House of Commons

Treasury Select Committee

Oral evidence: Student Loans, HC 478

Tuesday 19 December 2017

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Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Stephen Hammond; Stewart Hosie; Mr Alister Jack; Alison McGovern; Kit Malthouse; John Mann; Wes Streeting.

Questions 188–292

Witnesses

I: Joseph Johnson MP, Minister of State for Universities, Science, Research and Innovation; Matt Toombs, Director, Student Finance and Analysis, Department for Education.

Examination of witnesses

Witnesses: Joseph Johnson and Matt Toombs.

Q188 **Chair:** Good morning and thank you both very much indeed for being here this morning. For the benefit of those who are watching, not just here in the room, please introduce yourselves and your titles.

Joseph Johnson: Good morning. I am Jo Johnson, Universities and Science Minister.

Matt Toombs: Good morning. I am Matt Toombs, Director of Student Finance and Analysis at the Department for Education.

Q189 **Chair:** Thank you very much indeed. This morning we have, for the first time, via Twitter, crowdsourced some questions for you both. The public have engaged very constructively and we have a good range of questions, so thank you very much to all those who sent them in. Members of the Committee will include the questions during the session: they may well tell you that it has come from a member of the public, but we are not going to name them. There were a few issues that came up that were not pertinent to this inquiry, so I will probably write to you, Jo, with those, just so we can say we have raised them.

I want to start with the impact of student loans on the public finances, which we have explored with previous witnesses. Is the current higher education funding model sustainable?

Joseph Johnson: I think it is. It is a strong model that has been put into place over a number of years and has undergone various changes. It is sustainable and it is achieving its core policy objectives, which are: to ensure our higher education system is sustainably funded; to ensure that there are no financial barriers to access for people from disadvantaged backgrounds; and to ensure there is a fair split of the costs of doing all those things between the individual student and the general taxpayer.

Q190 **Chair:** On that split, in a speech this year, Jo, you said that students pay, on average, roughly 65% of the cost of the system through fees while the taxpayer bears around 35% of the cost through teaching grants and loan subsidies, and you described that as a fair split. Following the recent changes to the repayment threshold, Universities UK estimates students now pay for 53% of the system and taxpayer for 47%. Is that still a fair split and do you agree with their analysis?

Joseph Johnson: It is always going to be a subject of legitimate political debate as to exactly what the fair split is between the cost that is borne by the taxpayer and the cost that is borne by the individual student. Broadly speaking, it is roughly right that each groups' share corresponds to the benefits that they receive from higher education in the form of the present value to the student of the higher lifetime earnings that they can expect and, for the public, the other benefits: the societal benefits that accrue from having an educated workforce and an educated population. If the splits correspond broadly to those benefits, it is a reasonable balance. At the moment, as you say, thanks to the changes that were made in October, which will come into effect next year, we have seen the split tilt a bit backwards in favour of the student and at the cost to the general taxpayer. You are roughly right: according to our calculations, about 45% of that cost will now be borne by the general taxpayer and about 55% by the individual student.

Q191 **Chair:** Do the Government have a view on at what point the split would not be correct, if there were to be any further changes of policy?

Joseph Johnson: It would become difficult to see a split that led to the taxpayer bearing such a significant proportion of the cost that it resulted in us having to go back to a system in which we were rationing higher education because the cost to the general taxpayer was just too large for him or her to bear. That was really the situation that we inherited prior to the funding reforms in 2011, when we had relatively tight student number controls. By releasing those student number controls we have enabled many more people to go into higher education and to receive the benefits from it.

Q192 **Chair:** You will have seen the recent OBR documents around the Budget, which forecasts that by 2021-22 outstanding student debt will total £160 billion or 7% of GDP; in 2005-06 the total debt was £20 billion, under 1% of GDP. Is there a concern in Government that such a large increase in debt is eventually going to make the system unsustainable?

Joseph Johnson: No. One way or another, you have to finance your system of higher education, whether you are doing it through a system of income-contingent student loans or through a system of direct grant funding through general taxation. The question is how you apportion that cost between the individual taxpayer and the individual student.

Q193 **Chair:** At $100 billion of debt, how much of that is going to be written off?

Joseph Johnson: The RAB charge is the figure that we use to understand the amount that is going to be written off over time; it has varied over the years. At the time Lord Browne produced his report into student funding, it was estimated that the RAB would be around 40%; it has gone up and down in the years since. Following the changes announced at the Party Conference in October, we estimate we are looking at a RAB of between 40% and 45%.

Q194 **Chair:** Moving on to those changes that were announced at the Party Conference, including obviously the increase in the threshold repayment, what was the thinking behind that and how involved were you in that decision-making process? Was it more politics than economics?

Joseph Johnson: There are various levers that you can pull when you are looking at how to tilt the overall burden of funding higher education between the individual student and the general taxpayer. You can look at the interest rate; you can look at the repayment threshold; you can look at whether the amount that students are asked to repay—the 9%—could be higher or lower. The repayment threshold had the advantage of benefiting students immediately in terms of the amounts that they would be required to pay and the interest that they would be accruing debt on, and that was the decision that was taken. It results in an immediate benefit to students of about £360 a year. That is cash in their hands that they would not otherwise have when they are in the repayment period, and it had that attraction.

Q195 **Chair:** The increase in the repayment threshold, according to the IFS, means that the Government contribute more to university funding now than prior to the introduction of the £9,000 fees.

Joseph Johnson: We strongly disagree with that figure. That figure, I am afraid, was based on a faulty analysis, which we have been through with the IFS subsequently. The actual cost to the taxpayer per student per degree is 25% less now than it was in 2011 when we introduced these funding reforms. There are a number of technical reasons why we disagree with the IFS analysis, but we strongly do. The cost, in the form of government subsidy per student, is in the order of £18,000 now, today, thanks to the changes that will come into effect next year, whereas in 2011 we estimate that the government subsidy per student was in the order of £25,000. Today it is 25% less.

Q196 **Chair:** Looking at sustainability, the subsidy might be less, but there is still a huge amount of debt, a large proportion of which will eventually be written off. I know that members of the Committee are going to come on to look at the way the debt is covered in the Government's accounts and everything else.

Joseph Johnson: One way or another you have to fund your system, whether you are funding it through direct taxation or through debt, some of which will be written off. The fact that debt is written off is a conscious, deliberate policy decision by the Government. It is not a symptom of a broken student finance system; it is a deliberate investment in the skills base of the country, which delivers benefits for individual students and for society at large from having an educated workforce. It is not a symptom of a broken system; it was a deliberate feature going all the way back to Browne when he said we will have a RAB charge of circa 40%. It is now between 40% and 45% because we have tilted it a little more in favour of the individual student, because we have increased the threshold.

Q197 **Chair:** Are there future plans or discussions? The threshold increase was announced in October. Are the Government and Ministers going to keep that under review? What has the feedback been from those in the universities system? Has it been well received or is that a threshold that will now stay for the foreseeable future?

Joseph Johnson: We have committed to the threshold rising with earnings from next year, which is when the threshold increases to 25%, so it will continue to grow. Yes, we always keep the system under review, as a whole. We want to ensure that it is not rigid and inflexible and that it continues to be fair and effective. When we see the need to make further changes to one element or another, we will not hesitate to do so.

Q198 **Chair:** Is the rise in earnings kept under review every year?

Joseph Johnson: Yes. The threshold increases automatically with earnings every year, from next year onwards.

Q199 **Stephen Hammond:** Good morning, Minister. Thank you for coming to see us this morning. For the record, can we be absolutely clear about why the Government persist with a rate of interest that is so far above the cost of borrowing and the cost of inflation?

