SUPPORTING A SMARTER SCOTLAND

A consultation on supporting learners in higher education

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Foreword by Cabinet Secretary for Education and Lifelong Learning

The Scottish Government's purpose is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This aim centres around five key strategic objectives, to make Scotland, Wealthier and Fairer, Healthier, Safer and Stronger, Smarter and Greener.

Maintaining a word-class education system is at the heart of all of these objectives and in particular, education plays an essential role in both our Economic[1] and Skills[2] strategies. To get the best out of our education system, it is essential that all those who can benefit from participation have the opportunity to do so. While there are a number of factors that surround access to learning, we believe that learner support, in particular the reduction of debt, plays an important role in ensuring that access to higher education is based, as it should be, on academic merit and not on the individual's ability to pay.

That is why this Government set out three key commitments when coming to power:

- To abolish the unfair graduate endowment fee
- To replacing students loans with a means-tested system of grants
- To service the debt of Scottish-domiciled and resident loan borrowers.

Within our first year in power we delivered the first of these by successfully legislating to abolish the unfair Graduate Endowment fee, benefiting over 50,000 graduates and students immediately and restoring free education in Scotland.

We also made the first steps towards replacing loans by introducing a £38 million package of grants for part-time learners in higher education, benefitting up to 20,000 students a year.

In addition to this, we have also delivered a number of other policies to help students:

- We have increased the threshold for the non-medical personal helpers element of the disabled students allowance by 60 per cent.
- We are providing £16 million per annum to institutions to alleviate student hardship.
- We have introduced a fairer means test in further and higher education to ensure that support is targeted where it is needed most.

This is an impressive list of achievements and while we do not intend to stop there, we have to recognise that there are a number of restrictions, outside this Government's control, which may prevent us fully delivering on all of our commitments. Three main issues constrain what we are able to do in relation to student loans in the future.

First of all, despite student support policy being fully devolved, student loans are funded directly by HM Treasury and not through the Scottish Government's devolved budget. This means that we have no control over a large proportion of the loans budget and must work within the restrictions this places on us. If we had control over all of these budgetary elements it would make it far easier for us to deliver our manifesto commitments in full.

[1] The Government Economic Strategy www.scotland.gov.uk/Publications/2007/11/12115041/0
[2] Skills for Scotland: A Lifelong Skills Strategy www.scotland.gov.uk/Publications/2007/09/06091114/0

A second constraint is that last year's spending review was the toughest for Scotland since devolution and as a result, the Government has been forced to make hard choices on its spending priorities. In addition, there are the proposed cuts in Scotland's budget in 2010/11 and 2011/12 contained in the UK Government's recent pre-budget report. While we have been able to increase the overall spend on HE learner support during the spending review period, we will need to consider whether existing funds could be used more effectively. These issues will also be addressed in this paper.

Through the spending review, we have been able to make an additional £30 million available for HE support in 2010-11. Our intention is that these funds should begin the transition from loans to grants for full-time students – the second stage of our three-part plan for student support. While this remains our preferred option, we are aware that there are a range of views on how best to support students. Taking this into account, this paper sets out a number of options as to how support could be improved with this additional £30 million and it provides an opportunity for all interested parties to set out what their priorities are.

The final constraint is political. As a minority Government, we know that there is no consensus of support from other parties for our proposals, therefore, we have to concentrate our limited resources on areas that we can deliver within existing legislative frameworks. It was these financial and political constraints which led the Cabinet Secretary for Finance and Sustainable Growth to state in Parliament that the 2008-11 budget did not include proposals to service graduate debt.

In presenting this paper, I hope to stimulate debate over a number of fundamental issues so that we can develop a new system of support that meets the needs of Government and learners in Scotland and which lays the foundations for the future. In particular, we need to consider the options presented in the context of the changing economic environment to ensure that the student support system is able to adapt to changing pressures and demands that these difficult times are likely to present. I look forward to hearing as many of the wide-ranging views as I can throughout the consultation process.

Fiona Hyslop
Cabinet Secretary for Education and Lifelong Learning

Key Terms

Throughout this paper we will use a number of terms relating to student support and loans[3]. To avoid confusion some of the key terms are explained below.

Bursaries or grants – Both describe payments made to students which do not need to be repaid. Grants or bursaries are paid by the Student Awards agency for Scotland (SAAS) directly to the student. Currently, the main bursary support available is the Young Student's Bursary of up to £2,510 which is available to dependent students with household income of less than £32,515. Other bursaries and grants are available for those in particular circumstances for example lone parents or those with dependents.

