



HM Treasury

Review of the student loan sale programme: Budget 2020

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Executive summary

As part of Budget 2020, HM Treasury has conducted an internal review of the student loan sale programme, with input from the Department for Education and UK Government Investments.

The government has made significant progress since 2010 in restoring the public finances to health. Selling financial assets, like student loans, where there is no policy reason to retain them, and value for money can be secured for the taxpayer, has made an important contribution to this progress. The two completed student loan sales reduced public sector net debt by £3.6 billion, freeing up headroom in those years to invest in other priorities. However, since the completion of the second student loan sale in December 2018, subsequent developments have prompted the government to assess the case for further sales.

When considering the impact on fiscal policy, the government's stated objectives for the two completed sales included "reducing public sector net debt, while not having a significant impact on public sector net borrowing". Following the Office for National Statistics' recent change in the accounting treatment of student loans, loan sales now have a significant negative impact on public sector net borrowing, whilst the new accounting treatment also means that sales will have a new impact on other metrics such as Public Sector Net Investment. Moreover, because of the government's progress in fixing the public finances, debt is now expected to be broadly stable over the medium-term.

The government has therefore taken the decision that it will not proceed with further sales of student loans. As a result, no further sales of Plan 1 (pre-2012) student loans will now be undertaken. The government also has no plans to sell Plan 2 (post-2012) loans.

This review has also considered the success of the two completed loan sales. The review finds that these sales achieved their stated policy objectives at the time, strengthening the public finances under the previous government's fiscal policy and in accordance with the relevant ONS treatments then in force. Both sales achieved value for money, with sale proceeds exceeding the retention value calculated by government of holding onto the loans. The value of the loans was calculated by UKGI in line with the Green Book and analysis finds that the use of the Retail Price Index in discounting the loans did not play a role in the decision to sell in either case, nor did it affect sale proceeds to the Exchequer. Borrowers whose loans were sold will continue to be unaffected by the two completed sales, with the Student Loans Company and HMRC continuing to service the sold loans.

Chapter 1

Background

- 1.1 In 2013, the government decided to sell a portion of the student loans issued before 2012 ('Plan 1' loans). This followed the Sale of Student Loans Act 2008, which provides the legal basis for selling student loans.
- 1.2 In December 2017, the first sale concluded raising £1.7 billion.¹ At Budget 2018, the government announced an extension of the programme to 2022/23, increasing target proceeds from £12 billion to £15 billion. In December 2018, the second sale concluded raising £1.9 billion.²
- 1.3 Both sales to date took place via a securitisation whereby investors purchased the rights to the loan repayments rather than the underlying loans. Sales were structured to ensure that borrowers were unaffected, with their loans continuing to be serviced by the Student Loans Company (SLC) and HM Revenue & Customs (HMRC). Investors are unable to contact borrowers and have no control over the terms of sold loans.
- 1.4 The government will consider whether to sell an asset if there is no policy reason for the government to hold onto it, and value for money (VFM) can be achieved. Once issued, student loans serve no further policy purpose on the government's balance sheet. The question then becomes how the government can best achieve VFM from the asset which it holds, whilst ensuring that borrowers are not affected.
- 1.5 HM Treasury (HMT) is responsible for asset sale policy in government. The Department for Education (DfE) is responsible for student loan policies and oversees the servicing of the sold loans by the SLC and HMRC. UK Government Investments (UKGI), the government's centre of expertise in corporate finance and corporate governance, managed the sale process and advised DfE on the transactions.
- 1.6 The National Audit Office (NAO) reviewed the first loan sale and concluded that it had achieved value for money.³

¹ UK Parliament, [Government asset sale: Written statement - HCWS317](#), 06 December 2017

² UK Parliament, [Government asset sale update: Written statement - HLWS1108](#), 04 December 2018

