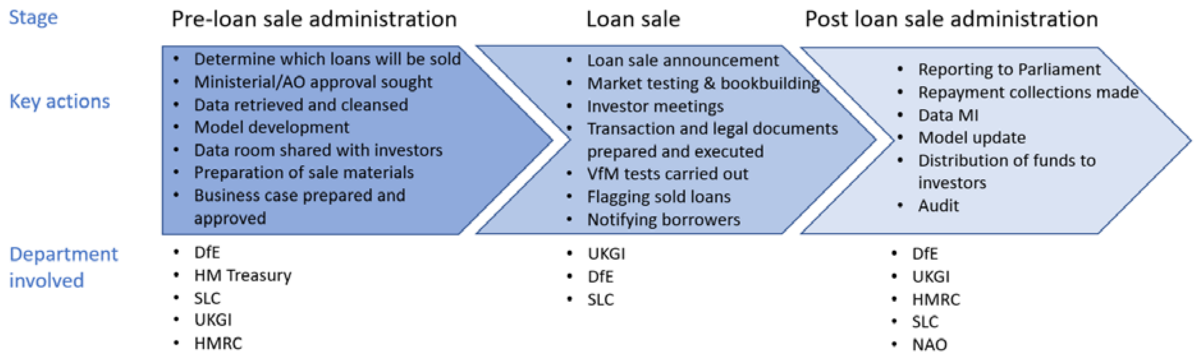

Figure 17: Loan sales process

Source: Tailored Review analysis

Based on the current demand from UKGI, long term planning and forecasting for future loan sales has indicated that it will be challenging for current SLC capacity to meet the anticipated demand for the future annual reporting cycle and delivery expectations, if the full programme is executed (capacity for near term sales is set out earlier in the document). An optimisation programme is underway to develop this capacity, with further detail being developed in coming months.

The Transformation Programme

Currently, many of the SLC's products are overly complicated, interlinked and expensive to develop and maintain. The data which the SLC and UKGI currently rely on for the loan sale programme is distributed across a number of systems. This lacks clear ownership, suffers from quality issues and underutilises opportunities for data sharing – which has resulted in the need to exclude some loans from Sales 1 and 2.

An integral part of optimisation, therefore, will be for the SLC to improve its data management. The Transformation Programme will standardise data management across the SLC by developing a data target operating model, which includes updated processes and tools to deliver clear data ownership, lineage, standards and quality. The Company will establish standards for data sharing with other government departments, including HMRC. Reducing the amount of errors and data issues will help improve the repayments system as a whole and potentially enable more accounts to be packaged and more easily managed for future loan sales.

Whilst this activity, alongside the additional initiatives outlined in section 3.3, may well address the longer term capacity demands for the loan sale programme, a number of alternative longer term options could also be considered:

1) fully outsourcing to an new Asset Management company
2) an existing organisation taking on all of the loan sale functions, such as UKGI
3) significantly increasing the internal resource at SLC and bringing it all in-house
4) a mixed model

1) Asset management company

As a successful AssetCo, UK Asset Resolution Limited (UKAR) was assessed to better understand the benefits of this model. UKAR was set up and financed by HMT in the wake of the financial crisis of 2008. It was established as an NDPB to manage the asset book from both Bradford and Bingley and Northern Rock Asset Management (NRAM). As of April 2019, 93% of the £11 billion government loans have been repaid.

UKAR had its own strategic board and CEO, responsible for its own profit-loss account. Crucially, it did not have any 'new' business generated year on year, meaning that the business had a finite number of loans it was selling on behalf of government with an ever-decreasing balance sheet. UKAR took on the sales of these loans in their entirety, meaning the organisation was responsible for the decisions around what to sell, administering the loans, the selling process and continued to administer the loans post-sale, including analysis of the data stream.

UKAR was also able to generate its own income to become a fully self-funded organisation, by selling its administration arm to a third party company, which meant it was able to invest in its workforce. This is an important point, since securitisation and analytical experts are highly sought after, and the recruitment pool is relatively small. There is a lot of direct competition with banks for this expertise, who will be able to offer high financial incentives.

Based on a rudimentary look at UKAR's financing, it is estimated that the cost of setting up a new AssetCo with 30-50 analytical and securitisation staff, would be in the region of £20-30 million per annum. In addition, it should be noted that many of the functions of UKAR were in place from legacy businesses, which meant that it already had embedded professional resources, processes and knowledge. Setting up and staffing a new institution entirely from scratch is likely to incur additional costs and challenges.

Another significant point to note is that an AssetCo established without a pre-existing institution to sell an open student finance loan book subject to policy changes and income contingent repayments inherently carries more risk than the UKAR model which is selling a closed mortgage loan book from the pre-existing framework of a private financial institutions. Apart from the funding investment, the key issue with this model is the significant risk and complexity involved in any data migration from the SLC.

For these reasons – and others – UKGI have given an initial view that this would not be a viable option for delivering the Plan 1 loan sale programme as currently planned.

2) UKGI taking on all of the loan sale functions

UKGI is seemingly the most suitable existing organisation to take on the loan sales at the current time, since it is already integrally involved in the current process. However, there is little evidence that UKGI could, or would, be in a position to take on the addition of the data cleansing work that the SLC currently undertakes, as it is not their area of expertise. In addition, this option would face the same issues with data migration as setting up an AssetCo.

It would be important for the integrity of UKGI to do this expansion without creating a new entity within the organisation, or without changing the fundamental business of the organisation, which may be difficult due to the volume of resource the loan sale would need.

3) SLC taking on all of the loan sale functions

A third option would be for the SLC to establish its own analytical and securitisation teams and bring the whole loan sales operation in house. This would be a significant change for the company and would require a substantial up-front investment and a non-trivial shift in organisational focus and culture. Although not insurmountable, it is not entirely clear how the SLC would overcome its historic issues of struggling to recruit high end and in demand expertise. There might also be the issue of a clash with DA interests, as, as it stands, neither the SLC nor the DAs receive any percentage of the revenue that is sold (e.g. for re-investment in service delivery), meaning that there may be a real, or perceived, disincentives for the DA shareholders to prioritise this work in addition to the core business.

Growing resource at the SLC and UKGI within the existing model

This option benefits from causing the least amount of disruption and reducing the inherent risks of moving large amounts of data, while shoring up resources for administration and data management to bolster capacity for the loan sale programme in the longer term.

As part of the optimisation work and Transformation Programme, if the SLC can increase and improve its specialist resource and IT capacity for data management, it could feasibly cope with an increase to administer all additional loan sales. UKGI is likely to be able to continue to lead on the sale itself given the processes and protocols already established. As confidence and capacity in the SLC grows, via the Transformation Programme, the goal will be for it to augment the size, expertise and tools of its data management and sale support team, and have strong incentives, including in house learning and development opportunities, to improve recruitment and retention.

Recommendation 35

The SLC and UKGI should focus on optimising in house resource, data and IT capacity within the existing loan sales model. If required, future options on outsourcing should be investigated via a full feasibility study commissioned by HMT in partnership with the SLC, UKGI and DfE.

4.4 Future Options

While the scope of this Tailored Review is focused on changes that can be feasibly delivered in the next 3-5 years, it is recognised that there may be additional opportunities to deliver wider benefits over a longer time horizon once the Transformation Programme has been delivered and the implications of EU Exit and the Post-18 Review have been established.