Joseph Johnson: I think you went through these issues in your hearings with David Willetts, my predecessor but one, a few days ago. It is trying to address two issues. The first is students who do not need the finance taking cheap debt and putting that money to speculative purposes. The second issue, but more important in terms of why it is there, is to have a progressive dimension to the system that makes it, in some ways, more graduate-tax-like, because the high interest rate affects particularly those graduates who are going to repay their loans in full. They are the ones who are most sensitive to the level of interest rate that is charged on the amount they have borrowed. It is a progressive feature of the system to enable the highest-earning graduates to make a bigger contribution towards the overall public cost of supporting higher education. They subsidise some of the costs that the Government incur in enabling people to go into higher education who do not then go on to repay their loans in full.

Q200 **Stephen Hammond:** Mr Jack is going to ask you a number of questions about graduate tax, and we all understand the point about perverse incentives, but therefore, quite clearly, the purpose is twofold: first, as you have said, so the Government can recoup more from higher earning graduates in payments than they initially borrowed; secondly, it is a redistributive measure. In reality, though, it has become viewed as a punitive measure. Do the Government need to do something about the unhelpful perception that has been created?

Joseph Johnson: It is a poorly understood feature of the system; I have absolutely no disagreement with you on that. The reality is that there are relatively few graduates in the repayment period who are paying anything like the top rate of 6.1% you mentioned, which is RPI plus 3%. RPI was 3.1% in March 2017, which is the figure we use. Very few graduates are repaying at that rate; approximately 5% only are getting interest charged at 6.1%.

It is generally poorly understood as a system. Very few people understand the progressive nature of the interest rate—the fact that it is the most graduate-tax-like element in the system, in a way, in the sense that it is progressive and it is redistributing resources from the highest earning graduates, earning over £42,000, to those who are earning less and, therefore, needing more government support to enable them to go through higher education.

Q201 **Stephen Hammond:** I will leave the questions on graduate tax to my colleague. Notwithstanding that explanation, you will have also seen the articles saying that another rationale for this is that you are selling off student debt. The reality is, because you have such a write-off policy, you need to have a level of return attracted to that debt to make it attractive to sell, and the only way to make that debt attractive is to put it at the level of interest that it is, because you would not be able to sell it at a lower level of interest.

Joseph Johnson: No, that is not the motivation. The reasons for selling part of the student loan book are the opportunity cost to government of the money that can be released through asset sales. Once those assets have achieved their policy purpose, it makes sense for us to liberate the capital and put it to better use elsewhere. The charging of the interest really is a way of government ensuring that the cost to the taxpayer does not get out of control. Where you have people who are coming out of higher education and going on to make decent livings, benefiting from their degree, they should make a contribution back, and that is the purpose it serves.

I just want to address one other element of the interest rate, if I may, which is the idea that this is punitive. It is not. Even for those 5% who are being charged 6.1% today, that is well below the Bank of England reference rate for unsecured personal borrowings, which is between 7% and 8%. Even on its own terms, looked at narrowly as one feature of what is a complex loan with many different elements of subsidy, that particular element itself is lower than the market cost.

Q202 **Stephen Hammond:** However, you do accept that debt that earns you 6% as opposed to debt that earns you 4% is inherently more valuable.

Joseph Johnson: Do you mean to the Government?

Stephen Hammond: Yes, in terms of what you are getting as your return.

Joseph Johnson: Overall, the Government make a significant loss on the student loan book. As we have just discussed, the Government are writing off between 40% and 45% of the student loan book. This is not a profit-making activity for the Government.

Stephen Hammond: No, I am not suggesting that. All I am suggesting is that your loss would be even greater if you tried to sell that debt at 4%.

Joseph Johnson: We are in the business of ensuring that there are no financial barriers to access. The interest rate is one means of lowering the cost to the taxpayer.

Q203 **Stephen Hammond:** In the ONS and in other walks of government life, you have moved from RPI to CPI. Why are you persisting with RPI in the student loan book?

Joseph Johnson: RPI continues to be used for various purposes. It is the rate at which we index-link gilts, for example. It is not as if it has fallen out of all use in the economy. It continues to have relevance as a measure in the context for which we are using it here, in the sense that it includes things that are relevant to students that CPI does not, including, for example, mortgage interest payments and council tax. Whilst it has stopped being used for some purposes in public policy, it is still used in others, and it has been the reference rate we have used in the student finance system since it was created.

Q204 **Stephen Hammond:** Finally, you will be aware that earlier this year the Chancellor said, "I recognise that questions have been raised about the overall proposition," referring to interest rates here, "and we are looking carefully at how it works to make sure that the way it operates is justifiable." Is there an ongoing review and is it justifiable, in terms of level and switch between RPI? Is there an ongoing review?

Joseph Johnson: Yes. As I said, we always keep the system under review to ensure it is fair and effective. That is an ongoing process, and when we have further announcements to make, we will come forward with them. The matters you mention might well form part of those future announcements; I cannot pre-empt them at this point. We want to ensure we have a system that is fair and effective, but broadly speaking I want to repeat what I said at the start: it is an unsung policy success to a very great extent. It is achieving unprecedented levels of access of people from disadvantaged backgrounds; it is funding our universities more successfully than any previous system has; and it is doing so in a manner that is fair to the general taxpayer at the same time.

Q205 **Kit Malthouse:** We have spent quite a lot of time trying to get our heads around the accounting for student finance and the impact on public finances. We were told by the OBR and the Audit Commission that there was an element of fiscal illusion going on with student loans. It is arguable that the full impact has not properly been reflected on the public accounts. Would you say that was a fair criticism?

Joseph Johnson: We are following nationally and internationally understood methods of accounting for financial transactions.

Kit Malthouse: That was not my question.

Joseph Johnson: It is not a policy choice that we have made, as a Government, that might lead to those assessments of the system. We are following ESA 2010, which governs how you account for these financial transactions.

Q206 **Kit Malthouse:** The OBR and the Audit Commission are saying that they do not think it is giving a full picture of the impact on the public finances. You say you are following the international regulations that have been extracted from some manual somewhere. My question was: is that fair or correct? Is there another way that it could be reflected that would show a truer picture of the impact on the deficit?

Joseph Johnson: If I may, I will ask Matt, formerly from the Treasury, to reply.

Matt Toombs: As the Minister said, for the national account, the reporting is against the European system of accounts, which follows the international rules; they ultimately derive from UN rules. For the department's accounts and the Whole of Government Accounts, the department reports against International Financial Reporting Standards, which is audited by the National Audit Office, and that does show the impairment to the student loans, such as the face value, the impairment and then the carrying value. The Treasury also sets budgeting rules that are based around that impairment, which is where the Treasury imposes a management charge if the department exceeds the target set for it. It builds in the incentives within the budgeting system to make sure the department manages the value of the book.

Q207 **Kit Malthouse:** There are large write-offs in the Department for Education accounts that do not appear in the Treasury's scorecard at the moment.

Matt Toombs: The write-offs in the department's accounts do appear according to the accounting standards that the department needs to report to, and those are the ones that, as I said, are audited by the National Audit Office. The reporting within the national accounts has to follow the international rules for the European system of accounts and that is what the Treasury does in presenting its national statistics.

Q208 **Kit Malthouse:** Could there be a better way to present them? Does it cause you concern that the true picture is not appearing because of these byzantine accounting regulations?

Joseph Johnson: It is important that there is confidence in the overall student finance system, and I feel that our system does fairly reflect the economic reality of what is happening.

Q209 **Kit Malthouse:** If it is the economic reality, for instance, the interest rate—and the income is represented in the Treasury scorecard—does come in, even though quite a lot of it is not going to be received, as we know. Is that a correct position?

Matt Toombs: Again, this is about following the rules that are set by the European system of accounts. It is not one where the Government have a choice about what to score in the national accounts. One way or another, it has to follow those rules. That is the way that the national accounts treat financial transactions, and there is no choice of selecting one element but not another.

