



19 September 2011

Our ref: ICAEW Rep 88/11

The Higher Education White Paper Team
Higher Education Directorate
Department for Business, Innovation and Skills
1 Victoria Street
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UNITED KINGDOM

Via e-mail: HE.consultation@bis.gsi.gov.uk

Dear Sir/ Madam

Department for Business, Innovation and Skills' Consultation on potential early repayment mechanisms for student loans

ICAEW is pleased to respond to the Department for Business, Innovation and Skills' *Consultation on potential early repayment mechanisms for student loans*. Please also see our wider response to the White Paper *Higher Education: Students at the Heart of the System* submitted separately.

Q 1: Should BIS introduce a more progressive mechanism for early repayment of student loans?

No. We believe that BIS should allow the present approach to student loans to continue whereby it is possible for any debt to be settled in full without penalty.

We are not convinced that the case is yet sufficiently made for a more progressive repayment mechanism along the lines set out in the consultation document and we would strongly recommend that the government should reflect further before proceeding down this course.

We have a number of general concerns:

1. The proposal represents a clear move away from the current and long-established policy under existing student loans.
2. We believe that preventing or penalising early repayment over an extended period of time may constitute an unfairly restrictive covenant which might be susceptible to legal challenge.
3. The proposal appears contrary to a free market ethic and discipline and the comparison made with mortgage repayments is not to our view a wholly accurate one.
4. While we recognise the Government's desire to have a progressive system, it appears that there is a lack of knowledge certainty over some of the key elements in the overall proposal.
5. There is also the political risk that what is envisaged is perceived as 'social engineering'.
6. The proposal would introduce much greater complexity into an increasingly complex system.
7. Early repayment by students has positive advantages that are not being acknowledged in that it makes available a flow of funds for new students at far earlier a date than would normally have been the case. This would arguably better sustain the system than preventing or deterring early repayment.

If the government decides to bring in such a mechanism, then the comparison made with mortgage repayment could be better adhered to. For instance, a simpler rule could be introduced that for the first three years after repayments become due it would not be permitted to pay back more than the standard 9% of income plus interest. Then, after three years had elapsed, a one-off administrative charge could be levied for those wishing to settle their loans in full. Such an approach would avoid introducing potentially great overhead cost and complexity into the system and it would better safeguard the Government's ability to monetise the student loan book.

Q 2: If BIS should introduce a more progressive mechanism, which model best delivers BIS' stated aims of ensuring the progressiveness and sustainability of the student finance system?

As outlined above, ICAEW is skeptical about the claimed advantages and justifications of preventing or penalising early repayment. If the government is firmly set upon introducing one of the three models outlined in the document, then we would suggest that the hybrid model is the fairest and best, though admittedly also the most complex.

Q 3: How would a more progressive early repayment mechanism affect you or your organisation's perception of and relationship with the student finance system?

ICAEW would be concerned that further and unnecessary complexity and restriction was being introduced. More importantly, we would also be concerned that students and their families would also feel this – such views coming on top of a general perception in many quarters that young people today are facing an unreasonable cost and pressure for their higher education. As the wider White Paper acknowledges, ICAEW has been working with employers and universities on some imaginative learning models blending degrees with paid work and professional qualification which will reduce or eliminate student debt in individual cases. However, it is inevitably the case that only a minority of students will be able to benefit from these schemes and there needs to be a general system in place which works without unfairness, great complexity or artificial barriers.

We hope the above points prove helpful and we look forward to the development of proposals from BIS later this year. Please do not hesitate to contact me or Jonathan Jones, Head of Policy & Strategy, (jonathan.jones@icaew.com; +44 (0)1908 248 292) should you wish to discuss any of the points raised here or in our wider response submitted separately.

Yours faithfully



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