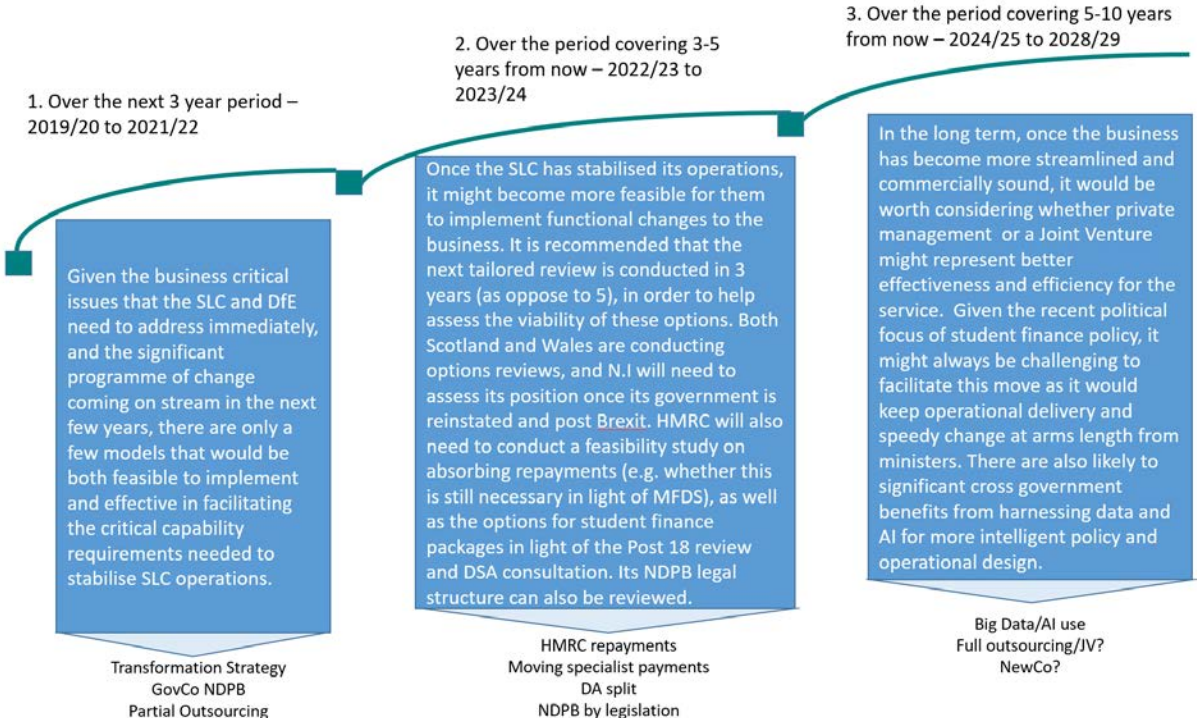

Figure 18: Future options for the SLC

Source: Tailored Review analysis

HMRC taking over all repayments

The SLC has a working relationship with HMRC, which collects approximately 85% of loan repayments via PAYE and Self-Assessment. The SLC directly collects the remainder of loan repayments for those outside of the UK tax system.

A number of stakeholders raised the potential benefits of HMRC taking over administration of all of the repayments and associated accounts, which would allow the SLC to focus on the ‘apply, assess and pay’ front end of the business.

Consolidating this arrangement to be fully administered through HMRC would mean that all repayment activity is centralised in one place, which could potentially improve handling of accounts and reduce data sharing requirements. It might also improve the customer experience and capitalise on HMRC expertise.

There are, however, a number of considerations that would need to be properly worked through, including HMRC’s IT and resource capacity, the split of ministerial responsibility and whether any gains would be marginal given the introduction of the

More Frequent Data Sharing programme. In addition, splitting the payment and repayment function might risk fragmenting the customer journey, with different data platforms and transfers, which could impact on data integrity and a smooth customer interface e.g. SLC no longer having complete access to the statement of account for an applicant and therefore not easily being able to see whether the student has had a previous loan and the status of that loan. It is also likely to be difficult for the SLC to decouple the correct data in a fast and efficient way to transfer the back book over to HMRC.

This option would not be feasible in the next 3-5 years but might be tenable beyond this, once the SLC is on a more stable footing.

Recommendation 36

DfE should commission HMRC (in partnership with the SLC) to carry out a comprehensive feasibility study (in the next 3 years) to explore the viability of HMRC taking on the repayment accounts in their entirety. This should be have reference to any loan sale support servicing feasibility study (see recommendation 35).

Further split of functions between the Devolved Administrations

As explained in section 2.1, the SLC conducts 4 main functions; apply; assess; pay and repay. For England and Wales, the company manages the full, end-to-end process for students, and for Scotland (for loans) and Northern Ireland it provides the payment and repayment parts of the service. Additionally, Northern Ireland's Education Authority uses SLC-developed systems for assessing their students' applications.

Differences in front-end eligibility between England and Wales drives cost and complexity, therefore, if feasible, an option could involve Wales administering their own apply and assess functions, as per the current process in Scotland and Northern Ireland.

Section 3.4 outlined the various studies and reviews being undertaken by the DAs. Given the current uncertainties in the system, none of the DAs have signalled that they are minded to enact a further significant separation of functions, not least because of the prohibitive cost and complexity of doing so.

Recommendation 37

Shareholders should not enact functional splits at this stage, given the fragility of the SLC's IT infrastructure. Any future splits should be conducted once the Transformation Programme has been fully embedded, and aligned with any systems changes as result of the various reviews currently being undertaken and EU Exit.

SLC name change

The Augar Review states that:

> *We recommend that communication of the student finance system, including by government departments and agencies, should be significantly improved and updated…The language of loans and debt is deeply embedded in public discourse about the student finance system and will not be eradicated without a comprehensive, targeted and sustained communications strategy.*
>
> *We envisage that our proposals would become a new student finance plan with a new name to represent more accurately the new system: the "student contributions system". This should include a public engagement campaign to introduce wider changes being made to the student finance system and ensure they are properly understood by students, parents and the media from the beginning. Finally, government should also consider renaming the 'Student Loans Company'. We recognise that the primary legislation underpinning the student finance system uses the term 'loans' and the terminology common to loans (borrower, rates of interest, repayment, liability, etc.) and that this constrains the extent to which the government is able to change the terminology used. We believe that the government should seek changes to this terminology ahead of the introduction of a new system[33].*

Since the SLC is a large and multi-faceted organisation, any rebranding would be complex. The SLC estimates that it has close to 800 customer-facing forms that would need to be changed, plus web content, internal documents and a range of third-party owned information such as HEI websites.

The SLC suggests that a public consultation, with a focus on customers, would be necessary before implementation, which would need to cover both brand perception of the change - explaining why and what difference this would make to the customer -

[33] https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report p. 176

as well as outlining the resource implications connected to front facing websites, partner channels and engagement activities. There are also likely to be legal implications given that the primary legislation underpinning the student finance system uses the term ‘loans’ and the terminology common to loans (borrower, rates of interest, repayment, liability, etc).

Recommendation 38

Consideration on a name change for the SLC should be taken forward as part of the government’s conclusion to the Post-18 review. The merits of a rebrand will need to weighed alongside value for money, legislative considerations and timing with the Transformation Programme.

Forward Look

Given the volume of change and uncertainty in the next few years, and the recommendations in this chapter for various feasibility studies, it will be useful for another strategic review of the SLC to be conducted sooner than the typical 5 years recommended by Tailored Review guidance. Annex H also outlines the critical activity that will need to be conducted over the next 18 months to 2 years and beyond in support of the recommendations and long term objectives outlined.