³ National Audit Office, [The sale of student loans](#), 20 July 2018

Chapter 2

Sale objectives and value for money assessment

- 2.1 Once student loans were identified as a potential asset for sale, HM Treasury and the Department for Education agreed a set of objectives ahead of each transaction. For the two completed sales, these were:
- to reduce public sector net debt, while not having a significant impact on public sector net borrowing
 - to ensure there was no detrimental impact on borrowers
 - to achieve value for money
- 2.2 The first sale objective ensured alignment between the decision to proceed with the sales and the fiscal priorities of the government at the time. However, the VFM assessment was a separate objective and determined using distinct criteria. A sale was determined to have achieved VFM if:
- the sale price exceeds or is broadly neutral when compared with the retention value to government
 - an efficient market exists for this asset and this market appears to be functioning efficiently at the time of sale
 - sales are structured and executed in such a way as to promote efficient pricing
- 2.3 Sales one and two had to achieve all these objectives, including passing all three VFM tests, in order to proceed. VFM analysis followed Green Book guidance and supplementary guidance on asset sales. VFM tests are unaffected by changes recently implemented by the Office for National Statistics (ONS) to the treatment of student loans in the national accounts because they do not affect the economic value of the assets.
- 2.4 Some commentators have questioned the methodology underpinning the government's retention value, noting that the sales have raised around only around half of the face value of the loans being sold. As part of this review, the VFM assessments for the two completed sales have been revisited and the review confirms that both sales achieved VFM for the taxpayer.
- 2.5 When student loans are issued, it is understood that not all loans will be repaid in full. This is an intentional policy of the government to subsidise the higher education system, ensuring that students can attend university

regardless of their ability to repay the loan in full or not. In addition, since the loan cohorts sold had already been in repayment for several years, the residual pool of borrowers in the two completed sales contained a higher proportion of borrowers who were less likely to repay their loans in full. As a result, the loans were not expected to be sold for their face value.

- 2.6 The VFM assessment is a question of whether the government is better off holding or selling the assets. This requires calculating the value of the loans to government today, which is the government's retention value. The government's retention value takes into account the foregone repayments from borrowers, but also:
- the time value of money
 - the effect of inflation over the duration of the loans
 - the riskiness of the asset
 - the opportunity cost of having money tied up in that asset
- 2.7 In both completed sales, based on independent commercial advice from UKGI and its advisors, the government judged that conditions were met for market and price efficiency ahead of the sale, and that proceeds exceeded the retention value for the loans. This demonstrated that the government achieved VFM for the loans.
- 2.8 The above components are calculated in line with the Green Book, including the use of the Social Time Preference Rate (STPR) of 2.5%¹ (the risk-free component) as a component of the discount rate applied to cashflows. Some commentators have questioned the use of the STPR, with the use of current or recent historical gilt rates being proposed as an alternative discounting rate. However, the STPR is not intended to capture alternative sources of financing in place of selling an asset. Instead, the STPR is used to determine the opportunity cost of holding onto an asset, relative to other uses of the cash tied up in it with greater economic or social returns.
- 2.9 The Retail Price Index (RPI) was used to account for inflation for the two completed sales. This choice was made in accordance with Green Book guidance, which suggests using a GDP deflator or a metric linked to the specific asset. RPI was chosen because it is strongly linked to the loans being sold, through the annual increases in loan repayment thresholds and the loans' interest rate mechanism.
- 2.10 The National Audit Office's report noted that RPI is a "non-standard inflation measure" and the government's policy is that will reduce its use of RPI when and where practicable. The NAO stated that using the Consumer Price Index (CPI) instead would have increased the retention value of the loans by around £110 million.²

¹ The STPR is ordinarily 3.5% for spending decisions but in the case of asset sales, the Green Book's supplementary guidance stipulates for the 1% exogenous (catastrophe) risk rate to be excluded, leaving an STPR of 2.5%.

² National Audit Office, [The sale of student loans](#), 20 July 2018

- 2.11 This review has conducted further analysis to understand any impact that the use of the higher RPI had on the VFM assessment for the two completed loan sales. New retention values were calculated for the loans sold in the two completed sales using CPI, CPIH (CPI including owner occupiers' housing costs) and the GDP deflator. This analysis found that the sale proceeds achieved for both loan sales would still have been in or above the retention value range in each case, meaning that the VFM test would still have been satisfied. The government therefore remains confident that the decision to use RPI to discount the loans did not affect the government's decision to sell or the sale proceeds realised for the Exchequer.
- 2.12 Taking all of the above considerations into account, the government remains confident that the two completed sales achieved value for money.