Student Loans – Loans are repayable support provided by Government through the Student Loans Company (SLC). Loan entitlement is calculated by SAAS and paid by the SLC. A student's loan is broken down into three main elements:

- **Income-assessed loan.** This is the main loan entitlement up to £3,485 offered to students depending on an assessment of their household income. It is available to those with household income up to a level of £53,000 (at home) or £60,000 (away from home).
- **Minimum or non income-assessed loan.** This is available for those with household income over the maximum level. It is a loan of £590 (at home) or £890 (away from home) and is available to **all** eligible students, regardless of household income.
- **Additional loan.** Available to those from low income backgrounds, this is a loan of up to £590. The full amount is available for those with household income of less than £17,400 and it then reduces incrementally until household income reaches £20,695.

There are two different types of loan available to students:

- **Mortgage style loans** were available for new students until 1997-98. Once an individual's salary reaches a certain point (set at 85% of the national average wage - £25,936 in 2008/09) they begin to repay their loan in equal instalments over a period of either 5 or 7 years depending on the number of loans held. This was seen to place a significant repayment burden on borrowers entering repayment and it relied on borrowers manually deferring each year if they were not earning enough to repay. Generally this was expensive to administer and left scope for default on repayments.
- **Income contingent loans** replaced the mortgage style loans in 1998-99. These are collected through the income tax system by HM Revenue and Customs. Repayments to income contingent loans start at a lower threshold (£15,000) but also at a lower level (9% of every £1 paid over the £15,000), meaning that repayments begin earlier, but are less onerous.

Dependent students are generally those 24 or under who are still considered to be dependent on their parent or guardian. Those who are 25 and over are considered to be **independent**. In certain cases those 24 and under can be considered independent. For example if they have lived away from the parental home, been employed or unemployed for 3 years or more before beginning their course or if they are married, have a partner or civil partner, or if they have dependents.

Household income – The majority of student support is income assessed. Recent changes to the income assessment mean that all assessments are now made on the basis of household income. For dependent students parental income is assessed and includes partners and civil partners. For independent students assessment takes account of any spouse, partner or civil partner's income.

[3] A wider glossary of support terms is available from SAAS - www.saas.gov.uk/jargon_buster.htm

1. INTRODUCTION

Consultation Aims

This consultation paper fulfils a commitment originally made in the *Programme for Government*[4] published in September 2007 to "issue a consultation paper seeking the views of stakeholders about our policy to replace the current system of student loans with a fair and affordable system of means-tested grants. As part of this process we will seek the views of stakeholders on measures to tackle graduate debt." This commitment was reinforced in the new *Programme for Government*[5] set out in September 2008.

The paper will also include specific reference to the development of a new minimum income guarantee, as agreed by Parliament during the vote on Stage 3 of the Graduate Endowment Abolition (Scotland) Bill on 28 February 2008.

The focus of this consultation is the mainstream maintenance support available for those undertaking full-time undergraduate study in higher education, whether at college or university. It sets out a number of options to improve student support using the £30 million which has been made available in 2010-11 with a view to either increasing the amount of support available, or to reducing levels of debt on graduation. This paper will not address issues around support for postgraduate or part-time learners, although clearly, the outcomes of this consultation may have an impact on future policy development in these areas.

In setting out the various options, we have used figures from budgets and statistics from the most recent sources we have to estimate and illustrate the potential impacts. As with all estimates, the eventual costs of any option implemented in 2010-11 will depend on a number of factors such as student numbers and the effects of income-assessment etc. but the figures provided will give an indication of what the likely impact might be. A summary of the potential impact of each option is contained in Annex D.

It should also be noted that all of the options presented are based on applying any changes to the entire student population. As a result, this investment can be built on again in future years, in line with the preferred option. Any future increases in funding will depend on what resources can be made available in future spending reviews.

[4] www.scotland.gov.uk/Publications/2007/09/05093403/4
[5] www.scotland.gov.uk/Publications/2008/09/01093322/7

2. STUDENT LOANS AND GRANTS

Funding the System

The student loans system is extremely complex. This initial section attempts to clarify the system as much as it can by setting out the main aspects of how it currently works. The key issue is that despite student support policy being fully devolved, certain parts of the system are still controlled by HM Treasury and are therefore outside our control (more details on loan funding are set out in Annex A).

How are loans funded?

Loan advances are funded directly by HM Treasury and not through the Scottish Government's devolved budget. Funding for loans is provided to the Student Loans Company (SLC) who make payments to students. In Scotland, the Student Awards Agency for Scotland (SAAS) assess applications for support and pay bursaries. They then pass details of loan awards to the SLC.

There are some costs associated with loans which are met from the Scottish Government budget each year. These costs represent the fact that Government has to subsidise the low rate of interest on the loans and account for lost income from loans that will eventually be written off and will not be repaid in full.

Accounting rules mean that this write off and interest subsidy must be accounted for in the year the loan is paid. To achieve this, each year HM Treasury provides funds for the loans paid out and the Scottish Government meets the costs associated with that – which amount to 31% of loans provided.