Recommendation 39

The next Tailored Review of the SLC should be conducted in 3 years.

The sponsorship team should agree a clear action plan for the implementation of the recommendations..

Figure 19 plots the relative criticality of each recommendation and how far activity has already been undertaken to address them. The most pressing recommendations - in terms of being most critical with least existing activity to date - are:

Recommendation 3

Robust programme management governance should be established to oversee the implementation of the Transformation Programme

Recommendation 5

The policy commissioning process should be reformed

Recommendation 17

Shareholders should agree to operate in a more typical GovCo NDPB arrangement; setting the objectives, priorities and budget within a specified deadline, and giving the ELT and Board more autonomy to deliver

Recommendation 38

Consideration on a name change for the SLC should be taken forward as part of the government's conclusion to the Post-18 review.

Recommendation 35

The SLC and UKGI should focus on optimising in house resource, data and IT capacity within the existing loan sales model. If required, future options on outsourcing should be investigated via a full feasibility study.

Recommendation 31

The Student Finance Policy team should conduct a review across products (and specialist grants in particular) to identify where means testing and eligibility protocols can be rationalised and streamlined.

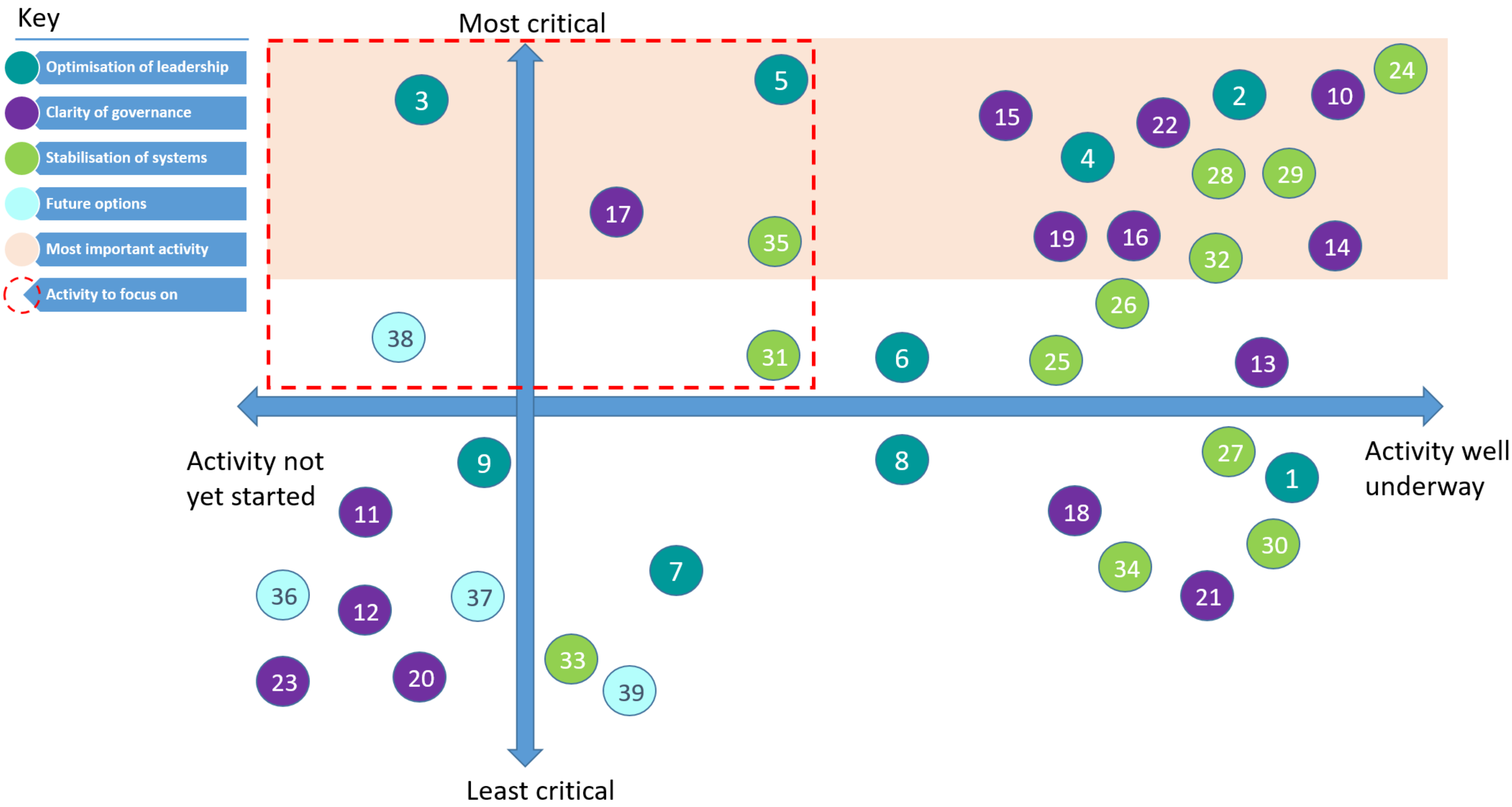

Figure 19: Criticality vs. Activity underway

Source: Tailored Review analysis

Annex A – Terms of Reference

Department for Education

Terms of Reference

Tailored Review of the Student Loan Company

October 2018

Purpose

To carry out a tailored review of the Student Loans Company (SLC) in accordance with Cabinet Office guidance[34]. The review will assess:

i) The current ‘operational health’ of the SLC, looking at whether it remains fit for purpose and is well governed and run effectively and efficiently. Given a number of recent reviews, this will be a light touch assessment.
ii) How the SLC should be structured within the next 5-10 years to optimise effectiveness and efficiency.

The aim of a tailored review is to take a holistic look at an ALB to ensure that its form best enables it to deliver its objectives, alongside looking at governance, efficiencies and opportunities for more effective working. Cabinet Office oversee the overall programme of Tailored Reviews, but departments are responsible for delivering the individual reviews for their ALBs. The review report will be published on GOV.UK and make recommendations for improvement where applicable.

Background

The SLC is a non-profit making Government-owned organisation, which disperses loans[35] and grants to students in universities and colleges in the UK. The SLC was set up as a Company Limited by Shares under the Companies Act, was incorporated in 1989 and began operating in 1990. The SLC has been classified as an executive NDPB since 1996 and its current shareholding structure (Department for Education (DfE) (85%), Advanced Learning and Science Directorate (Scotland) (5%), Skills, Higher Education & Lifelong Learning (Wales) (5%) and the Department of the Economy (Northern Ireland) (5%)) has been in place since 2013.

The primary roles of the SLC are:

- To make payments to individuals, Higher Education (HE) institutions and Further Education (FE) institutions in accordance with the student support regulations and relevant public policy objectives. This includes managing and developing a range of products and services tailored to the requirements of the government administrations.

[34] Tailored Reviews of Public Bodies: Guidance, https://www.gov.uk/government/publications/tailored-reviews-of-public-bodies-guidance

[35] In this context, ‘loans’ refers to Income Contingent Repayment products, rather than more traditionally defined loans. As such, repayment is a function of what a borrower earns, rather than what is owed.

- To ensure repayments (whether through HMRC or direct to the SLC) are collected on time from those due to repay.
- To provide accurate and timely information to students/customers and to inform the shareholders' policy making and analysis.
- To support the effective management and sale of the student loan book.

The SLC currently has c.3000 employees, services approximately 1.8 million applications per year, responds to 4.5 million calls and has over 8 million repaying or due to repay customers with loans totalling more than £115 billion.