Q210 **Kit Malthouse:** Presumably, those accounting rules were not drawn up with this particular system in mind. Given that it seems to be a fairly unique system of finance for universities, whether or not you are trying to fit a system into a set of accounting rules that were not designed for it, it is producing a slightly odd result in that there are these potentially huge write-offs that are being either kicked down the road or are not appearing in the accounts at all.

Joseph Johnson: They do appear, in the sense that there is an impairment charge in the DfE accounts every year that corresponds to the present value of future write-offs. They do appear, so it is unfair to characterise it in the way you have.

Q211 **Kit Malthouse:** Okay. Just on the sale of the book, why would anyone want to buy it? If you think about it from a commercial point of view, you have this large asset, which is subject to the vagaries of the economy; people's ability to repay is down to their employment prospects, and so you are going to see economic variability on it. They already know that there is going to be a fairly big chunk that will not be repaid.

Joseph Johnson: The facts speak for themselves. There was a very large pool of investors who achieved a competitive price that delivered value for money for the Government for this asset.

Q212 **Kit Malthouse:** Okay. Basically the reason they wanted to buy it is because the price was competitive, in your words, or cheap.

Joseph Johnson: We achieved fair value.

Kit Malthouse: It was cheap.

Joseph Johnson: We believe we achieved at least fair value, otherwise we would not have sold the asset. It passed all the relevant tests that the Treasury requires departments to take when selling assets.

Q213 **Kit Malthouse:** Were you not slightly alarmed that people were so keen to buy it, given the pricing of it?

Joseph Johnson: You seem to be making two different arguments. Your first argument was: why would anybody be interested in it? Now you are arguing there was such interest because we were under-pricing it.

Q214 **Kit Malthouse:** No, I said why would anybody be interested, and you mentioned competitive pricing, which I translated as cheap—the price would be such that it stimulated a lot of people wanting to buy it.

Joseph Johnson: We believe that we achieved at least fair value for the asset and that it cleared the tests that the Treasury requires departments to have for the sale of assets.

Q215 **Kit Malthouse:** The sale process was effectively an auction, was it? The company that bought it was the one that paid the highest price.

Joseph Johnson: It was a book build, effectively, was it not, Matt?

Matt Toombs: It was. The design of the sale was put in place precisely to ensure that there was an efficient market and efficient pricing. Those are two of the three tests that the Treasury requires the Government to meet. It was designed as a securitisation, which broke down into four different notes that were sold, aimed to appeal to different types of investors to build the broadest market possible for the asset. It was designed in the way of similar securitisations that are carried out across the private sector and was run according to a similar process.

Q216 **Kit Malthouse:** We have seen this before with Government sales, where a Government asset gets sold and then gets resold and resold, because the Government sold it too cheap and there is more profit in there. When you look at some of the stats, there were quite heavy discounts that were applied to parts of the book. There was a 91% discount applied to something like half the book.

Joseph Johnson: This was quite a special asset, if you think about it. It was loans that were issued between 2002 and 2006, so they have been in the repayment period for quite a considerable time. There have been a lot of repayments on those loans already, so effectively what was being sold was a pretty impaired set of loans, where you would not expect to get full face value of the asset, because they had been in the repayment period. Those students who were not going to be in a position to repay would have already been well under way in that process, and you are left with some fairly impaired loans, so you definitely would not expect to get par value.

Q217 **Kit Malthouse:** Overall—remind me—what was the nominal value of the book that was sold and the amount that was realised?

Joseph Johnson: From memory, about £3.7 billion was the face value of the book and the amount realised was about £1.8 billion.

Matt Toombs: That is right. We had to hold on to 5% of the book to follow EU risk retention rules. Once we had taken that off the £3.7 billion, it took the sold amount to £3.5 billion on face value, and the Government received just over £1.7 billion, which was the sale value.

Kit Malthouse: Effectively, there was a 50% risk premium on the book.

Matt Toombs: As the Minister said, that reflected the nature of the loans being sold—ones that entered repayment between 2002 and 2006—and the fact that, within the pool of loans of that period, some 45% of borrowers had already fully repaid, so they were not part of the pool that was open for sale. The assessment of value for money involved looking at the alternative uses the Government could make of the money that was held within those assets if it was invested elsewhere. That is why they looked at the Green Book value-for-money framework in assessing whether they could achieve value in selling the loans.

Q218 **Kit Malthouse:** Are there any restrictions on onward sale of the debt?

Matt Toombs: No, it is a tradable asset. Those who acquired the debt can trade it freely. That is the whole point.

Q219 **Kit Malthouse:** Okay. We have often seen with similar Government sales in the past that this thing gets sold at a particular return discount and then gets resold and resold and resold, ie the original purchasers are able to take margin out of it that could otherwise have been the Government's.

Joseph Johnson: That is the whole nature of a privatisation. The Government relinquish ownership of an asset to better owners in the private sector. That is the whole nature of the process.

Q220 **Kit Malthouse:** Yes. The question is whether the price is right. That is the issue.

Joseph Johnson: Yes. We are establishing a new asset class in the market. It is a ground-breaking transaction in that respect, and it is part of a much bigger programme of student loan sales that should raise £12 billion for the Treasury over the relevant financial period. That is an important contribution towards how we are going to sort out our public finances.

Q221 **Kit Malthouse:** Presumably, as you make more and more sales, you will be refining your pricing mechanism.

Joseph Johnson: As the market deepens and liquidity deepens in this asset class, we do expect to be able to achieve more efficient pricing.

Q222 **Rushanara Ali:** Good morning. The Committee has heard that the post-2012 student loans reforms meant the universities were spared austerity. Is it your aim to continue to shield universities from having to make spending cuts, Minister?

Joseph Johnson: We want our higher education system to be delivering world-class higher education with great teaching, great research, with the resources necessary to do the job. We also want the system, obviously, to be efficient and to be delivering value for money.

Q223 **Rushanara Ali:** What powers do the Government have to prevent public money being used wastefully by universities?

Joseph Johnson: The Higher Education Funding Council, which is the present regulator, is going to be replaced in the new year by a new regulator, the Office for Students, has the ability to ensure that money is being spent for the purposes for which it is intended. It can undertake efficiency studies of institutions if it has concerns in any particular respect, and it attaches conditions to its grants to ensure that policy objectives are being met when that money is being spent.

Q224 **Rushanara Ali:** You made a number of statements in the media recently in relation to VC salaries, which I welcome. I want to ask you a question related to that, which came via #AskJoJohnson on Twitter. This is straight from the horse's mouth: "Why do you let VC salaries and other benefits explode while the financial cost of going to university increases for students, for example fees/interest rates? Does this not strike you as fundamentally unfair, like cutting wages while increasing CEOs' bonuses?" Would you like to comment on that?

Joseph Johnson: Yes, sure. It is important that there is restraint in the way top pay is set. We have seen, at some institutions, pay spiralling, and that has been a matter of great public concern. It is really important that we have transparency and accountability in top pay in our institutions, and I am pleased that the sector, through the Committee of University Chairs, who chair the remuneration committees and the councils of these institutions, has agreed to bring forward a new code of practice that will address many of the governance questions that have been arising in recent months. This means, in practical terms, things like independent remuneration committees. It means that vice-chancellors should not be sitting on their own remuneration committee deciding their own pay, for example. It means much more transparency over how pay is set, with the publication of ratios of top pay to median pay.

Q225 **Rushanara Ali:** They will be published. You mentioned something about publishing pay.

Joseph Johnson: Yes, indeed, and disclosure of numbers of people in institutions earning above £100,000 and justifications provided to the Office for Students of pay in excess of £150,000.