The Scottish Government also meets the fixed costs associated with the loans system, such as the Scottish contribution to the running costs of the SLC.

Effect on the Scottish Government and HM Treasury

In the current spending review period, budgets across the Scottish Government and HM Treasury are higher for loans than they would be if we were only paying grants. This is because HM Treasury currently provide funding for loans and the Scottish Government has to make provision for the associated costs of loans. Paying grants directly to students would not require these additional costs. However, as HM Treasury currently pay loans, grants would place greater pressures on the Scottish Government's devolved budgets.

HM Treasury off-sets repayments against loan payments each year, so that as repayments increase each year, the amount that is required to be paid out in loans by HM Treasury decreases. In the longer-term, repayments should increase to a level where they match, or exceed, what is being paid out annually. At the moment, loan repayments are only around one third of the value of the total loans paid out in any one year and it will be at least a decade, maybe even longer, until we reach the point where repayments match annual payments.

Difficulties with the loans system

As a result of the complexities of the loans system and the role of HM Treasury in providing funding for loan advances, the Scottish Government does not have full control over the whole student support budget. If we did have such control then we would have far greater flexibility over the funding available, making it easier for us to move to a full grants system more quickly.

To illustrate, the budget set out in Annex A shows that the net new lending in loans from HM Treasury is budgeted at £124.3 million. This also takes account of loan repayments expected. If this amount was transferred to the Scottish Government's devolved budget and added to the savings which we would make from our budget for the cost of student loans (£71.4 million). With the additional £30 million available in 2010-11 this would give us £225.7 million, which would take us far closer to funding a full grants system in Scotland.

If other policy decisions were taken to remove some existing areas of support (see section 4) this could free up some of these resources which would then allow us to consider options to fund the servicing of the existing debt.

The reality though is that we have to work within the framework we have inherited, as part of the devolution settlement and within the financial and political restrictions placed upon us, to deliver the best deal possible for students.

Moving to Grants

This Government believes that student loans are wrong for Scotland. We feel that the loans system is overly complex and that it would be simpler and more effective for public funds to go straight into the hands of students. This would be better for students and graduates and it would be simpler for the Scottish Government to deliver.

Looking at the budget for HE student support in 2008-09 (Annex A), around £180 million was budgeted for loan advancess and £71 million was provided to cover the cost of paying these loans. In addition to this, provision was also required for the fixed costs associated with loans such as the running costs for the Student Loans Company and other provisions associated with the loan debt currently held by Scottish Government and the banks[6]. This amounted to another £21 million. So in this one year over £92 million was budgeted by the Scottish Government or the variable and fixed costs associate with student loans.

Whether loans are ultimately cheaper than grants depends on a number of factors, in particular the level of repayments to existing loans and the continuing costs of operating the student loans system. At the moment, across all Government the budget allocation for loans is higher on an annual basis than it would be if we were providing grants. This will remain the case for some years and while there may come a time in the future that loans do support themselves, that still seems some way off. What is clear though is that grants would provide a simpler system for students and allow them to engage in education without the fear of debt hanging over them.

We believe that it is wrong for students to be put into debt by the state. Graduates are at a point of their lives where they are facing life-changing decisions about their careers and their futures. Leaving university with debts of £10,000[7] or more can put real restraints on what they are able to do when they graduate.

[6] In 1998 and 1999 the UK Government sold off two tranches of student loan debt which are now owned and administered by third parties. The Government still subsidises part of this debt.
[7] Student Loans Company figures – rounded – average debt for a course of four or more years – not taking the graduate endowment fee into account.

For those from low income backgrounds, debt and the fear of debt can create a barrier to participation in higher education. It can also severely hamper opportunities for those who wish to attend higher education in terms of where they study and what courses they choose. By reducing the prospect of debt we can open up the possibility of higher education as a realistic and affordable option for those who currently see the financial considerations as an insurmountable barrier.

Alternative Approaches

We believe the best option for students would be to remove loans and replace them with grants. Having engaged widely with students and other representatives, we are aware that there are a number of other views on how we could best change the student support system. As well as worrying about debt, students have real concerns about the amount of money that they have to live on while they are studying. These concerns were also expressed in Parliament during the progress of the Graduate Endowment (Abolition) Bill 2008 and as a result, this paper will consider options for increasing the overall amount of funding available to students in the shorter term. The paper will also seek views on a proposal from the Association of Scotland's Colleges to introduce full bursary support to students on higher education level courses in colleges.

Devolution and Servicing Debt

The financial and political restrictions we face have resulted in a decision not to allocate any money to servicing debt in the current spending review period. This was confirmed by the Cabinet Secretary for Finance and Sustainable Growth on 14 November 2007 during his statement to Parliament on the Strategic Spending Review. With full control of all the budgets associated with student loans and Parliamentary support for enabling legislation, it would be possible to consider a wider range of options to service debt.