Chapter 3

Interaction with fiscal policy and balance sheet management

- 3.1 The Charter for Budget Responsibility set by the previous government included a target to reduce cyclically-adjusted public sector net borrowing (PSNB) to below 2% of GDP by 2020/21. This was supplemented by a target for public sector net debt (PSND) as a percentage of GDP to be falling in 2020/21.
- 3.2 The government's asset sale policy was and remains to consider assets for sale where they no longer serve a public policy purpose and sales have a realistic prospect of achieving value for money for the taxpayer.
- 3.3 Student loans were identified as an asset which, once issued to students, no longer served a policy purpose on the government's balance sheet. The expansion of higher education in the UK has increased the size and relative proportion of these loans on the government's balance sheet – a trend which continues (see Chapter 6).
- 3.4 The decision to sell the loans took place in the context of a fixed spending envelope, set in line with the previous government's fiscal priorities on debt and borrowing, as set out above. In this context, student loan sales created fiscal headroom with which to invest in other priorities with greater economic or social returns.
- 3.5 The government has made significant progress since 2010 in restoring the public finances to health. This includes the £3.6 billion contribution to debt reduction from the two completed loan sales. With a strong fiscal position, day-to-day spending under control, and near record low borrowing costs, the government can now afford to invest more in growing the economy while keeping control of borrowing and debt.
- 3.6 The ongoing Balance Sheet Review (BSR) has also influenced the government's fiscal and spending policies. The BSR was launched at Budget 2017 to identify systemic and department-specific opportunities to increase the returns on public sector assets, decrease the costs of the government's liabilities and improve the management of balance sheet risk.
- 3.7 Improving the management of the government's assets and liabilities is important for fiscal sustainability and can create fiscal gains which might not be realised through a focus on borrowing and debt alone. For this reason, the BSR has encouraged consideration of how spending decisions affect a wide range of fiscal aggregates, in addition to PSND and PSNB, including more comprehensive fiscal measures. Reporting of a wider range of

aggregates was incorporated into HMT's asset sale disclosure guidance, which was reflected in the government's statutory report to Parliament following the second student loan sale.¹

- 3.8 Analysis by the International Monetary Fund (IMF) has indicated that a stronger balance sheet, achieved through a more holistic and long-term approach to the management of assets and liabilities, offers three key benefits: a) generating improved returns, i.e. capital savings and debt reduction; b) reducing debt interest costs; and c) increasing resilience to economic shocks. The IMF analysis has also shown that on balance sheet financial assets can reduce debt interest costs.²
- 3.9 The BSR has today announced that, in addition to the asset sales guidance, HMT will consider a new framework for judging whether to proceed with an asset sale or other balance sheet transaction, taking account of impacts across a wider range of fiscal metrics. This ensures that the government has a transparent and enduring approach for proceeding with asset sales, which can have significant and complex impacts on the public finances and long-term fiscal sustainability.

¹ Department for Education, [Second Sale of Pre 2012 \(Plan 1\) Income Contingent Student Loans](#), 20 December 2018

² C. Hernao-Arbelaez and N. Sobrinho, [IMF Working Paper – Government Financial Assets and Debt Sustainability](#), 25 July 2017

Chapter 4

Impact of programme on the public finances

- 4.1 Last year, the ONS implemented a new treatment of student loans in the National Accounts to better reflect the expected long-term impact on the public finances. As a result, an estimate of the proportion of student loans that will not be repaid is recorded as a capital transfer from government to borrowers at the time of the issuance of the loans. The new treatment has also changed the effect of student loan sales on the public finances. The new treatment now records a capital transfer to reflect the difference between the balance sheet value of the loans sold in the National Accounts and the sale proceeds. This treatment has been applied retrospectively to the two completed sales, and the same approach would be taken for any subsequent loan sales.