Given the scale and complexity of the organisation, this will be a Tier 1 tailored review (see exhibit 2 for more information).

Previous Reviews

UK Government Investments (UKGI) and the Department for Education recently conducted a joint governance review of the SLC to look at the current governance arrangements for the SLC, whether they are working well and potential improvements in the short- to medium-term.

Objectives and Scope

As noted above, tailored reviews assess whether ALBs remain fit for purpose by reviewing their capacity for delivering more effectively and efficiently, including identifying the potential for efficiency savings, and where appropriate, any alternative operating models.

This tailored review will consider the following areas:

Stage 1 – Assessment of current 'operational health'

- Form/function/effectiveness - the status, form, function and continuing requirement for the SLC will be assessed, looking at how well the SLC is delivering its objectives and priorities, the effectiveness of its current strategy, and its performance relative to similar organisations.
- Governance – the review will assess whether the SLC is complying with the recognised principles of good corporate governance set out in the Code of Good Practice[36]. This will largely summarise and build on the work conducted in in the joint DfE/UKGI governance review.

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[36] Cabinet Office & HM Treasury, (2017), 'Corporate Governance in Central Government Departments: Code of Good Practice', https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

- Efficiency – the review will examine whether the SLC is operating in a way which provides value for money. This will include assessing the cost efficiencies of factors such as staffing, digital functions, estates and debt management.

Stage 2 – Analysis of contextual factors

In order to assess potential alternative delivery models, an understanding is required of the contextual factors within which the SLC will need to operate within 5-10 years. These will include:

- Constitutional parameters - considerations around the operating environment after the UK has left the EU, and any relevant devolution issues.
- Policy requirements – any HE/FE student financing legislative or policy requirements, particularly with reference to developing recommendations from the Post-18 Review, where feasible and appropriate.
- Financial considerations – reviewing the loan book strategy and sale, and any investment needs or restrictions on the SLC.
- Technological developments – a high level understanding of any key innovations or threats e.g. cyber security, functional capacity, A.I/big data, HMRC developments (RTI etc), GDPR etc
- Claimant and customer base – modelling the trajectories for the potential claimant and loan base, as well as understating their contextual factors e.g. % likely to move abroad etc.

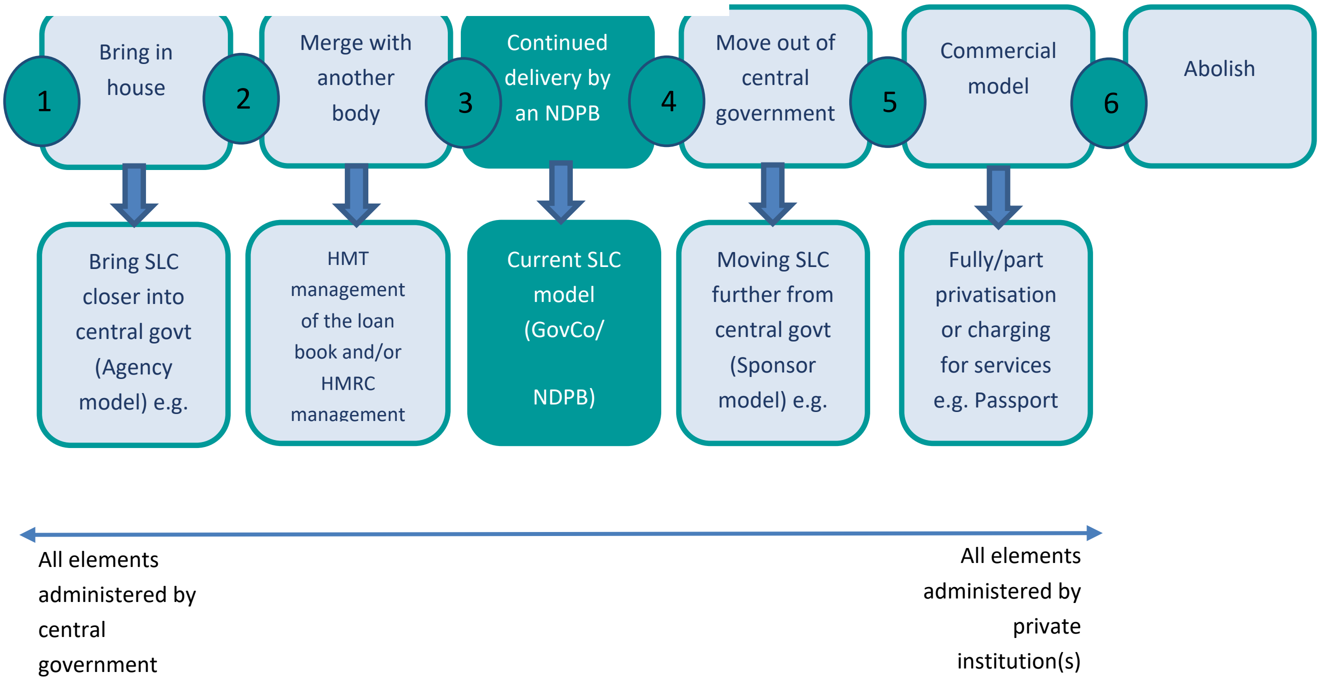
Stage 3 – Agreement of general operating principles

Using the salient insights from Stage 2 to agree a set of operating principles for a future organisation e.g. flexibility and capacity to add new 1-2 products every year, reducing operating costs by X% by 2028 etc.

Stage 4 – Shortlisting different operating models

Using the agreed operating principles, we will assess the viability of a number of potential operating models for the SLC (as per Exhibit 1), with a view to shortlisting 1-3 options.

Exhibit 1. Potential operating models for the SLC



Stage 5 – Assessing viability of shortlisted operating models

Once the shortlist of 1-3 operating models has been agreed, these will be assessed for their viability against the following factors:

- Flexibility and capacity to deliver against ministerial objectives
- Value for money/cost benefit analysis/potential efficiency savings
- Risks/legal considerations
- Estates and location
- Personnel considerations
- IT/digital considerations
- High level implementation considerations

Methodology

Evidence Gather

The review will gather evidence in a range of ways including:

- desk based analysis of a range of sources and reviews
- engagement with the SLC (in the form of site visits and interviews with staff)
- liaison with a wide range of stakeholders and functional leads
- testing with the internal steering group (information below)
- testing with the Challenge Panel (information below)

Timing

The end-to-end review is anticipated to last 6 months between October 18 - March 19 (from confirming the review scope to the report being completed). Some additional time may be required for onwards liaison with the Cabinet Office and final approvals ahead of report publication, as well as post publication close down activity.

Review Team and Governance

Review Team

The review is conducted on behalf of the Secretary of State. A small, dedicated review team will be the day-to-day contacts for the SLC and will produce the final report. The review team will be led by an individual independent of the company and sponsor function, and will include members drawn from across the DfE and SLC.

The review team will be:

- Lead Reviewer – Simone Bolshaw
- Reviewer – Laura deSilva
- Reviewer – Rumaana Rahman
- Review support – Madeleine Firth (SLC)
- Team support – Steven Strachan

Although Cabinet Office guidance does not allow organisations being reviewed, or their sponsors, to directly steer the review, they will be closely involved as the review progresses:

- The review team will agree Terms of Reference (TOR) with the CEO of SLC, and its Departmental sponsors
- The review team will work with the SLC to set up interviews, conduct site visits and ensure it understands the evidence base
- The approach will be iterative and the review team will share emerging findings and recommendations with the SLC and its sponsors throughout, where appropriate
- Interim drafts and the final report will be produced in draft and then finalised following discussion with the SLC and sponsors.

