House of Commons

Treasury Committee

Student loans: Broken and unfair? Government response

First Special Report of Session 2026–27

HC 622

Treasury Committee

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Committee Reports are published on the Committee's website at www.parliament.uk/treascom and in print by Order of the House.

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First Special Report

The Treasury Committee published its First Report of Session 2026–27, Student loans: Broken and unfair?, (HC 14), on 7 July 2026. The Government Response was received on 7 September 2026 and is appended below.

Appendix: Government Response

Introduction

In January 2026, the Treasury Select Committee commenced an inquiry into student loans to examine whether the student finance system remains fair, sustainable and effective for students, graduates and taxpayers. In July 2026, the Committee published its report, 'Student loans: broken and unfair?' The Government welcomes the Committee's report and the detailed consideration it has given to the operation of the student finance system. This response is submitted jointly by HM Treasury and the Department for Education.

The Government understands that decisions about higher education and student finance are among the most significant financial choices that people make. At the same time, given the scale of Government support through the student finance system, including £21.3 billion in higher education loans provided in 2025–26,[1] it is important to strike an appropriate balance between supporting learners and ensuring the long-term sustainability of the student finance system. The system must therefore be transparent and easy to understand, while providing appropriate support to learners and remaining affordable for taxpayers.

1 Student Loans in England: Financial Year 2025-26 - GOV.UK

The Government agrees with the Committee that the student finance system is complex. Student loans operate within a unique framework that combines access to higher education, income-contingent repayments and a very significant taxpayer subsidy. Unlike commercial lending, repayments depend on a borrower's earnings, and any remaining balance is cancelled at the end of the loan term. This means that the costs and benefits of the system must be considered in the round, taking account of the interests of students, graduates, higher education providers and taxpayers alike. This broader perspective is important given the substantial economic and social value generated by higher education, with the sector contributing c. £265 billion to the UK economy[2] and supporting more than 750,000 full-time equivalent jobs.[3]

Higher education continues to deliver substantial benefits to individuals, the economy and society. Graduates typically experience higher earnings and employment outcomes and make an important contribution to the nation's skills base, productivity and economic growth. Higher education also delivers non-economic benefits, with graduates experiencing better health outcomes, longer lives, and higher wellbeing. The Government remains committed to ensuring that financial circumstances do not prevent people with the ability and aspiration to benefit from higher education from accessing it.

At the same time, the Government recognises the concerns raised by the Committee regarding the transparency of student finance, borrower understanding of the system, and confidence in how changes to repayment arrangements are communicated. The Government is committed to improving the information and guidance available to borrowers and ensuring that communications are clear, fair and accessible.

The Government considers that any reforms to student finance must balance the interests of current and future students with the need to maintain a financially sustainable higher education funding system and deliver value for money for taxpayers. The responses that follow set out the Government's position on the Committee's conclusions and recommendations in that context.

HM Treasury; Department for Education

September 2026

2 https://www.universitiesuk.ac.uk/sites/default/files/field/downloads/2024-09/LE-UUK-Impact-of-university-TL-and-RI-Final-Report.pdf

3 LE-UUK-Economic-Impact-of-UK-HEIs.pdf

Design of the student loan system

Recommendation

In the long term, the Government should return the balance between the individual and the state to a 50:50 split.

The Government does not accept this recommendation. Graduates benefit from higher education through improved lifetime earnings and employment outcomes, and the income-contingent loan system is designed such that lower earners receive a larger subsidy, and higher earners make a larger contribution, towards the cost of their higher education.

The size of this loan subsidy is expressed via the RAB (Resource Accounting and Budgeting) charge, which represents the proportion of loan outlay issued each year which is not expected to be repaid by borrowers, and instead be written off at the end of the loan term at no detriment to those borrowers. The RAB charge for Plan 2 and Plan 5 student loans issued to full-time higher education students currently sits between c. 30–40% depending on year of issue.

Government also provides additional, non-repayable grant funding for higher education teaching and students, including via the Strategic Priorities Grant, Childcare Grant, Disabled Students Allowance, and Targeted Grants.

As Minister Smith explained to the Committee, we estimate the overall government contribution to be in the region of 35–40%

Any changes to the higher education student finance and funding system must be considered in the round, taking account of affordability, sustainability and value for money. Shifting the average balance of costs between graduates and taxpayers to a 50:50 split would carry a substantial fiscal cost, which needs to be considered against alongside wider spending pressures, fiscal objectives and Government priorities.

We will continue to look for ways to make the system fairer for students and graduates, but it is important these are financially sustainable.

Recommendation

Due to our remit, we have not scrutinised the relative value of different higher education courses. There may be valid arguments now and in the future about the proportion of costs borne by individuals and the

state, depending on the relative value of courses to the state and the individual. Such arguments might bear further consideration by the Department for Education and the Education Select Committee.