Q226 **Rushanara Ali:** What kind of justifications?

Joseph Johnson: An explanation of what particular circumstances demand exceptional pay of that level. We do think that is a significant amount of pay, and we want to see the Office for Students driving accountability for where exceptional levels of pay are being awarded in the system.

Q227 **Rushanara Ali:** Thank you. Do you think that providing universities with a blanket £9,250 per year per course has been a windfall for them?

Joseph Johnson: Across the system teaching is roughly breaking even. Obviously, there is a dispersion of teaching costs subject by subject, but roughly speaking teaching breaks even, so it is wrong to say there has been a windfall. What this has done is redress a very significant funding shortfall that had arisen by the time the reforms were brought in, in 2010, 2011 and 2012. If you remember, the 20 years in the run up to the introduction of the system had seen very significant real-terms falls in university funding. Putting the student funding system on to this model has helped address that shortfall.

Q228 **Rushanara Ali:** Are you satisfied that universities can put on whatever courses they like, as long as students choose them, and Government have to pay for them, or do you feel that more could be done to ensure that there is a focus on quality and value for money, particularly for students, but also for us, as a society?

Joseph Johnson: We have had a relentless focus on quality and ensuring that students have an ability to make informed choices about where and what to study. That is the whole purpose of our reforms to introduce the Teaching Excellence and Student Outcomes Framework. This is now moving down to subject level, which means that applicants can see, subject by subject, institution by institution, which institutions are offering great teaching and where the outcomes are good from particular courses. That will help address how competition works in the higher education system.

Q229 **Rushanara Ali:** Okay. In terms of funding, why have universities not been subject to any income reductions in the same way that further education institutions have?

Joseph Johnson: We want a higher education system that is globally competitive, delivering great teaching and world-class research. Our universities are at the centre of our industrial strategy. Our research system is second to none worldwide. We want to ensure it is well funded and they have the resources to do the job we need them to do.

Q230 **Rushanara Ali:** With the pipeline of students coming in from schools, schools have seen a great deal of investment, but FEs have often suffered. People will go on from further education colleges to university. Do you not think there should be some focus on that sector?

Joseph Johnson: It is not a zero-sum game. Just because universities are well funded does not mean that we should not also have a world-class technical education system and a brilliant apprenticeship scheme, and we want to do all of those things. We need the Apprenticeship Levy to help us to hit our 3 million apprenticeship starts target. We need more investment in our technical education system, which is what the Chancellor is delivering in his Budget, with an extra £500 million for technical education. It is not a zero-sum game in which, just because you are appropriately funding our university system, you are neglecting technical education or workplace-based learning.

Q231 **Rushanara Ali:** There have been cuts to the FE sector, though, so can I take it that your Government will be redoubling their efforts to look at how to support sectors that have not been properly funded?

Joseph Johnson: If you look at the Industrial Strategy, our reforms to our technical education system and to apprenticeships are at the very heart of it. They are a major focus for Government activity.

Q232 **Rushanara Ali:** Okay. Finally, in relation to access and social mobility, there have been reports about the spending around widening access declining in some cases. How much focus is there in making sure that the targeting of students in disadvantaged backgrounds will continue and there will be proper oversight to ensure that we achieve our social mobility objectives?

Joseph Johnson: We have seen a real revolution in widening participation in the access of people from disadvantaged backgrounds to higher education over the last six or seven years. The statistics are startling. Young people aged 18 from a disadvantaged background are now almost 50% more likely to be going to university today than in 2009-10.

In terms of the resources that are going in to support that widening participation activity, they are sharply up. The amount of money that is going through the so-called access agreements that universities charging over £6,000 have to have has doubled over the past four or five years, from about £400-odd million to well over £800 million.

Q233 **Rushanara Ali:** Do you think the value for money is effective in getting students from poorer backgrounds into Russell Group universities and can more work be done around that? Are there any implications to the changes from grants to loans for disadvantaged students?

Joseph Johnson: On your point about the most selective universities, of course there is always room for further progress and no one should be complacent on that point. However, the rate at which disadvantaged students are going to the most selective institutions has been increasing at a faster rate than that at which they have been accessing institutions in general. They are now more likely to be going to the most highly selective institutions than to other ones. Of course, there is more to do and there is particular attention being paid to the super-selective institutions, Oxford and Cambridge, and we do want them to ensure they are pulling their weight.

Q234 **Rushanara Ali:** What would you say to them? What should they be doing?

Joseph Johnson: We have asked Les Ebdon, the Director of Fair Access, in striking access agreements with the most highly selective institutions to ensure that they have the right level of ambition and that they are undertaking all the efforts that we would expect them to, in terms of reaching out to schools in disadvantaged areas, ensuring that schoolchildren there have the right level of ambition and understand that these institutions are for them too.

Q235 **Mr Jack:** Before I discuss graduate tax, Mr Toombs, would it impair the value of the sale of the loan book if you were to protect the resale that Mr Malthouse referred to—the potential resale of government assets at much higher values—by putting in an embarrassment clause that said, "If it is resold in the next three to five years for X amount, the Government would have a clawback of Y"?

Matt Toombs: That would need to get looked at as part of any securitisation, and if the Government were to consider it, they would need to take advice from the sale advisers on any impact on value.

Q236 **Mr Jack:** In the Green Book you referred to, there is no mention of embarrassment clauses.

Matt Toombs: The Green Book looks at the assessment of the overall value for money for what you receive relative to the face value. It looks at the economic opportunity cost applied to the whole asset. It is a comparison of the kind of price you receive against the value to the Government of holding on to that asset.

Q237 **Mr Jack:** Okay. Just give embarrassment clauses some thought. Minister, you have previously said the Government need to "work on the language" around student loans. Why do you think that?

Joseph Johnson: The language of debt and interest is not particularly helpful, because for most people the repayments they make every month are not linked to the amount of debt that they have or the interest that is being charged on that debt. In the public debate on the system, we have to focus on two things that are not directly relevant to what graduates in the repayment period are experiencing on a monthly basis, so the whole debate has been skewed. That is why it would be preferable for us to use language, in my view, that thinks of it more as a time-limited and income-linked graduate contribution, because that is what it is.

Mr Jack: Yes. It is not a catchy title though.

Joseph Johnson: No, it is not, but it is much more suitable as a description of what this system does than a debt, a loan and an interest charge.

Q238 **Mr Jack:** You said that at a conference fringe event with Martin Lewis. Would putting the emphasis more on tax make a difference in the perception?

Joseph Johnson: It has similarities to a graduate tax but also important differences that make it a better system, in our view, and that has been the consistent view of policymakers across all parties, whether it is Vince Cable or others. We want a system that has a relationship between the amount that the graduate contributes—or, to use the current language, the amount of debt that the person repays—and how much they have borrowed while they are studying to do their courses and to get the skills that are going to make them competitive and attractive in the job market.

Q239 **Mr Jack:** The IFS said with the changes to the threshold, the £21,000/£25,000, 83% of students will not pay back the loan in full over the 30 years. If we can agree that it is arguably a 30-year tax, are we not encouraging those who are destined for lower paid jobs to take out as much loan as they possibly can on the basis that they are unlikely to ever repay it? They will repay that much, but if they borrow this much it does not make any difference to borrowing that much.

Joseph Johnson: The 83% is another area of some disagreement with the IFS. We do not think that it is as high as 83% who do not repay in full. We think it is between 60% and 65% who do not repay in full.

Q240 **Mr Jack:** Okay—let's imagine it is 50%. Does the argument still stand?

Joseph Johnson: What is really important is that we do not leap on that number and think that 60% to 65% are repaying nothing. That is far from the case. They are making important contributions towards the cost of the student finance system.

Q241 **Mr Jack:** If people who are destined for lower incomes borrow as much as they possibly can knowing they are never going to get there, your debt write-off ultimately is greater.