Table 4.A: Up-front impact of loan sales under new ONS treatment on Public Sector Net Debt, Public Sector Net Borrowing and Public Sector Net Investment¹

Impact in £ billion and rounded	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total
PSND	-1.7	-1.9	-2.7	-2.8	-2.9	-3.0	-15.0
PSNB (new treatment) ²	+1.2	+1.5	+2.0	+2.1	+2.2	+2.2	+11.2
PSNI (new treatment)	+1.2	+1.5	+2.0	+2.1	+2.2	+2.2	+11.2

Source: HM Treasury

- 4.2 Table 4.A sets out the upfront fiscal impact of proceeding with the loan sale programme under the new accounting treatment. The impact of the loan sales on PSND is unchanged from the previous treatment. A loan sale, other

¹ In line with convention, the student loan impacts shown here are 'on sale' impacts only. In addition to this, as explained below, there are also year-on-year impacts from foregone accrued interest and repayments. The OBR incorporates these separately in the wider student loan book forecast. These impacts vary by sale, but for PSNB are in the tens of millions of pounds per sale per year, and for PSND are in the hundreds of millions per sale per year. As a result, PSNB is further increased and PSND is increased in the long-run.

² The 2017-18 and 2018-19 impacts for the two completed sales have been confirmed by the ONS, whilst the 2019-20 figures onward are HM Treasury calculations using data from the latest OBR forecast.

things being equal, reduces near-term PSND at the expense of long-term PSND as a result of foregone cash repayments from borrowers. On the other hand, sales free up in-year headroom to invest in other priorities with greater economic or social returns, meaning that the long-term VFM calculation, set out in Chapter 2 and based on the Green Book, is positive. However, under the new ONS treatment, proceeding with the sales would have a significant negative impact on range of other measures, including Public Sector Net Investment and PSNB.

- 4.3 Following the new ONS treatment, the case for further loan sales is influenced by the extent to which the government prioritises up-front debt reduction over other measures. Whilst the loan sales continue to bring forward debt reduction, which remains an important consideration for the government, the sales are now recorded as impacting public sector net borrowing and Public Sector Net Investment, which could serve to constrain alternative investments in economic or social infrastructure.
- 4.4 The change in methodology by the ONS also reduces the amount of interest accruing as a current receipt benefitting the current budget. Sales would continue to contribute a reduction in near-term PSND and the Public Sector Net Cash Requirement.
- 4.5 As the ONS note³, the new accounting treatment of student loans is not designed to assess the VFM of any given loan sale. It does not affect the underlying economic value of the loans, which is the basis for the separate value for money assessment set out in Chapter 2.

³ Office for National Statistics, [Student loans in the public sector finances: a methodological guide](#), 22 January 2020