Governance

The review team will be supported by the ALB Partnership Team and will also establish an steering group to help sense check and steer emerging analysis and recommendations. It is envisaged that the steering group would meet approximately once a month and provide project oversight and support with framing content and leveraging across government if/as required. They would not be required to formally ‘sign off’ review chapters.

As a Cabinet Office defined Tier 1 review, the SLC review will also have a Challenge Panel to test and challenge the assumptions and conclusions of the review team.

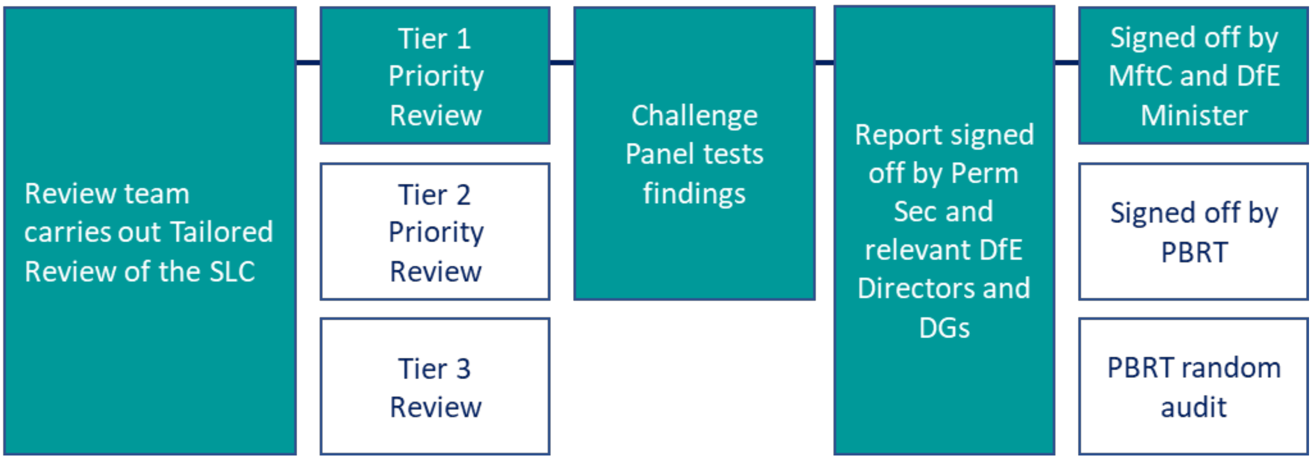
They will provide insight and feedback drawing on their own expertise and experience, but not be required to formally ‘sign off’ review chapters. It is anticipated that the Challenge Panel will meet 3 times throughout the review.

Report clearance and post review activity

As this is a Tier 1 review, formal sign off will be required by the DfE’s Secretary of State, Permanent Secretary and relevant DGs and Directors, as well as the Minister for the Constitution (as per Exhibit 2).

The education ministers of the Scottish, Welsh and Northern Irish devolved administrations will also be consulted on the review before publication.

Exhibit 2. Clearance required for different tiers of TRs



It will be the responsibility of the DfE (via its sponsorship team) to organise a response to the review recommendations and any implementation activity supporting this.

Annex B – List of interviewees and governance group members

Interviewees

Name	Role	Organisation
Paula Sussex	CEO	SLC
David Wallace	Deputy CEO & Chief Customer Officer	SLC
Jonathan Slater	Permanent Secretary	DfE
Ben Connah	DD, SLC Sponsorship Team	DfE
Laura King	Head of Governance, SLC Sponsorship	DfE
Daniel Foster	Head of SLC Strategy, SLC Sponsorship	DfE
David Ross	SLC Sponsorship team	DfE
David Laing	SLC Sponsorship team	DfE
Claire Allan	Student Funding Policy	DfE
Amanda Fenn	Advanced Learner Loans	DfE
Camilla Reinert	Student Loan Repayments	DfE

Iain King	Finance Director	DfE
Paul Williams	DD, Student Funding Policy	DfE
Ben Coates	DD, Student Information and Choice	DfE
Gregory Boone	Disabled Students Policy Team Leader	DfE
Shirley Letts	Student Support Lead	DfE
Glenna Pryor	Student Finance	DfE
Jonathan Clear	Strategic Finance Director	DfE
Jeremy Gould	Digital Services	DfE
Chris Jones	Higher Education	Welsh government
Chris Williams	Higher Education	Welsh government
Jonathan O'Callaghan	Department of the Economy	Northern Ireland government
Gareth Allen	Policy Manager Student Financial Support Team	Scottish government
Leia Fitzgerald	Policy Manager Student Financial Support Team	Scottish government

Chris Brodie	SLC Chair	SLC
Natalie Elphicke	Non Executive Director	SLC
David Gravells	Non Executive Director	SLC
Simon Devonshire	Non Executive Director	SLC
Andrew Wathey	Non Executive Director	SLC
Mary Curnock-Cook	Non Executive Director	SLC
Ben Alexander	Crown Commercial Lead	Cabinet Office
Ciara Chivers	Corporate Finance	Cabinet Office
Chad Woodward	Former Executive Director	UKGI
Sandy Moreira	Assistant Director	UKGI
Daniela Guzzardo	Assistant Director	UKGI
Helen Mitchell	Legal	UKGI
Peter Lauener	Former interim CEO	SLC
Jacqui Smillie	Executive Leadership Team (Chief Financial Officer)	SLC

Bernice McNaught	Executive Leadership Team (Executive Director, Repayments and Counter Fraud Services)	SLC
Derek Ross	Executive Leadership Team (Executive Director, Operations)	SLC
Gary Wormesley	Executive Leadership Team (Company Secretary)	SLC
Adrian Tucker	Executive Leadership Team (Chief Information Officer)	SLC
Maggie Wightman	Director - Policy, Design and Change	SLC
Lindsay Brown	Product design	SLC
Steve McCready	Head of Spend Assurance	GDS
Colin Smith	British Council	FCO
Sarah Jaegar	Higher Education	HMT
Siddharth Varma	Enterprise and Growth Unit	HMT
Andrew Busby	Post-18 Policy	DfE
Simon Dadd	Senior Policy Advisor	DeXEU
Rejwan Uddin	Policy Advisor	DeXEU

Blake Patel	Policy Advisor	DeXEU
Paula Crofts	EU Exit Programme	BEIS
Nolan Smith	Director of resources, finance and transformation	Office for students
Richard Puttock	Head of data, foresight and analysis	Office for students
Rachel Nixon	Deputy Director NICS Policy and Student Finance	HMRC
Neil Nicholas	Head of Student Finance	HMRC
Sally Swait	Head of Product and Proposition	NS&I
Diane Henderson	HR Director	UKAR
Isabella Watson	Strategic Assurance Lead	Cabinet Office
Saima Mirza	Senior Policy Advisor, Public Bodies Team	Cabinet Office
Ben Norman	Senior Manager	Bank of England
Adam Horsler	Senior Manager	Bank of England
Emma Maloney	Public Chair’s Forum Manager	Institute for Government
Susanna Smith	Membership, Communications and Research Officer	Institute for Government