Unfortunately though, these restrictions placed on us mean that we cannot progress this proposal within this Spending Review period. Our priority is now to channel the available funding into the proposed move to grants. However, we do still want to seek views on the principles of the methods we wish to explore to service debt should funds be made available in future. This is addressed in section 6 of this paper.

3. INVESTING IN STUDENT SUPPORT

There are a number of options as to how the £30 million can be used to improve student support from 2010-11. This includes reducing debt by replacing loans with grants or increasing bursaries on top of loans to increase overall levels of income.

The only restriction placed on the options presented is that we have not included any scenarios which see the amount of student loan on offer increased. Given our concerns on the impact of student debt, we do not intend to consider any options which would see an individual's student loan debt increase. Such a move would also increase the rate at which the overall debt burden would grow.

Option 1 – Begin transition towards a grants-based system

The move away from loans began on 30 June 2008 when arrangements worth £38 million over three years and affecting up to 20,000 students annually were introduced to support part-time students in higher education. Loans were removed for this group, and replaced by grants for fees through the Individual Learning Account (ILA) scheme.

With this in place, our intention was that we would then begin to remove loan support for full-time students to replace it with grants. There are various ways in which this could be achieved and a number of suggestions are set out below.

In each of these options, grant support would replace current loans on a £1 for £1 basis. This would mean that students would receive the same overall level of support, it is just the make up of that support which would change as less of it would be made up by loans and more would be made up by grants.

Loan funding is provided by HM Treasury (also referred to as Annual Managed Expenditure or AME) and the costs of loans and grants are budgeted for by the Scottish Government within its devolved budget (also referred to as the Departmental Expenditure Limit or DEL). Replacing loans with grants would create savings for HM Treasury while the increase in grants would have to come from the Scottish Government's devolved budget. In this scenario, we would explore whether HM Treasury would pass on these £30m savings to us.

If loan spend was reduced by £30 million, then there would also be an associated saving of £9.3m on the Scottish Government budget as we would not have to pay the costs (31p for every £1) associated with those loans.

Table 1a. Effect of investing £30m to replace loans with grants

(£m)

	Grant[8]	**Cost of loans - 31%**	**Total DEL Cost**	**AME Loan**	**Total Cost/ Saving**
Current Split of funding	60.0	55.8	**115.8**	180.0	**295.8**
£30m invested in grants	90.0	46.5	**136.5**	150.0	**286.5**
Change from Current	**+30.0**	**-9.3**	**+21.7**	**-30.0**	**-9.3**

[8] Grant figures are based on current spend on the Young Student's Bursary. Funding for Grants and the cost of loans comes from the Scottish Government. Loan funding is provided by HM Treasury.

If it were possible to invest all the savings from the cost of loans to grants, a further £4.1m could be leveraged to provide a total additional investment in grants of £43.3m. The total savings to HM Treasury as a result of the Scottish Government's £30m investment could be £43.4m and again, we would explore whether HM Treasury would pass on these savings to us. This option would need to be explored with the Cabinet Minister for Finance.

Table 1b. Effect of investing £30m to replace loans with grants and transfer of £13.4m of Scottish budget.

(£m)

	Grant[9]	Cost of loans - 31%	Total DEL Cost	AME Loan	Total Cost/ Saving
Current Split of funding	60.0	55.8	**115.8**	180.0	**295.8**
£30m invested in DEL budget	103.4	42.4	**145.8**	136.6	**282.4**
Change from Current	**+43.4**	**-13.4**	**+30.0**	**-43.4**	**-13.4**

Option 1a – Increasing the Young Students' Bursary

The Young Students' Bursary (YSB) is currently only available to dependent students, with parental income of less than £33,330. The full bursary is available if household income is less than £18,820. As the main source of non-repayable support in the system, this would provide a strong platform from which to extend grant support in the future and it would be possible to use the new resources to extend YSB.

The grant could be extended in two ways, either by offering more non-repayable support to those already in receipt of YSB or by extending the income assessment thresholds to extend YSB to more students. It may also be possible to combine both of these approaches.

To illustrate the potential impact, with an additional £30 million to invest (which, as highlighted in tables 1a and 1b could provide around £43.4 million to invest in grants), the maximum level of YSB could be increased by around £1,000 from £2,575 to over £3,500 for those currently in receipt. In 2006-07 34,875 students, almost 29% of those supported by SAAS, received a YSB payment. Over four years this would result in a significant decrease in their overall level of debt. However, this would not increase the overall amount of support available to students while on their course.

This would be seen as a logical step towards fully replacing loans with grants and over future spending reviews the case could be made to increase grant support gradually with the ultimate aim of fully phasing out loans.

By increasing support to younger students there is a danger that this could further widen the gap in support between dependent and independent students as independent students would continue to receive no bursary support.