The Government notes the Committee's observation. Evidence indicates that higher education delivers substantial benefits for many graduates and for the wider economy, although outcomes and returns vary across individuals and subjects of study. Indeed, research undertaken by the Institute for Fiscal Studies, published in June 2026, estimated that higher education continues to offer good value for money for most students. On average, graduates are expected to be around £100,000 better off over their lifetime than if they had not gone to university, even after accounting for extra income tax, employee National Insurance contributions and student loan repayments.

The Government will continue to keep the evidence on higher education outcomes and value for money under review, including evidence on the relative returns associated with different courses.

Interest rates

Recommendation

We reiterate the recommendation of the then Treasury Committee in 2018: "The Government should abandon the use of RPI in favour of CPI to calculate student loan interest rates." We are disappointed that eight years later this recommendation has not been implemented.

The Government notes this recommendation. The Office for National Statistics has confirmed that it will bring the methods and data sources used to calculate CPIH into RPI from February 2030. The Government will continue to consider the appropriate treatment of inflation measures within the student finance system as part of its ongoing consideration of higher education funding and student support arrangements.

Consumer harms from changing terms and conditions and mis-selling

Recommendation

This Government must reverse the repayment threshold freeze in the Autumn Budget. The annual additional borrowing from this policy would be £355 million by the fiscal rule target year 2029–30. The

Government has a moral obligation to deliver this modest fiscal reversal not only to maintain students' trust in Government, but to honour the terms and conditions under which those loans were sold to students.

The Government recognises the cost-of-living challenges faced by many graduates, including those with Plan 2 student loans, and understands concerns about the impact of repayment terms on borrowers.

We keep all aspects of the student finance system under review. Decisions on student loan repayment arrangements must be considered alongside wider fiscal priorities, the long-term sustainability of the higher education funding system, and the need to ensure value for money for taxpayers. Any significant changes require careful consideration of their impacts on borrowers, taxpayers and public finances.

The Government will continue to consider opportunities to ensure the fairness of the student finance system for borrowers, taxpayers and public finances.

Mis-selling student loans and lack of consumer protection

Recommendation

The Department for Education must in future ensure that all student loan promotional materials it authorises, endorses, or links to in its own materials are compliant with the FCA Consumer Duty or the FCA financial promotions regime, even if the Department is not legally required to do so.

Recommendation

As no Government can bind its successors, all Government promotions should clearly state that "the future terms and conditions of your loan can be changed retrospectively by future Governments". The statement provided in some historic materials that "all policies are kept under review" is not sufficiently clear and in our view would amount to a breach of the FCA's Consumer Duty.

Student loan communications have always been clear that loan repayments are income contingent, repayable above a certain threshold at a set rate, have interest applied and will be cancelled at the end of the loan term. The SLC routinely test the content and effectiveness of their information and guidance using a range of methods including direct User Experience research and with their Student Finance Customer Panel, who provide feedback and insight to SLC.

However, the Government agrees that more can be done to support borrowers to understand the student finance system and that all information provided to borrowers should be fair, clear, unambiguous and as easy to understand as possible. Under the transformation programme, Enable, SLC will take a user-centred design approach to work with students to review the pre-application process to produce clear, relatable and trusted guidance that supports better decision making and financial planning.

This will include making it more prominent that student finance is governed by legislation and that regulations may be amended by Government and Parliament. The Government agrees that borrowers should have a clear understanding of the framework within which student finance operates.

However, there is a strong rationale for not applying the FCA Consumer Duty or financial promotions regime directly to student loan materials. These regimes were developed for commercial financial products offered within competitive markets and are therefore not well suited to the student finance system. Student finance is a statutory, taxpayer-supported system, that extends loans to all eligible applicants, regardless of their financial history. The income-contingent repayment system means that monthly loan costs are independent of both the amount borrowed and the interest rate, which makes them very different to commercial loans.

The Government therefore considers that borrowers are best supported through fair, clear and accessible communications tailored to the specific unique characteristics of the student finance system.

Recommendation

Future student loans should be issued as a contractual agreement rather than as agreements governed by statute, to prevent future Governments from changing the terms and conditions of the loans retrospectively to the detriment of the borrower without paying compensation.

Student loans are unlike any other form of conventional loan. Provided the relevant statutory criteria are met, neither DfE nor SLC have the power to refuse borrowing, and no credit underwriting or security is required to secure the loan. Furthermore, there are strong protections for borrowers. Firstly, repayments are contingent upon earnings above the repayment threshold rather than dependent upon the rate of interest or the length or value of the loan. Secondly, student loans are cancelled at the end of the loan term, including interest accrued with no detriment to the borrower. This taxpayer subsidy is a conscious and important investment in the long-term skills capacity, people and economy of the country.