Ian Todd	Former Chief Executive	STA
Richard Banks	Former Chief Executive	UKAR
Sir James Leigh-Pemberton	Former Executive Chairman	UKFI
Ceri Smith	Director	UKGI
Ian Burrows	Manager of large retail lenders	FCA
Sarah Jane Hannah	Financial Accounting Manager	SLC
Sally Winstanley	CRO, Europe and Retail Funds	Aviva
Mark Gray	Chief Risk Officer	Homes England
Matt Smith	Legal	DfE

Challenge Panel

Name	Role	Organisation
Richard Pennycook (Chair)	DfE Non-Executive Director	DfE
James Leigh-Pemberton	Former Executive Chairman	UK Financial Investment
Richard Banks	Former Chief Executive	UK Asset Resolution
Paul Feldman	Chief Executive	Jisc
Nicola Dandridge	Chief Executive	Office for Students
Alistair Jarvis	Chief Executive	Universities UK
Mark Keene	Assistant Director Partnership & Operations	NS&I
Dax Harkins	B2B Director	NS&I
Sarah Randall-Paley	Chair	British Universities Financial Directors Group
Kuljit Dhillon	Deputy Director	Public Bodies Team, Cabinet Office
Francesca Conlon	Deputy Director	Public Bodies Team, Cabinet Office
Niva Thiruchelvam	Deputy Director	Education and Skills, HMT

Jon Sell	Deputy Director	Corporate Finance, HMT
Sharon Harrison-Barker	Academic Registrars Council	Academic Registrar

Steering Group

Name	**Role**	**Organisation**
Emran Mian	Former Director General	Higher and Further Education, DfE
Paul Kett	Director General	Higher and Further Education, DfE
Matt Toombs	Director	Student Finance, DfE
Sinead O'Sullivan	Director	Career Learning, Analysis, Skills and Student Choice, DfE
Sarah Butterfield	Head of ALB’s Partnership Programme	DfE
Paul Bond	Senior Finance Business Partner	Further Education, DfE
Siddharth Varma	Policy Advisor	Enterprise and Growth Unit, HMT
Sarah Jaeger	Policy Advisor	Higher Education, HMT

Alex Reeves	Executive Director	UKGI
Chris Williams	Skills, Higher Education & Lifelong Learning	Welsh government
Leia Fitzgerald	Advanced Learning and Science Directorate	Scottish government
Jonathan O'Callaghan	Department of the Economy	Northern Ireland government
Ben Connah	Deputy Director	SLC Sponsorship Team, DfE
Laura King	Head of Governance	SLC Sponsorship Team, DfE
Madeline Firth	Business Manager to the Office of the CEO	Student Loans Company
Elliot Brinkworth	Strategic Assurance Lead	Public Bodies Reform, Cabinet Office
Saima Mirza	Strategic Assurance Lead	Public Bodies Reform, Cabinet Office
Rachel Nixon	Deputy Director, NICS Policy and Student Finance	Customer Strategy and Design, HMRC
Neil Nicholas	Head of Student Finance	Customer Strategy and Design, HMRC

Annex C – Responsibilities of both a Government Company (GovCo) and NDPB

Companies Act obligations

The Directors of a GovCo have 7 general duties under the Companies Act 2006 (with their Section numbers in Companies Act 2006):

- To act within the directors' powers (section 171)
    - A Director of a company must act in accordance with the company's constitution and only exercise powers for the purpose for which they are conferred.

- To promote the success of the company and to act in good faith (section 172)
    - A director of a company must act in in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In so doing, the director must have regard (among other matters) to:
        - The likely consequences of any decision in the long term;
        - The interests of the company's employees;
        - the need to foster the company's business relationships with suppliers, customers and others;
        - the impact of the company's operations on the community and the environment;
        - the desirability of the company maintaining a reputation for high standards of business conduct; and
        - The need to act fairly between members of the company.

- To exercise independent judgement (section 173)
-
- To exercise reasonable care, skill and diligence (section 174)
    - This means the care, skill and diligence that would be exercised by a reasonably diligent person with –
        - the general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the director in relation to the company (the objective test); and
        - the general knowledge, skill and experience that the director has (the subjective test).

- To avoid conflict of interests (section 175)

  - A director of a company must avoid a situation in which they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company;
  - This applies in particular to the exploitation of any property, information or opportunity (and it is immaterial whether the company could take advantage of the property, information or opportunity);
  - This duty does not apply to a conflict of interest arising in relation to a transaction or arrangement with the company.

- Not to accept benefits from third parties (section 176)

- To declare interest in proposed transactions or arrangements (section 177)

All these duties except the section 174 duty (to exercise reasonable care, skill and diligence) are fiduciary duties.

A director of a limited liability company does not have personal liability if acting in accordance with his duties.

NDPB – Governance obligations

- In addition to the fiduciary duties outlined above, government owned companies as NDPBs must also:

  - comply with central government guidance on parliamentary funding and accountability (as set out in *Managing Public Money)*
  - be fully consolidated into the financial accounts and Supply Estimates of their sponsoring department
  - have an Accounting Officer, appointed by the Principal AO of the sponsor department
  - comply with delegated authorities form the Treasury and sponsor department and to seek approval for any non-delegated spending.

A GovCo NDPB's income and expenditure are subject to Parliamentary accountability and spending control, regardless of whether that income is given out form central government funds, or raised from fees and charges. This springs from the principle set out in Lord Sharman's 2001 report *Holding to Account: The Review of Audit and Accountability in Central Government*, that 'public money' is all money that comes into the possession of, or is distributed by, a public body.

- https://webarchive.nationalarchives.gov.uk/20081023195427/http://www.hm-treasury.gov.uk/d/38.pdf (see in particular paragraph 2.22)

Annex D - High level assessment of the SLC's governance against Tailored Review Guidance

Principle	Summary	RAG rating	Review findings
Accountability			
Statutory Accountability	The public body complies with all applicable statutes and regulations, and other relevant statements of best practice.	G/A	• The SLC broadly complies with the principles and policies set out in the HMT publication Managing Public Money and Cabinet Office/HM Treasury spending controls. However there have been some instances of delegations breaches or limited understanding of government accounting practices. These are being addressed with extra training • The SLC is compliant with the Data Protection legislation, the Public Records Acts and the Freedom of Information Act
Accountability for Public Money	The accounting officer of the public body is personally responsible and accountable to Parliament for the use of public money by the body and for the stewardship of assets.	G	• There is a designated Accounting Officer in place, and the role is outlined in the Framework document • The SLC has arrangements in place to ensure public funds are safeguarded and deliver vfm • The SLC's annual accounts have been laid before parliament each year on time
Ministerial Accountability	The minister is ultimately accountable to Parliament and the public for the overall performance of the public body	G	• Accountability arrangements are set out in the Framework document between the shareholders, and the SLC • The Minister(s), shareholders and sponsorship team exercise scrutiny and appropriate oversight of the SLC • The Minister is consulted on the appointment of

			the chief executive, and meets with them on a fairly regular basis (recent improvements) • The annual report informs Parliament of the SLC's activities, alongside oral questions
Roles and responsibilities			
Role of the Sponsoring Department	There is a sponsor team within the department that provides appropriate oversight and scrutiny of, and support and assistance to, the public body.	G/A	• The sponsorship team provides oversight of the SLC, although historically it has not always had full visibility over all requirements and requests • There is a framework document in place that sets out the aims, objectives and functions of the SLC, in accordance to Managing Public Money • There is regular and improving dialogue and support between the sponsoring department and the SLC, although there have been difficulties in developing mutual understanding
Role of the Board	The public body is led by an effective board which has collective responsibility for the overall performance and success of the body. The board provides strategic leadership, direction, support and guidance.	A	• The Board meets regularly but often acts in an advisory function rather than outlining strategic direction • Recruitment of board members is targeted to from a range of diverse backgrounds • The board has a remuneration committee that makes recommendations on the remunerations of the ELT • The Chair and sponsorship team should ensure that there is a regular evaluation of the performance of the board, the Chair and individual board members
Role of the Chair	The chair is responsible for leadership of the board and for ensuring its overall effectiveness.	G/A	• The Framework document sets out the roles and responsibilities of the Chair • The Chair does not have objectives and performance reviewed on an annual basis • The role of the Chair and Chief Executive is held by different individuals