[9] Grant figures are based on current spend on the Young Student's Bursary.

Table 2. Student support assessment for a dependent student, living away from home with household income of less than £17,835

	Current System	**With Extension to YSB**
Young Students' Bursary	£2,575	£3,500
Loan	£1,935	£1,010
Additional Loan	£590	£590
Total support	£5,100	£5,100
Repayable (Loan)	£2,525	£1,600
Non-Repayable (Grant)	£2,575	£3,500

Questions

What are your views on the proposal to begin a move to grants by extending the Young Students Bursary?

Do you feel that the focus of bursary support should continue to be on dependent students?

Option 1b – Extending YSB to more independent students.

Another option for the £30 million would be to extend YSB to independent students. Independent students currently receive no bursary support and therefore rely purely on loans. This means that this group will accumulate far more debt while studying.

Evidence from the Student Income and Expenditure Survey - *Higher and Further Education Students' Income, Expenditure and Debt in Scotland 2004-05*[10] suggests that independent learners are the ones with the most acute financial problems as they generally have the highest outgoings, families, mortgages etc. and they tend to end up with more commercial debt as well as higher levels of student loan debt. By Increasing bursary support to this group we could help to alleviate some of the debt burden they will accrue by off-setting their loan entitlement with grants to reduce their overall debt on graduation.

There are currently 23,315 independent students in the system[11]. This is just over 19% of all those supported by SAAS. These students are generally over 24 and they currently receive no bursary support, but are entitled to some supplementary awards. The differentiation in treatment between independent and dependent students has emerged from the Family Law (Scotland) Act 1985[12]. Under this Act, parents[13] have a general obligation to support their children (depending on the particular circumstances of the case) up to the age of 25 if they are in further or higher education. By providing support to dependent students, the Government is essentially fulfilling that duty of support for parents who do not have the means to do so. There are certain circumstances when the Government believes it is unreasonable for parents to contribute to their children's support e.g. when a student is married before the first day of the first academic year of the course or if the student has supported themselves from earnings or benefits for any three years before the first day of the first academic year of the course.

[10] www.scotland.gov.uk/Topics/Statistics/Browse/Lifelong-learning/SIES
[11] By 'the system' we are referring to all students supported through the SAAS.
[12] While the independent and dependent definitions derive from this Act the have no legal basis, but are set out in guidance from SAAS.
[13] The definition of parent here includes a person who has accepted a child as a member of his family.

From 2008-09 we have already taken initial steps to help this group by extending YSB to a group of students aged-under 25 who are responsible for a child. These students can now receive YSB irrespective of whether they are classed as dependent or independent.

Option 1b would cost around £23 million in the current system. This would also leave resources available to increase bursary levels. As the investment of £30 million would generate around £43.4 million to invest in grants, this would allow us to extend YSB to independent students and increase the maximum amount of YSB to £3,000 (compared to £2,575 now) also reducing the debt burden on dependent students.

Table 3. Student support assessment for an independent student, living away from home with household income of less than £17,835

	Current System	**With bursary for independent students**
Young Students' Bursary	£0	£2,575
Loan	£4,510	£1,935
Total support	£4,510	£4,510
Repayable (Loan)	£4,510	£1,935
Non-Repayable (Grant)	£0	£2,575

Question

What are your views on the extension of bursary support to independent students as part of a transition to grants?

Option 1c – Introducing full bursary support in colleges

The Association of Scotland's Colleges (ASC) have set out a proposal that the transition to grants should begin by offering non-repayable support to all students on higher education level courses in colleges. The ASC believe that introducing bursary support on an equal basis for all students in colleges, regardless of level, would ease financial transition from non-advanced (or further education) to advanced (or higher education) courses within colleges. They also believe that having bursary officers as the main point of contact for funding students in colleges would allow the provision of more tailored advice and guidance – especially to those on benefits who are looking to enter Higher National (or equivalent) level courses in college. By making it easier to understand the complicated interaction between student support and benefits, the ASC believe that many more people from lower income backgrounds may be encouraged to participate in higher education.

Compared to universities, a higher proportion of students in colleges are from the most deprived areas and by making the transition from further to higher education level courses easier in colleges, the ASC believe that this will improve access to higher education, by removing the barrier of debt for this group. They also believe that it will improve articulation from further to higher education and then from college to university.

The latest figures show that there are over 24,000 full-time students currently being supported to study HE level courses in colleges. This represents 20% of all students supported by SAAS. These students receive almost £27 million in fees, £28 million in bursaries and other awards and by over £46 million worth of loans.

As highlighted earlier, the investment of £30 million could allow us to replace around £43.4 million worth of loans. To support this proposal in full, additional funds would have to be sought to replace the remaining £2.6m pounds worth of loans.