Chapter 5

Outcome of the review

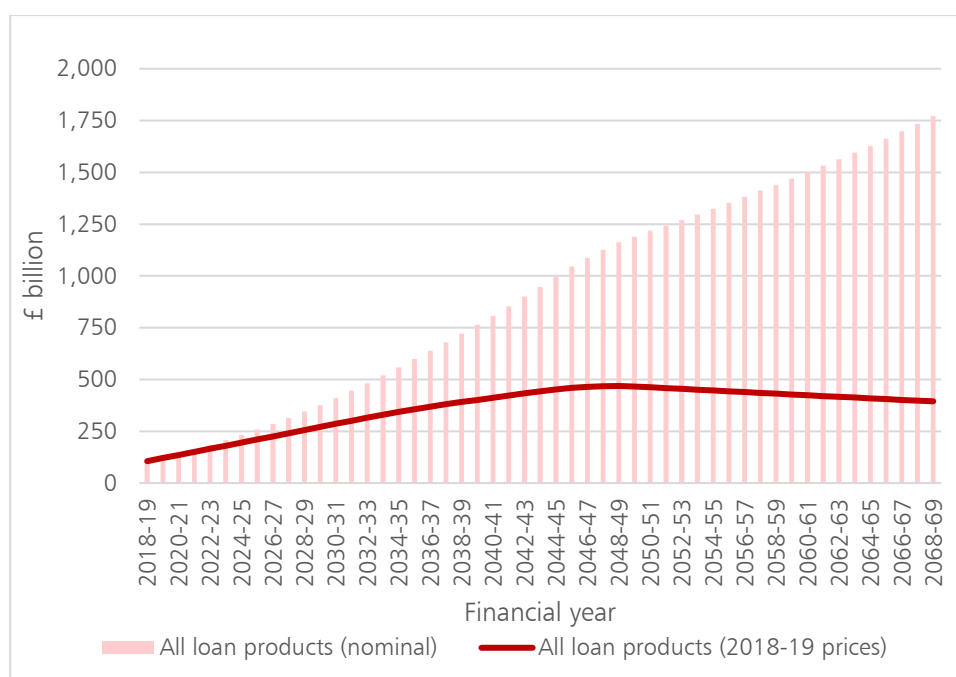
- 5.1 The government has made significant progress since 2010 in restoring the public finances to health. The two completed student loan sales reduced public sector net debt by £3.6 billion, freeing up headroom in those years to invest in other priorities. However, since the completion of the second student loan sale in December 2018, subsequent developments have prompted the government to assess the case for further sales.
- 5.2 When considering the impact on fiscal policy, the government's stated objectives for the two completed sales included "reducing public sector net debt, while not having a significant impact on public sector net borrowing". Following the ONS's recent change in the accounting treatment of student loans, loan sales now have a significant negative impact on public sector net borrowing, whilst the new accounting treatment also means that sales will have a new impact on other metrics such as Public Sector Net Investment. Moreover, because of the government's progress in fixing the public finances, debt is now expected to be broadly stable over the medium-term.
- 5.3 The government has therefore taken the decision that it will not proceed with further sales of student loans. As a result, no further sales of Plan 1 (pre-2012) student loans will now be undertaken. The government also has no plans to sell Plan 2 (post-2012) loans.
- 5.4 This review has also considered the success of the two completed loan sales. The review finds that these sales achieved their stated policy objectives at the time, strengthening the public finances under the previous government's fiscal policy and in accordance with the relevant ONS treatments then in force. Both sales achieved VFM, with sale proceeds exceeding the retention value calculated by government of holding onto the loans. The value of the loans was calculated by UKGI in line with the Green Book and analysis finds that the use of RPI in discounting the loans did not play a role in the decision to sell in either case, nor did it affect sale proceeds to the Exchequer. Borrowers whose loans were sold will continue to be unaffected by the two completed sales, with the SLC and HMRC continuing to service the sold loans.

Chapter 6

Interaction with student loan policy

6.1 Chart 6.A sets out the projected long-term growth in the value of student loans. The OBR's most recent fiscal sustainability report projects that student loans will increase net debt by around 12 percent of GDP in the late-2030s, before falling back slightly to around 11 percent of GDP in 2067-68.¹ As a result, the government currently expects the value of student loans to stabilise at 11-12 percent of GDP in the medium to long-term.

Chart 6.A: Projected long-term face value of student loans in nominal and real terms, financial years 2018-19 to 2068-69 (English² loans only)



Source: DfE, HM Treasury calculations using OBR projections³

6.2 Whilst the costs of the student loan system have grown over time, the decision to sell student loans was always made independently from decisions

¹ Office for Budget Responsibility, [Fiscal sustainability report](#), July 2018. The OBR projections use the DfE student loan models. Note that these OBR projections are based on 2017-18 DfE data, whilst Chart 1 presents the more recent 2018-19 update.

² The data is for borrowers who received loans as English domiciled students studying in the UK or as EU domiciled students studying in England. 'All loan products' covers Plan 1 (pre-2012), Plan 2 (post-2012) and Plan 3 (postgraduate) loans.

³ Department for Education, [Student loan forecasts, England: 2018 to 2019](#), 27 June 2019

around issuing the loans, repayments policy and the wider higher education system. The decision to not proceed with the loan sale programme is independent of wider decisions on higher education and student loan policy.

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