			• The duties, terms of office, remuneration of the Chair is set out in writing
Role of Non-Executive Board Members	As part of their role, non-executive board members provide independent and constructive challenge.	A	• There is some confusion over the corporate status of non-executive board members with regards to enacting their fiduciary responsibilities • Transparent processes exist and are followed for the appointment of non-exec board members. • The Framework documents sets out the roles and responsibilities of the Non-Executive Board Members • The Non-Executive Board members do not always systematically establish the strategic direction of the SLC
Effective financial management	The public body has taken appropriate steps to ensure that effective systems of financial management and internal control are in place	G/A	• The SLC publishes a balanced and understandable annual report complying with HM Treasury guidance • The SLC adheres to the Counter Fraud Functional Standards. It was last reviewed in April 2019 and achieved 11 out of the 12 Functional Standards, with the missed score relating to the Fraud Savings audit which had not been completed in time for evidence to be submitted, but is currently underway • There are some organisational capability issues around accurate forecasting, public finance knowledge and budget profiling which are being addressed with renewed training • There are clear protocols in place to ensure compliance with rules on claiming expenses • The SLC's ARC is responsible for the independent review of the systems of internal control and the external audit process (working with NAO)
Communications			

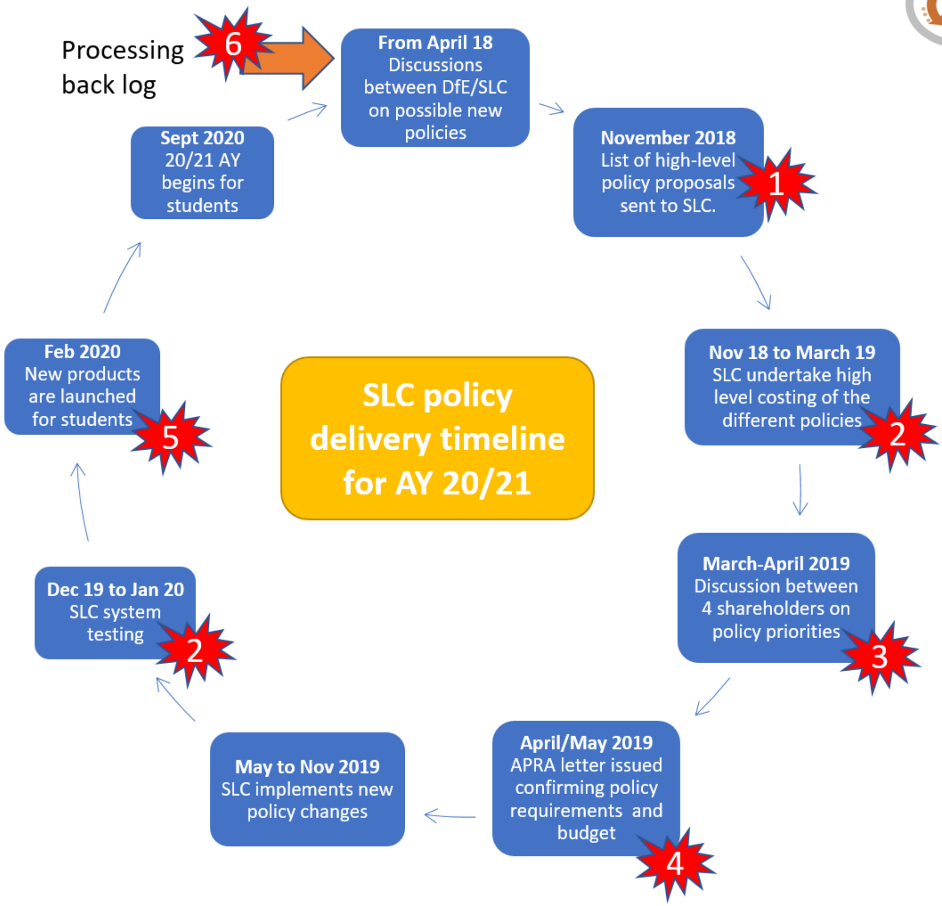
Communications	The body is open, transparent, accountable and responsive.	G	• The SLC board meets in public, and minutes and agendas are published online on slc.co.uk • Surveys are conducted with stakeholders as part of effective communication • The SLC engages and consults with the public on issues of real public interest • The SLC has an effective correspondence handling and complaints procedure
Code and Conduct			
Conduct and Behaviour	The board and staff of the public body work to the highest personal and professional standards. They promote the values of the body and of good governance through their conduct and behaviour.	G	• The SLC Code of Conduct incorporates the Civil Service Code • As part of the Student Loans Company's commitment to transparency, it publishes details of expenses incurred by its board and chief executive

Annex E - High level assessment of the SLC's provision against Code of Good practice on Partnerships between departments and arm's-length bodies

Principle	Summary	Review findings	RAG rating
Purpose	Partnerships work well when the purpose, objectives and roles of arm's-length bodies (ALBs) are mutually understood; reviewed on a regular basis; and clearly set out in relevant documents. There is absolute clarity about lines of accountability and how the ALB's purpose and objectives align with those of departments.	• There is a broad consensus that further steps need to be taken to ensure the SLC's purpose and objectives are mutually understood and fit for purpose. • The SLC has begun to review its governance structures, alongside the framework document which has recently been reviewed and updated. Formal delegations have been established with the SLC and the accounting officer understands the conditions required via Managing Public Money. • Although the working relationship between the SLC and the department has improved, there has been a 'disconnect' and a lack of alignment on certain issues or mutual understanding of each other's contexts	G/A
Assurance	Partnerships work well when departments adopt a proportionate approach to assurance, based on the ALB's purpose and a mutual understanding of risk. ALBs have robust governance arrangements in place and departments give them autonomy to deliver effectively. MI exists to enable assessment of performance.	• The sponsorship team does have assurance protocols in place. The Performance, Risk and Finance forum is in the process of being renewed to provide greater scrutiny • There have been issues of lack of understanding of the proper use of control delegations • SLC is currently in the process of implementing a 'three lines of defence' model and aligning its risk management capability with industry best practice. Parallel to this, SLC has been working with DfE to improve risk governance between the Company and the Department, specifically, on the formal escalation procedures between SLC and DfE register(s)	A

		• A more comprehensive Risk Performance Framework needs to be developed	
Value	Partnerships work well when departments and ALBs share skills and experience to enhance their impact and deliver more effectively. ALBs contribute to policy making and broader departmental priorities. There is a focus on innovation and working together to deliver VFM.	• There has been limited exchange of skills and experience between the department and SLC, for example through secondments or joint programmes. • Further action should be taken to provide the SLC and department with opportunities to share learning and expertise, through secondments or 'staff swaps.' This would also provide the SLC with the opportunity to gain insight into the policy-making process • The policy commissioning process also needs to be transformed to promote more effective and informed product development	A/R
Engagement	Partnerships work well when relationships between departments and ALBs are open, honest, and constructive and based on trust. There is mutual understanding about each other's objectives and clear expectations about the terms of engagement.	• The Framework document sets out the terms of engagement between the SLC and shareholders, outlining the process to resolve disputes • The Department and SLC recently worked closely together to induct the new CEO/CFO, clear the first pay business case and develop the Transformation Programme business case • The sponsorship team and the SLC should ensure that the minimum annual requirements for the Framework document are met, embedding a clear sense of the expectations on mutual engagement. The Department and SLC should also have clear structures in place to review their relationship periodically	G/A