While this proposal would clearly benefit students in colleges, we believe that it does raise concerns about maintaining parity of esteem between higher education courses in college and university. Such a move could drive potential students – particularly those from lower income backgrounds – to go to college first and then articulate into university later as it could be seen as a cheaper path to a degree. While this may be the most suitable academic route for some as is currently the case, for others, choosing this route for financial rather than academic reasons may not necessarily be beneficial and may also have an impact on a student's choice of course and place of study.

We believe that choices should be made based on the suitability of the option for the individual and not based on the best financial package. A move such as this would mean that individuals studying for similar qualifications would get different support due to the to the institution they were attending. In looking at this option, we need to consider whether such a position would be acceptable.

Question

What are your views on the proposal from the ASC to introduce full bursary/grant support for higher education courses in colleges?

In particular, what are you thoughts on the potential for this to change the nature of support so that it would be based on what type of institution you were attending rather than your level of study?

Option 2 – Increase the minimum level of income available

Rather than replacing existing loans with grants, the alternative option would be to add any new grant to the existing loan entitlement. This would effectively increase the level of overall income from those in receipt of this new grant and move us towards the 'minimum income guarantee' policy which has been set out by the National Union of Students in Scotland (NUS) and which was supported in Parliament during the passing of the Graduate Endowment (Abolition) Bill.

The existing student support system is based on a 'minimum income' principle as effectively all students are entitled to a nominal level of support – although those from lower income households do get a slightly higher level of income as a result of the additional loan. This support comes from a combination of three sources, bursary, student loan and parental or partner contribution. For a dependent student staying away from home, the current 'minimum income' is £4,510 or £5,100 for those from low income households. The NUS have called for this to be increased to £7,000.

The thinking behind the call for an increase in income is that for students in higher education, the resources they have to live on while studying is more of an issue than the debt that they may leave with. Issues such as the cost of food and rent are more immediate concerns than the accumulation of debt and these concerns are becoming more acute as global financial concerns continue to increase the cost of food, fuel and other necessities.

By investing the £30 million in a new grant, over and above the current support, we could increase the 'minimum income' level to just over £5,500 for those from lowest incomes, compared to around £5,100 now. This would increase the general 'minimum income' to around £5,000 (compared to £4,510). Due to the income assessment, the main beneficiaries from this increase would be those on lower incomes.

While increasing the nominal level of support would assist those from lower income households, for those further up the income assessment scale it will also effectively increase the suggested parental or partners contribution. Further thought would have to be given to how this would be managed.

If this was going to be based on the Young Student's Bursary then we would also have to consider the potential impact on independent students. For them, as there is no mainstream bursary support to build on, the increase income would have to be form an increase in loans or an increase in contributions from spouses/partners/civil partners etc.

In moving to implement such an approach, we would have to carefully consider how this group would be addressed.

Table 4. Student support assessment for a dependent student, living away from home with household income of less than £17,835

	Current System	**With new additional grant**
Young Students' Bursary	£2,575	£3,000
Loan	£1,935	£1,935
Additional Loan	£590	£590
Total support	£5,100	£5,525
Repayable (Loan)	£2,525	£2,525
Non-Repayable (Grant)	£2,575	£3,000

Questions

What are your views on the NUS proposal to increase the overall support available by increasing the grant support currently available?

How should we address the potential effect on parental or partner contributions?

How should the increase in income be addressed for independent students who receive no bursary support?

Option 3 – Increasing income and reducing debt for a more focused group

Looking at the benefits of options 1 and 2, it would also be possible to create a hybrid of the two, where income could be increased and debt reduced. Clearly, as the resources available are limited, this would mean more modest increases in support and as such changes would have to be more focussed on those from lower incomes.

One possibility would be to replace the current 'additional loan' with a grant. The additional loan is available to those dependent students eligible to receive for the YSB, who have household income of less £21,210 a year. This loan is paid on top of the general loan entitlement, to reflect the fact that those from lower income backgrounds often face greater financial pressures while studying. The full amount of £590 is available to those with a household income of £17,835 or less a year. This tapers to zero for those with a household income of £21,210.

By replacing the additional loan with a grant we could reduce the debt burden for those dependent students from the lowest income backgrounds and this would only cost around £10 million pounds. This means that the remaining £20 million and any additional savings from the cost of student loans budget, likely to be around £3 million, could be used to increase the amount of the new grant. This would mean that income could also be increased for dependent students from the lowest income families.

For example, with £30m, you could replace the existing £590 loan with a grant and the overall amount of the grant could be increased to £1,200 for those the lowest incomes. The table below shows the impact that this would have:

Table 5. Student support assessment for a dependent student, living away from home with household income of less than £17,835

	Current System	**With new additional grant**
Young Students' Bursary	£2,575	£2,575
Loan	£1,935	£1,935
Additional Loan	£590	
New 'additional grant'		£1,200
Total support	£5,100	£5,710
Repayable (Loan)	£2,525	£1,935
Non-Repayable (Grant)	£2,575	£3,775

Therefore, a student in this position would receive an additional £600 in support and their debt would be reduced by £590 each year. As with the current additional loan this is based on offering this support in line with the current thresholds (stated above). This option would not benefit or change the support arrangements for independent students.