Joseph Johnson: We do not have an unlimited amount that people can borrow. The amounts that people can borrow are tightly defined in regulations. They are linked, on the tuition fee side, to a maximum tuition fee cap per annum; on the maintenance side, they are carefully regulated amounts that are linked to assessments of household incomes. There is no unlimited HMT chequebook that is available.

Q242 **Mr Jack:** No, I did not say "unlimited"; I said "as much as they possibly can".

Joseph Johnson: The amount that students can borrow on the maintenance side, for example, is tightly regulated, and students are pushing us to be more generous on the maintenance side rather than less.

Q243 **Mr Jack:** Do you think there is a disincentive to work then, on the basis that we are effectively looking at marginal tax rates of 29% and a higher marginal rate of 54%? Is it a disincentive to people?

Joseph Johnson: No. The amounts that people are contributing in real terms are modest and I do not think they represent a disincentive. If you think about someone in the graduate repayment period who is on a salary of, say, £30,000, when the changes we announced in October come in they will be paying 9% on the £5,000 between £25,000, which is the threshold, and £30,000. That is about £37.50 a month or £1.20 a day. I do not think that is a sum that is big enough to represent a real disincentive for people to go into higher education and get all the benefits that it offers them. Just to recap, the lifetime benefits from higher education, on average—and I recognise it is an average—are very significant: £170,000 after tax net lifetime benefit for a man; £250,000 net lifetime benefit after tax for a woman. People need to recognise that there is a contribution towards the cost of achieving those lifetime benefits, and it is wholly proportionate and not a disincentive.

Mr Jack: I agree.

Q244 **Stewart Hosie:** That was a deep probing of the Minister. Minister, you mentioned earlier the relentless focus on quality and that is going to be moving down to the course level. That is important, because only this month the National Audit Office said, "Market incentives for higher education providers to compete for students on course quality are weak," as improvements in quality tend not to attract significantly more students and thus more fee income. Given that one of the founding principles of this system is that universities should actively compete on the basis of both price and quality, is this not a major concern for government?

Joseph Johnson: As the Competition and Markets Authority has set out, it is not surprising, in a system in which you have a cap that is set at this level, that you are not seeing much price differentiation between providers at the moment. Most bands of courses are in deficit on teaching, in terms of their teaching costs versus the revenue they get in. In that situation, you would expect them to be charging as close to the cap as they can, because the cap constrains the amount that they can charge. What we are trying to do with the introduction of the Teaching Excellence and Student Outcomes Framework is to provide students with another signal of where quality can be found in the system. That signal is going to be around where teaching quality is best and where the student outcomes are strongest in the courses. That is why moving the Teaching Excellence and Student Outcomes Framework down to subject level, so that students and applicants can see where quality is at a subject-by-subject level, is really important.

Q245 **Stewart Hosie:** At face value that makes sense, but again the NAO told us this month, and again I will quote, "Prospective students are in a potentially vulnerable position when deciding whether to enter higher education and take on a student loan." Do you think prospective students have access to enough information at the moment about financial implications and quality, or the differentiation in quality, in choosing universities and courses? Do you think they have the right information at the moment?

Joseph Johnson: Informed choice is absolutely critical to the operation of the higher education system, and I have been concerned that students are making choices based on factors that are not necessarily the ones that they should be prioritising. People have been prioritising where their friends are going to university, where the nightlife is great and so forth. We need them to be focusing on where the teaching is of the greatest quality and where the student outcomes are best. This is why the Teaching Excellence and Student Outcomes Framework has such an important part to play, because it really will provide the valuable missing signal that the system needs.

Q246 **Stewart Hosie:** Only one in five prospective students at the moment make use of the information that is currently available. Why should another signal encourage any prospective student, any kid, to look at that metric rather than other choices, like whether they have a really good rugby team or nightlife, or whether the accommodation is cheap or people have a good chance of a job at the end of that course, rather than simply yet another metric about the quality of the course?

Joseph Johnson: It is important that applicants and students at school are helped to make these choices. That is why the careers advice that is given to applicants while they are still making these choices at school is so important. The Careers & Enterprise Company, which the Chair set up, for example, was an important step along the way. There are further reforms under way now to ensure that students get the right help in making those choices and that, if they choose higher education—because many might want to go into technical education or apprenticeships—they choose courses that are relevant to them and are going to lead to good outcomes. We want to see that we are addressing the mismatch that employers have complained about of a glut of students in courses that they do not value and a shortage in subjects that they are in great need of, such as engineering. We do want to see this better signalling of where quality and outcomes are good to help address this mismatch in our labour market.

Q247 **Stewart Hosie:** If I can digress for a moment, I always worry when I hear politicians say that, because I can think of any number of high flyers in the world of finance or anything else who have a history degree. It always worries me that there seems to be a drive to particular types of courses and employers do not necessarily look for the vocational skill; they simply look for the ability to learn and so on. What is your degree?

Joseph Johnson: I did a degree in history and then I did some subsequent studies elsewhere in European affairs, and I did a business degree as well. Show off—I am sorry.

Q248 **Stewart Hosie:** Let me ask one of the questions that came in, because it ties into this issue of metrics and signalling. Are you concerned that the huge amount of metrics and measures being used to rank and rate universities will have the effect of making all universities converge and become homogenous? If so, what steps are being taken to prevent that?

Joseph Johnson: We have a very diverse higher education system at the moment. There are probably 130-odd degree-awarding institutions in our system, hugely diverse, all the way from small and specialist providers, such as the conservatoires, up to the full spectrum, multi-faculty, publicly funded institutions with 30,000, 40,000 students. That diversity is undoubtedly one of its strengths. Students have a huge range of choices about how and what to study, and we recognise that and we celebrate it. We do not want to homogenise it.

Q249 **Stewart Hosie:** Very briefly, on competition, only 2% of students switch each year. Do you think making it easier for students to switch between universities could improve levels of competition or drive up quality?

Joseph Johnson: Yes. It is another missing feature of our system and it is one we are focusing on in our reforms at the moment. The Office for Students, which, as I have mentioned, is coming into existence next year, will be ensuring that institutions are facilitating student transfer to a much greater extent than we see at present. We have an odd situation currently whereby about 20% to 30% of students regret their choice of course and wish they had chosen differently but, as you said, very small numbers switch, after they have completed a year of study, to another course. We want to address that and make it easier for people to change courses either within an institution or between institutions, and the Office for Students will be ensuring that that becomes significantly easier than it is at the moment.

Q250 **Stewart Hosie:** Obviously, we understand the argument for switching, but in this model, if switching is not an option, why should there not be a mechanism for a refund if students are unhappy with the quality of their course?

Joseph Johnson: Another of the elements that the Office for Students will be introducing is student contracts. These exist in various forms in the system at the moment, but they are not standard and they vary tremendously. At the moment at which students sign up to pay their fees and are on the hook for that amount of money once they graduate, we want to see that they have a clear understanding of what it is that they will be receiving in terms of teaching, feedback, assessment and so forth, so that they have a sense of value for money being delivered in return for them taking on the obligation to repay those student loans.

Q251 **Stewart Hosie:** Who is going to design those contracts?

Joseph Johnson: The Competition and Markets Authority has given guidelines to the sector that give a reasonable expectation of what these contracts should contain, and they have the things I mentioned in them. We want to see institutions systematically ensuring that those contracts reflect the kinds of things that the CMA is asking for.

Q252 **Stewart Hosie:** Will those contracts cover Oxford and Cambridge?

Joseph Johnson: Yes. They will be applied across the system as a condition of registration with the Office for Students.

Q253 **Stewart Hosie:** You are quite content to see the reining in of the independence of those institutions by forcing standards on them.