Annex F – Challenges with the policy commissioning cycle



Strategic misalignments in the policy commissioning cycle are creating significant threats to the ongoing viability and sustainability of high quality, value for money product development

1. Although the MoU between the shareholders requires them to consult with respect to the "moderating of competing demands", in practice there appears to be little coordination of policy asks between the shareholders, resulting in the SLC receiving multiple unaligned demands from DfE (new products from across HE and FE) and from Devolved Administrations.
2. A commitment to a new product is made ahead of the discovery phase (i.e. the cost and complexity of development) and at times the policy and/or the regulations are still being developed. This often results in inaccurate budget forecasting with unrealistic costs for product development and launch.
3. Prioritisation only takes place a year ahead of implementation, without multi year budgets or policy programmes in place.
4. Often shareholders (DfE and the Devolved Administrations) only formally share/discuss new products once they have been announced.
5. It takes the SLC at least 18 months to develop and launch a new product – however the scope of the product is developed in parallel to SLC implementation for around 9-10 months. The SLC has a finite capacity to deliver change, partly due to its legacy infrastructure, resource constraints, fixed delivery window and relatively short term investment horizon. However, this does not appear to be explicitly taken into account in the development of policy initiatives.
6. Increasing demands mean that more work is slipped/carried over to the next financial year, creating less capacity each year for new policy work as the SLC hasn't had time to 'catch up'. This is compounded by system inefficiencies which often lead the SLC to build minimum viable products which require manual work arounds and back logs with no time to resolve before the next tranche of policy requests. This is compounded by having less skilled staff to mange the process.

Annex G – Example set of strategic objectives for the SLC

Long term strategic objectives for SLC

Right service - A sector leading customer experience, offering digitised, easy to use, accessible platforms and services which pays and collects the right amount of money (and appropriate IAG) to students, re-payers, HEIs/FEIs and other key partners

Right objectives - Company aligned to a clear set of objectives - endorsed by wider stakeholders – which are embedded into business practices and drive strategic focus

Right governance - A well-functioning governance arrangement with all key players understanding their responsibilities and the expectations of the SLC as both as a company and NDPB, with the Board/ELT/shareholders/sponsors confident in being able to enact their fiduciary responsibilities; hold the company to account drive strategic improvement/performance and remain compliant with civil service codes ;and practices e.g. Managing Public Money

Right IT - A modern, flexible, secure IT system which can quickly absorb and embed new requests and provides stability of service; accessibility for operators; flexibility of application; ease/accuracy of data management; and security against attacks or systems failures

Right staff - Highly engaged staff with the right mix of skills and experience and an effective balance of retention, progression and fluidity/partner support within a supportive and professional culture

Right commissions – An effective policy commissioning cycle which embeds cross team working based on a shared language/understanding and operating on well adhered to commercial principles, with enough flexibility to respond appropriately to political changes

Right model - An efficient business model which drives value for money and has the right portfolio of in house and outsourced functions, supported by professional corporate services

Right resilience – A stable, secure operating environment, carrying an appropriate level of risk appetite with robust and well managed risk assessment and mitigation protocols

Annex H – Critical activity for the next 4 years

Next 18 months

Apr 19 – Sep 20

Stabilising operations and exploring new models SLC leadership, the Board, shareholders, ministers and key stakeholders must be focused on stabilising the core systems of the SLC to put it on sound footing for significant policy change/new systems and products development, as well as setting the groundwork for potential future functional changes.
Critical capabilities/enablers
Clarity of governance structure with clear delineation of responsibility and authority
High quality strategic leadership, planning, capacity and resource management, particularly to manage transformation plan
Clearance of the OBC for the Transformation Plan
Agreement on new, effective policy commissioning cycle
Work to stabilise IT infrastructure
Clearance pay cases, finalisation of new People Strategy and reduction staff attrition, especially those with essential programme management/technical skills
Continuation of timely and high quality servicing support for existing and future loan book sales, with planning for further optimisation (see below)
Appropriately risk aligned and effective cyber security protocols with enough money assigned in reserves for disaster recovery (20-30% of operational budgets)
Continuing to build strong links to key stakeholders and dependable real time data sharing with bedding in of the MFDS programme
Robust spending controls and prudent management of budgets, with new financial and commercial training
Functional/governance models
HMRC/SLC to conduct feasibility study on HMRC taking over repayments function
Consultation on moving some elements of grant payments to HEIs
DfE/SLC/UKGI to conduct feasibility study into options for optimising loan sale support servicing (AssetCo or growing resource/capability within SLC/UKGI)

Embedding operations and preparing new models Once systems, IT, staff and governance protocols have been stabilised, the SLC will need to focus on securely embedding these changes. Shareholders should begin to feel more confident about delegating more responsibility (if appropriate) and the wider policy and political landscape should be more clear, potentially enabling preparations for some functional changes
Critical capabilities/enablers
Increased cloud based services and decommissioning of legacy and physical IT infrastructure
Depending on HMRC and loan sales feasibility study outcomes, investment in analytics, data management and modelling capability
Continued embedding of robust people strategy, reducing reliance on contractors, investing in core skills and more focus on specialist support as mainstream continues automation and digitisation
If appropriate, further delegations of controls if transformation plan delivered and benefits realised
Stabilisation of policy landscape and requirements from DAs, Post 18, Brexit, any new government etc
Functional/governance models
Depending on outcome of feasibility study, HMRC/DfE/SLC to start earlier preparations for potential repayments shift
Depending on outcome of consultation and any early pilots, DfE/SLC/HEIs to start earlier preparations for migration of some grant payments
Depending on outcome of feasibility study, DfE/SLC/UKGI to enact outsourcing of loan sale support and servicing function
New Tailored Review to start from Spring 2022 – with specific focus on full outsourcing options and greenfield IT build

Last 18 months

Apr 22 – Sep 23

Optimising operations and establishing new models Once new processes and protocols have been securely embedded, the SLC leadership should be given significant operational independence. Focus can shift to more fundamental functional and governance reform if this is deemed as optimal by the Tailored Review.
Critical capabilities/enablers
Well functioning governance arrangement with ELT/Board successfully leading and embedding transformation activity with delegated multi-year settlement
Clear, timely and well-functioning policy commissioning cycle and great clarity of policy landscape/asks
Greater shareholder alignment and more thorough scrutiny of risk management and mitigation. Streamlined meetings, each with clear ToRs and value add
Consolidation of staff with required skills, embedding of People Strategy and reduction in attrition and use of contractors
Stabilised IT system with greater use of cloud and optimised cyber security
Functional/governance models
Depending on outcome of feasibility study, migration commencement of repayments functions to HMRC
Depending on outcome of consultation and any early pilots, migration commencement of some grant payment to HEIs
Depending on outcome of feasibility study, bedding in of outsourcing of loan sale support and servicing function
Depending on Tailored Review recommendations, early preparation for newly recommended model

Department for Education

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