Questions

What are your views on this hybrid option aimed at those on the lowest incomes?

Other Options

While we have attempted to set out a number of potential options for change based on the current system, we would also welcome any other thoughts on how the current system could be improved. For example could we look at new ways of offering support, i.e. rewards or incentives for those who perform well, or linking support payments to attendance or attainment. Are there other sources of income we could look to for student support funding such as more support from employers?

We would be happy to consider any other ideas for areas which we may not have covered in this paper and we would investigate the potential implications of any actions arising from these in light of the available evidence and the possible operational impact.

Questions

Are there any other initiatives or ideas that you believe we should explore further?

4. FAIRER ENTITLEMENT TO SUPPORT

The options presented in the previous section illustrate how the additional funds could be invested. It is possible though that resources within the system could also be reviewed to ensure that current support is being targeted where it is needed most. We believe that there are some areas where further thought should be given to our funding priorities and where possible changes could be made to re-allocate resources to ensure that entitlement to support is fairer for all.

Support for Second HE Qualifications

In 2006-07 over £18 million was paid to around 6,110 students (5% of those supported by SAAS) with a previous qualification. Scotland is unusual in this regard as few other countries support second degrees in this way, unless they are aimed at specific priority areas. As this was all loan, if this support was removed we would save the associated costs in the Scottish Government's devolved budget – i.e. 31% or roughly £5.6 million. If such a move was introduced only for new students coming into the system, the saving in the initial year would be around £2.1 million rising to the full £5.6 million by the fourth year. This money would allow increased investment in new student grants.

We could consider new guidelines in relation to second degrees and limit maintenance support to 5 years for the majority of students[14]. In addition to this, we could allow an additional year in exceptional circumstances which would allow 'false starts' (changes to course choices in the first year) or the need to re-sit a year. This would ensure adequate support was available for most courses and combinations of courses and it would remove general support for second degrees.

Such a model would also support different routes of study, allowing various forms of articulation from further to higher education or from Higher National qualifications to a degree. In other cases it would allow support for a degree and then some professional qualifications such as the PGDE conversion course for teacher training. Exceptions could be made where necessary to reflect longer courses or more complicated transitions. As fee support is only available for first degrees, with some exceptions[15], maintenance support could be offered on the same basis. This would allow us to continue to provide maintenance funding for some second degree courses in areas of strategic importance, as we do for fees.

If general support for second qualifications was removed then we could consider other options for funding such courses. Annex C sets out an alternative option based around the Career Development Loan (CDL). Within the tight financial restrictions which we must operate, we have to face difficult choices. Therefore, we are taking this opportunity to ask if we should continue to support students on second degrees or whether there are fairer ways in which we could focus our available resources on improving the support package for those undertaking their first qualification (either by reducing debt or increasing income).

Impact of Economic Situation

While there is a sound rationale for considering such changes, it is also important at this point to consider one of the possible effects of the economic situation. If the economic climate results in increasing levels of redundancy or unemployment then we have to consider how we can help individuals unfortunate enough to face this situation by ensuring

[14] Fee support is currently restricted to a first degree qualification or equivalent.
[15] For example those studying for the Ministry, support for some additional year for Medicine, Dentistry and Allied Health Professions.

that there are opportunities available for them to engage in education during this time to allow them to upgrade their knowledge and skills or re-train in other areas.

In some cases this may be a matter of supporting people through a full second degree. However, in more cases it may be a matter of providing (and supporting students through) smaller, more flexible chunks of learning whether this is at sub degree, degree or equivalent or post-graduate levels.

While many of these avenues are outside the scope of this consultation, it would not be sensible to consider approaches for full-time higher education without considering whether the prevailing environment means that other options would be preferable. Government officials will be exploring a wide range of options around this in the coming months, but any views on how we consider addressing these issues would be welcome in this consultation paper.

Questions

What are your views on the options proposed to ensure that the funds available are used as fairly as possible to give students adequate support for their first degree?

Do you agree that we should consider removing student loan support for second degrees?

Alternatively, should we be maintaining funding for this group to explore more avenues to support opportunities to retrain or upskill those who may face redundancy as part of the effects of the economic situation?

Minimum Loan

All maintenance support is income-assessed and support is made up of three elements bursary, loan and a household contribution. There is a minimum loan available to all students regardless of the level of household income which is currently £590 at home or £890 away from home. In England, the situation is very different and the minimum, or non-income-assessed element of the loan is around £2,000.