Joseph Johnson: We are not constraining academic freedom in any way at all. We are simply saying to be clear with students as to what they can expect. Of course institutions will be able to make reasonable adjustments, should they need to, midway through a course, but there needs to be some relationship between what a student expects and what a student receives.

Q254 **Stewart Hosie:** If they do not get it, refunds would be logical.

Joseph Johnson: We have seen instances relatively recently, in the last few weeks, of an institution offering a refund to students who felt they had not received value for money—quite reasonably, in my view, having read some accounts of it—and that institution did the right thing by their students.

Q255 **Wes Streeting:** Good morning. In her conference speech, the Prime Minister announced a major review of university funding and student finance. To begin with, I am going to put to you David Kernohan's question from Wonkhe: "When will you be announcing details of the major review announced by the Prime Minister?" You have your head in your hands already, Minister.

Joseph Johnson: We will be announcing further steps in coming weeks.

Q256 **Wes Streeting:** Excellent. That is good progress. We will move straight on to student finance then. The Sutton Trust asks, "Given that students from households in the lowest 40% of earners now take, on average, debts of £51,600 compared to £38,400 in the top 20% of households, do you agree that maintenance grants should be reintroduced for disadvantaged students?"

Joseph Johnson: We are seeing at the moment, as I said, a real revolution in access for people from disadvantaged backgrounds. It is no small achievement that the proportion of students from the bottom quintile of household incomes has increased by 50%-odd over the last seven years in terms of their likelihood of going to university. That is a solid achievement. Of course, we are not complacent. We want to continue to drive that forward, but we are not seeing the current system of student finance deterring people from disadvantaged backgrounds going into higher education. It is, broadly speaking, working. Of course, there is much more to do to bridge the gap between the most advantaged and the most disadvantaged and the rate at which they are going to university, but it is narrowing.

Q257 **Wes Streeting:** Claire Callender's research at UCL points out that the number of students from disadvantaged backgrounds has gone up, the proportion has improved, but there is evidence that there are some people nonetheless who do find student finance to be a deterrent. I do want to separate out the issues from access and affordability. One of the issues raised by NUS and others is that, for many students who are at university, the cost of university is such that they struggle to make ends meet. NUS is talking about this in the context of student poverty and launching the Student Poverty Commission. Is that why you have been so reluctant to publish the 2014-15 Student Income and Expenditure Survey? You know there is a problem, but you are too embarrassed to publish it.

Joseph Johnson: No. We are quality-assuring it at the moment. It is a big, complex piece of research and we want to ensure it is right. The department has a huge amount on its plate at the moment and we have to prioritise, but it is being quality assured and when it is ready we will publish it.

Q258 **Wes Streeting:** London Economics pointed out in their contribution to #AskJoJohnson that, two months ago, in Parliament Jo Johnson said "shortly". How shortly is shortly?

Joseph Johnson: As I said, as soon as it has been properly quality assured—we do not want to put out misleading data—it will be published.

Q259 **Wes Streeting:** In the context of how the debate has panned out since, do you now regret removing maintenance grants in terms of not just the impact on students' pockets but the political toxicity around the Conservatives' higher education policy?

Joseph Johnson: When that step was taken in 2015, it ensured that we were able, finally, to remove student number controls, because the Treasury could have more confidence in the underlying sustainability of the system and the overall cost that the taxpayer was having to bear. It was an important step in that respect, because it enabled us to remove the last vestiges of student number controls and to move to the more open system that we have now, which is enabling more people from disadvantaged backgrounds to go to higher education than ever before.

Q260 **Wes Streeting:** Is it right or fair that the poorest students are those who graduate with the highest level of debt?

Joseph Johnson: We have had these discussions before.

Q261 **Wes Streeting:** It is not going away, though, is it? It is hanging around your department's neck like an albatross.

Joseph Johnson: A better way of looking at it is the more constructive way, which is to say Government are making available the most financial support to those who need it most, and that is what Governments should do.

Q262 **Wes Streeting:** Do you think you could go further in that respect and make more financial support available to the most disadvantaged students?

Joseph Johnson: We have. We have increased the amount that disadvantaged students from the poorest households can take in the form of financial support, by 10% in 2016-17 and by a further 3.8% in 2017-18. There is more financial support available to those students from disadvantaged backgrounds than ever before.

Q263 **Wes Streeting:** Some of that financial support is made available through means-tested bursaries available at different institutions. Is it right that the amount of financial support a student receives should vary based on the course they embark upon as opposed to their financial need?

Joseph Johnson: These are institution-by-institution decisions as to how they allocate their access agreement spending. It is important that we evaluate the effectiveness of access agreement spending, and a big piece of work is under way in the department, in tandem with the Office for Fair Access, to understand the effectiveness of access agreement spend. It may be that bursary spending is not the most efficient way, and that more value could be delivered from schools-outreach work and so forth.

Q264 **Wes Streeting:** I want to turn to a couple of other issues now. There has obviously been a big push on two-year degrees. A two-year degree student would be likely to leave university with over £40,000 worth of debt. Many graduates are unlikely to earn enough over their lifetime to pay this off, so would you agree, therefore, in practice, that the cost of a two-year degree would be the same as a three-year degree for many graduates?

Joseph Johnson: No, I would not. One of the key features of the policy is that there are significant savings to the student from doing the same course to the same standard in a compressed form, in an accelerated way. Those savings broadly speaking will be at least £25,000, composed of, under the proposals we have put out: a saving of around £5,000 to £6,000 on the tuition fees; income in that third year of study that they would not otherwise have, because they will be back in the workforce or in the workforce earning what is on average a first-year graduate starting salary of £19,000; and not incurring that third year of living costs and maintenance costs that the counterpart doing the classic three-year residential course is having to incur. You are talking about significant savings for the student.

Q265 **Wes Streeting:** You make a fair point that starting earning a year earlier might be better, but you are making the mistake that many of your critics make, which is assuming that your statement from the Student

Loans Company at the point upon which you graduate bears any resemblance to how much you will pay. Given that you have a 30-year debt write-off kicking in, it is true to say that people who go on a two-year degree who do not necessarily earn a huge amount will not make a big saving.

Joseph Johnson: On the contrary, this is likely to lead to a higher rate of repayment of the student debt by those taking out loans for two-year courses: higher rates of repayment and lower levels of subsidy for the taxpayer. I do not agree with your assessment at all. People doing two-year degrees have great outcomes in the labour market. Employers see highly motivated, driven and capable people who have been able to cope with the challenges of a compressed, accelerated course.

Q266 **Wes Streeting:** We might have to come back to this at another point, because I am not sure you are right. Are you concerned, as Janet Beer expressed some reservations, about the risk of unintended social sorting? If you are from a more disadvantaged background where cost is the big driver, they have heard you say—undoubtedly all tuning into the Treasury Committee when thinking about their university choices—that it is cheaper to do a two-year degree. You are not concerned that the sharp-elbowed, pushy middle-classes and privately educated pupils will embark on the three-year, all-singing, all-dancing undergraduate experience, but the kids from poorer backgrounds or mature students will say, "Right—I will do the two-year option because it is cheaper."

Joseph Johnson: The current mix of provision of two-year degrees does not suggest that is the case at all. We have institutions such as the University of Buckingham, which hardly fits your description, being one of the foremost providers of two-year degrees. It appeals to students from all social groups and certainly not just those from the poorer households. It is important we recognise there are big benefits for students from two-year degrees—the same quality of degree over a compressed time. That is likely, in particular, to appeal to mature students who want a faster route back into work, having reskilled themselves to prepare for jobs that may change.