To ensure that the taxpayer contribution to student loans remain financially stable in the long term and available to all as intended by Parliament, the Government needs to be able to adapt the system to changing economic circumstances. For example, this Government increased the Plan 2 threshold to £28,470 in April 2025 – its first increase since 2021 – and increased it again this year, to £29,385. As student loans operate under a contractual framework within a statutory scheme, any changes are subject to Parliamentary scrutiny and changes to terms and conditions are analysed as questions of statutory power and legitimate expectation, rather than as ordinary contractual variation claims. For borrowers it means that their rights are embedded within a legislative scheme.

Removing the statutory basis from student loans and instead relying on a model based solely on contractual agreements would have significant impacts for the collection mechanisms for student loans. For example, contracts generally bind only the parties to the agreement, and not, for example, third parties (such as employers) who play a critical part within the student loan collection process. A purely contractual agreement would also require the Secretary of State to enter and manage individual agreements with large numbers of borrowers, which would be administratively prohibitive. For these reasons, such an approach would be too administratively complex, expensive and impractical to implement.

Recommendation

The Student Loans Company must explicitly make it clear in its "speedbumps" that the Government can and does change the terms and conditions of the loans retrospectively after they are taken out.

We accept that this would be a positive addition and will work with the SLC and the Devolved Authorities to make this change as part of its user-centred review of the student finance pre-application process, planned for Spring 2027 as part of Enable.

Recommendation

The Department for Education and the Student Loans Company need to both jointly and separately establish who is legally responsible for what. In particular, they must establish whether the student loan

application form makes students sufficiently aware of the unusual terms of the loan, which allow the Government to change terms and conditions retrospectively.

Government are responsible for setting the policy for student loans and SLC are responsible for the implementation and administration of that policy via delegated functions on the Secretary of State's behalf. However, we accept that there is scope to more clearly establish the legal responsibility of the DfE and SLC for certain products, for example the application form, information and guidance relating to student finance, and for that responsibility to be reflected appropriately. We will look to update the application form and guidance relating to student finance to reflect responsibilities accurately within the planned updates for the AY27/28 cycle.

We also recognise that there is more that can be done to support prospective student loan borrowers in understanding that the terms and conditions of student loans can be amended retrospectively. DfE and SLC will work together to improve clarity for borrowers and ensure that responsibilities for borrower-facing products are appropriately reflected.

Recommendation

The Government's written evidence to the Committee stated that individuals are required to sign a 'loan contract', whereas the Student Loan Company has told us student loans are not contractual. This contradiction must be resolved.

The Education (Student Support) Regulations 2011 (as amended) require eligible students to enter into a loan agreement with the Secretary of State in order to receive student finance. These loan agreements therefore have a contractual element, but unlike a standard contractual agreement, these contracts operate within a statutory scheme established by Parliament.

As a result, the terms and conditions of student loans are determined by the relevant legislation and regulations that govern the scheme, rather than by individually negotiated contractual arrangements. This reflects the unique nature of student finance and does not represent a contradiction. It is a feature of a statutory lending scheme that relies on both a contractual agreement between the borrower and the Secretary of State and a legislative framework that sets out how the scheme operates.

Loan versus tax

Recommendation

The Department for Education and the Student Loans Company should work together to design and implement wording that can be added to the annual statements giving students an approximate indication of how much of their total loan is likely to be written off.

We agree that more can be done to help student loan borrowers understand how their loan balance may change over the long term.

However, producing the type of borrower-specific forecast suggested by the Treasury Select Committee is highly unlikely to generate an estimate that closely reflects a borrower's actual lifetime repayments until they are approaching the end of their loan term. Any such forecast would require too many assumptions about an individual's future circumstances, including career progression, earnings growth, periods of childcare or caring responsibilities, changes in working patterns etc. As these factors have a substantial impact on repayment outcomes, the accuracy of any long-term forecast would be inherently limited and would be, potentially, misleading.

Instead, we believe a more practical and achievable approach to explore is to ensure borrowers fully understand how different events may affect the profile of a borrower's repayment. Whilst government already provides some information on the relationship between borrower earnings and loan repayments; we think we can go further and therefore will improve the current information that is provided to prospective borrowers. This would likely demonstrate how different life and career choices may affect repayment trajectories and could show the impact of salary progression, retraining, moving to part-time work or career breaks. This would provide borrowers with a clearer understanding of the factors that influence repayment outcomes, without implying a level of precision that cannot realistically be achieved through individual forecasts for most borrowers.

As part of the implementation of the SLC's transformation programme, Enable, and wider improvements to student finance communications, the government will explore opportunities to improve the accessibility and clarity of information and guidance provided to borrowers.