Q267 **Wes Streeting:** With the remaining minute or so I have left, can I plant a couple of ideas in your mind in the context of your review? There are lots of people who embark on degrees who do not complete them and there are lots of reasons for that, but it does occur to me that universities that extol their virtues as widening-participation success stories have pretty poor records when it comes to retention and graduate destinations. Those students are being let down and they are often the students who have the most to lose in terms of the risk they take on. Could the Government consider passing on that risk from the students to the institution?

I have seen in my casework people who have maxed out their borrowing from the Student Loans Company, and they would like to complete their degree. The circumstances have changed, but the biggest barrier they face is having to find the £9,000 tuition fee upfront, because the Student

Loans Company will not lend to them, as well as the maintenance costs. Should it not be the institutions, as part of the student contract, that take on the risk and have a duty and obligation, once they have charged the maximum fees that they can, to make sure that provision is there to make sure they can complete?

Joseph Johnson: We are holding universities and higher education institutions much more closely to account for dropouts and rates of dropouts. You will remember from our discussions in the Committee on the TEF that one of the key measures in the Teaching Excellence Framework is rates of non-continuation at particular institutions. It is absolutely vital that institutions are held to account for ensuring that, once they have admitted students—and they are free to admit whom they like—they then support them to ensure that they get all the benefits they expect to get.

Q268 **Wes Streeting:** Okay. That was not a no, so I will keep pushing at that open door on future occasions. Finally, Amatey Doku—and I did give you notice myself of this question on Twitter, so I know you are well prepared—asks why has the student representative on the board of the Office for Students not been announced?

Joseph Johnson: We will be announcing the remaining board members of the Office for Students in the coming days and weeks. There will be more news then.

Q269 **Wes Streeting:** Given that there can be no better champion for students across the UK than Shakira Martin, the President of NUS, are you sure you do not want to give her an early Christmas present and announce her place on the board of the Office for Students?

Joseph Johnson: I greatly enjoy my conversations with Shakira Martin in her role as NUS President. She is doing that job very effectively. I cannot pre-empt the announcements for the board positions, which, as I said, will be coming out shortly.

Q270 **Wes Streeting:** Will there be more than one student representative on the board of the Office for Students or is one enough?

Joseph Johnson: We should not get fixated on numbers. We need to focus on the quality of student representation and how it is embedded—the student voice—throughout the Office for Students. What I have seen from Nicola Dandridge, the new Chief Executive of the Office for Students, is a real commitment to listening to the student voice. She has been going around the country talking to students and setting up student panels, which are not required by the statutory terms under which the Office for Students is coming into existence. I have no doubt at all that the student voice will be heard clearly in the boardroom of the Office for Students.

Wes Streeting: I agree with you there, so we will leave it there.

Q271 **Chair:** Before I bring Alison in, I have a few follow-up questions to what Wes was just saying. First, on maintenance loans, for under-25s parental income is taken into account, which does have an effect on how much people are able to take on board. Is this the only government policy where parental income for those who consider themselves to be adults is taken into account?

Joseph Johnson: I cannot give you a categorical yes or no on that because I am not sufficiently informed to say whether there are or are not others, but it is an important link and it is the basis on which we decide the amount of loan that students can receive.

Q272 **Chair:** Is it not implicit, therefore, that the Government expect parents will fund, or make a contribution to—certainly to the maintenance element—their child's higher education experience?

Joseph Johnson: There are a number of different ways in which students can bridge what may be a gap between the amount that they can borrow for their maintenance costs and the actual costs that they incur. They come in a number of forms. Parental contribution will, for many, be part of that picture, but it is not the only part. They also have an ability to use their own savings, should they have any, or to work while they study to bridge any funding gaps they have.

The critical thing is that there is no one cost of maintenance for students. They vary tremendously depending on whether you are living at home or whether you are living in an expensive part of the country, such as London for example. There is no one expected amount for maintenance across the system and therefore no one expected contribution from a particular source or other.

Q273 **Chair:** Will this expectation on parents form part of the review that you are doing on student financing? I say this because the Committee is looking generally at household finances and the expectation by the Government that, if you have children of university age who want to go to university, you will make a contribution. Many parents will want to do that. That will be a choice that they make, but there are some for whom it is not an option, and yet the Government is working on the basis that they will find a way to make a contribution to maintenance. Are you looking at that?

Joseph Johnson: The Government are not being prescriptive about a parental contribution. It has always been the case that the Government's contribution towards living costs has been just that—it has been a contribution. It was never meant to be a blank cheque whereby it covers all maintenance costs for students, whatever they might be. It is a function of the fact that limited resources are available to Government inevitably and they have to be targeted towards those who are most in need of them. A proxy for that is household parental income. That is the proxy by which we get to addressing the question of the respective needs of particular student groups.

Q274 **Chair:** The point is that people are being prevented from borrowing more money and they are making a decision about whether they are going to enter into a loan for maintenance because of their parental income. It is not a question of the Government limiting contributions in order to be fair to other taxpayers. People are being prevented potentially from taking up places in higher education and borrowing enough money to cover their maintenance costs, having made that decision, because of the income that their parents apparently have.

Joseph Johnson: Individuals in those situations who cannot see any other means of covering any shortfall always have the option of going to the institution in question and appealing to the institution and requesting specific financial support from that institution. That is what access agreement funding, to some extent, can help do, particularly if they are from disadvantaged backgrounds. Bursary money that institutions sometimes make available, which we discussed a second ago, can be used for those purposes. The government system was never intended to cover the entire amount of a student's maintenance costs, for the reasons I mentioned. It varies tremendously depending where it is, and it is also to some extent a function of individual circumstances and choices.

Q275 **Chair:** You addressed my point in the first half of your question and then missed it in the second half. Can you also just confirm that the review will not be looking at the 30-year write-off rule and whether that length of time should be extended?

Joseph Johnson: The review wants to examine the system to ensure it remains fair and effective, and the key elements of it—the interest rate, the threshold and the duration of the loan—are the kinds of levers that will always be under examination as we ensure that the balance of costs between students and taxpayers remains fair.

Q276 **Chair:** The other point I was just going to raise was about part-time. Last week in evidence Lord Willetts said that he regretted that the design of the system—I do not want to put words in his mouth and we can find it—had had an unfortunate impact on the number of part-time students who are now participating in the system. Are the Government aware of this and will they be considering it in their review?

Joseph Johnson: We have taken a number of steps to address the decline in part-time, which, by the way, is a phenomenon that is occurring in parts of the UK that did not make the funding changes that we made in 2011-12. There has been a big decline in Scotland; it is not as significant as in England, but there has been a significant decline in part-time study notwithstanding. There are many complicated factors behind the decline in part-time study. It is phenomenon that we can discuss at some length if you wish.

We are taking a number of steps to help part-time study. We are introducing from next year maintenance loans for part-time study on a full-time equivalent basis. We have already introduced tuition fee loans to help part-time study, and we are progressively lifting one of the key restrictions on part-time study, which is the equivalent or lower qualification restriction, which says that if you have already done an undergraduate degree, you cannot study for a second one at the same or lower level in any subject. We have lifted that restriction with respect specifically to STEM subjects. You can now study STEM subjects on a part-time basis as a second qualification at the same or a lower level. We expect that lifting progressively to help address this.

As I said, the causes of the decline of part-time study are complicated. They have a lot to do with factors such as the willingness of employers coming out of the recession to continue to fund training for workforces. They have to do with, as I said, the imposition of the equivalent and lower qualification restriction in 2008, which hit part-time study generally. They also have to do with the financial factors that we have mentioned and that we are in the process of addressing.

Q277 **Chair:** Presumably part-time higher education study could be part of the Government's national retraining scheme, which the Chancellor announced at the Budget. Are you involved or is the higher education sector involved in discussions about how that national retraining scheme might operate?

Joseph Johnson: Yes, that is certainly the intention, and I have every expectation that it could be part of that package.

Q278 **Alison McGovern:** I have a simple question, Minister. Legislation allowing the Government to introduce Sharia-compliant student loans was passed nearly eight months ago. It is a simple question and a simple answer is required. Will Sharia-compliant student loans be available for students for the 2018-19 academic year?

Joseph Johnson: It is a priority to deliver alternative student finance. We will not be able to do it by 2018-19 because it is just too complicated, but let me tell you: it is a priority. We absolutely are committed to bringing in alternative student finance and we want to see it delivered in an efficient and effective way. It has a real importance to the Government's widening participation agenda. We want to see people from all faiths and backgrounds feel that there is support to remove financial barriers to access. It is absolutely vital that we do make good progress on it.

Q279 **Alison McGovern:** Why is it so complicated? Why has it taken so long?

Joseph Johnson: If you think about what we are trying to do, we are trying to replicate the entire product range of the Student Loans Company, which is a big and complicated product range, so that it is compatible with the principles of Islamic finance. We also need to give very careful consideration to how we would deliver that new and differentiated range of financial products, given the context of the existing requirements we are making of the Student Loans Company and whether we need to set up an alternative delivery mechanism to ensure that it is not perceived as emanating from an organisation that is clearly offering loans and charging interest.

Q280 **Chair:** Just following up on that, Sharia-compliant loans are not unknown now in the broader financial services sector. Do the Government have to tender for the contract to provide such loans or does it automatically go to the Student Loans Company, and would it not be worth asking another expert provider of Islamic finance to see whether they are able to offer advice? I should just say that we have had a question on this from outside on #AskJoJohnson, saying that this is disproportionately affecting Muslim students, who are not able to take out the current interest loans, so there is obviously great interest in this.

Joseph Johnson: It is important that it is a competitive process: that there is no presumption of it going to any particular provider of student loans, and that the Government run an open and competitive process. It is absolutely vital that Government are innovative in procurement. This is an opportunity for us to do just that. We have a great fintech sector in this country, and we should allow an open and competitive process to deliver best value for money for the Government.

Q281 **Chair:** Just before I bring Alister in, are you in conversation with the Treasury about this? The Treasury presumably, again, have experience in wider Islamic finance.

Joseph Johnson: Yes. We have set up an Islamic finance group, and the department has been having discussions with the Treasury about how we take this policy forward, so yes.

Q282 **Mr Jack:** Would you not solve the problem by moving to a graduate tax?

Joseph Johnson: Is this in relation to alternative student finance?

Mr Jack: It is in relation to Sharia law and Islamic finance.

Joseph Johnson: Then you would get into the host of issues that a graduate tax introduces, which we have been avoiding deliberately for some time—namely you lose the link between what the individual student borrows and their level of repayment. You introduce all manner of other problems, including the Treasury not being willing to hypothecate the revenues from a graduate tax towards the funding of institutions. A graduate tax introduces all manner of problems.

Q283 **John Mann:** I have two quick sectoral questions. Just picking up on someone earlier, let's say a student hits a major trauma—the death of a parent—during a standard three-year degree and ends up taking a year off. Are you satisfied that the system is sufficiently robust that they do not end up being additionally financially penalised for something that they cannot predict or take insurance against from within the system?

Joseph Johnson: We have to ensure that it can cope with those sorts of situations. When individuals find themselves in those circumstances they do have a capacity to direct their problems to the Student Loans Company, to Student Finance England and to the individual institutions to seek the support that they need, but it needs to be sufficiently flexible to cope with those kinds of situations.

Q284 **John Mann:** My question is: are you confident the system is sufficiently robust in those situations such that if, say, a member of Parliament was to raise such an issue, there would be no financial loss for an event like that or any other major traumatic event, for example, that does impact a tiny minority of students?

Joseph Johnson: Put it another way: I am not aware of this being an issue at the moment—that students in those circumstances where they have had a traumatic event that has caused them to suspend their studies or drop out are finding the system inflexible in the way you suggest it is. If we see evidence of that sort, we would want to step in and ensure that steps are being taken to correct it.

Q285 **John Mann:** That is very helpful. I have a second and unrelated question: have you received or seen any evidence whatsoever that a change of policy that gifted what is a private debt—the accumulated student debt held by individuals—to the public sector would have any impact on the macro economy?

Joseph Johnson: I am just trying to get a handle on your question. At the moment, when we, as Government, issue a student loan it does score on the public debt at the moment. It is already on the public debt. Students have an obligation to repay when they are earning above what will be £25,000, but it is already on the public debt.

Q286 **John Mann:** I know, but the Government could chose to write off the entire debt and make it an entirely public sector debt as opposed to private household debt. That is a policy option that is there—or degrees within it. Take that absolute policy option of writing off the entire student debt. Have you seen any economic evidence that that would have a detrimental impact to the macro economy?

Matt Toombs: Just to follow up on the Minister's comments, the forecasts for student finance are included in the OBR's forecast, and those are shown to be consistent with the Government's fiscal rules. Any major change in the financing of the student loans system—bringing more of it on balance sheet—would potentially put at risk the meeting of fiscal rules. To the extent that there would be a macroeconomic response, it would be a response to the Government's ability to be able to live within its fiscal rules.

Q287 **John Mann:** They are rules set by the Government. I am asking if you have seen any evidence that there would be an impact on the macro economy.

Joseph Johnson: In very crude terms, we issue about £16 billion of loans every year at the current run rate. At the moment they do not score on the deficit. If we were to fund the system through grant funding, that would be £16 billion on to our borrowing.

Q288 **John Mann:** There is an impact from private sector household debt as well. I am simply asking if you have seen any economic evidence that a radical shift like that would have an overall impact on the macro economy. It appears not.

Joseph Johnson: To an extent, there is always going to be a tension between the amount of indebtedness that Governments bear and the rate at which they can borrow and the overall sense that the public sector is crowding out other economic activity in the country. Yes, there are long-established relationships of that sort between levels of overall indebtedness in an economy and economic vitality in the private sector and elsewhere.

Q289 **John Mann:** Who provided you that economic analysis?

Joseph Johnson: This is a long-standing set of assumptions that govern policymaking with respect to deficit reduction and levels of public debt that are deemed to be sustainable for a mature economy.

Q290 **John Mann:** It is your view.

Joseph Johnson: It is not my view. It is the general Treasury view.

Q291 **Chair:** On that, we talked earlier about the IFS, so you might disagree with this. The IFS, in their report of 3 October on the higher thresholds, said, "The total government up-front expenditure for the 2017-18 cohort of entrants into HE is £17 billion. However, because 96% of this is provided in student loans, this expenditure only contributes £745 million to the government deficit (as loans provision is not included in the deficit until the loans are written off 30 years later)." What you are saying is that you agree with this—the way the system is currently financed does have a positive impact on the deficit, because it is only written in until the loans are written off. Obviously not all that £17 billion is included in the deficit for this academic year.

Joseph Johnson: The interest income counts positively towards reducing the deficit. That is correct.

Q292 **Chair:** Finally, I asked about the 30-year time limit. Your review is saying that the 30-year time limit could be under review. The repayment threshold is going to be changing each year. The interest rate and payment rate could be under review or can be changed. Is this not really just a tax in all but name?

Joseph Johnson: I would not leap to assumptions that we are looking at any one feature of the system more than any other. The system is a system. We always keep it under review to ensure it is fair and effective. As I said at the start, it is delivering our core policy objectives, so I would not expect radical change to the core architecture.

Chair: That is a good place to end it. Can I thank our witnesses very much indeed for your time today? Can I also thank those who have sent in questions from outside via Twitter? We have a couple of issues. As I say, I will just write to you about some things that were not within the remit of this particular inquiry. Thank you both very much. Happy Christmas.