There are currently 20,230 students who are only entitled to the minimum loan. This represents almost 17% of those supported by SAAS. If we were to abolish this completely so that those with household income over a certain threshold (£60,000 for students away from home or £53,000 for those at home) received no public support then we estimate that HM Treasury would save over £18.3 million a year in loan payments. This would mean a saving of around £5.6 million to the Scottish Government on the costs associated with loans. Once again, if such a move was introduced only for new students coming into the system, the saving in the initial year would be around £1.6 million rising to the full £5.6 million by the fourth year and again, this money may allow increased investment in any new grant.

While fully income-assessing grants would release funds which could be redirected at students from less affluent households, it would also mean that 17% of the learner population would receive no public support for maintenance. However, they would continue to have their fees paid.

Question

Do you believe that there is a case for removing the minimum loan?

Travel Expenses

The final area that could be considered for review is the award of additional funds for travel expenses. We currently spend around £16 million annually reimbursing travel expenses to eligible students. It is assumed that an element of support for travel is already included the main living cost support (to a value of £155) and this is deducted from any travel expenses. It could be argued that all travel expenditure should be part of the overall living costs support. This is the position elsewhere in the UK where students are for the most part expected to pay for their own travel from their mainstream support. Only those on placements that require them to study away from their parent institution receive any help.

We could consider transferring the budget for travel expenses and using it to increase the overall level of the main grant pot. This would increase the overall amount of income available, but in future, students would have to meet their own travel expenses from this. Clearly some students would benefit more than others from such a move, as there are a wide range of different travel patterns. By placing this support into the main fund though it would remove a layer of complexity from the student support system. However, we would need to consider the impact of such a move on the ability of those from more remote areas to continue to access higher education.

Questions

Do you think that support for travel expenses should by subsumed into the main grant pot or should it remain a separate, claim-based fund?

Should we differentiate between day-to-day travel expenses and trip to and from home from those who stay away from home?

5. KEY ISSUES TO CONSIDER

When considering the various options presented, it is important to consider the wider context of the hard choices that have to made in developing a new student support system. The following sections cover some key issues which will hopefully be useful in setting out the wider context for these discussions.

Changing Economic Circumstances

The global economic crisis is increasing the pressure on all areas of the Scottish devolved budget and the Scottish Government has worked quickly to develop a 6 point plan to encourage development and investment and to help individuals and businesses. Our ability to react fully to this crisis is limited by the financial powers made available to us through the devolution settlement and the fact that we have to work within the budgets which were set in the 2007 spending review, before these pressures became apparent.

In responding to the options set out in this paper it is important to consider the likely economic impact of this investment in student support. Any move to increase the support available to students above inflation will boost their spending power quickly. On the other hand, replacing loans with grants has longer-term benefits as while it will not change the position for students in higher education, it will make things substantially easier for graduates who will leave with lower levels of debt.

Respondents may also wish to consider the potential impact that a change in the economic climate may have on students. For example, there is a fear that increased pressure on banks may cause them to reduce lending to students. Reducing access to commercial sources of finance may have implications for student support.

Sustainability and affordability

For any Government setting out a system of student support perhaps the key issue is how to create a system which is affordable and sustainable for the taxpayer, while providing an adequate level of support for students while they study. One of the key arguments for student loans is that it is not sustainable to pay grants when there are high levels of participation, so loans are the only affordable way to support learners.

We do not believe that loans are the best solution for supporting learners. At the moment, annual budgets for student loans across for HM Treasury and the Scottish Government are higher than they would be for grants. This will remain the case for some years and while there may come a time in the future that loans do support themselves (when repayments equal advances), that still seems some way off. These arguments about sustainability also have to be balanced against what is best for the individual.

Simplify the system

While it may prove to be more expensive to provide grants in the longer-term, we believe that this would be justified as it provides a better deal for our learners. It would ensure that financial opportunities did not dictate what choices our all our potential students had to make on entering and leaving higher education and it would create a simpler system.

Graduates and their contribution

The other argument most commonly used to support loans is that the graduate is the main beneficiary from their education so they should contribute more. Over the course of their working life, a Scottish graduate can expect to earn around £125,000[16] more than a non-graduate. This means that they contribute more to the public purse throughout their life through the Income Tax system.

If graduates earn more as a result of their degree, they will put more back in by paying more tax and the higher the return is for the individual, the higher their contribution will be to the state. In addition, society benefits from the advantages of having a more highly educated population. The wider benefits of higher education are well documented, better health, a more developed sense of citizenship and a greater level of engagement in society[17] as well as supporting the economy[18].

By charging for education, either through fees, or through contributions to living costs, you are effectively making graduates pay twice for the benefits that they are receiving. We do not believe that this is fair. Within a progressive Income Tax system, there should be no need for such additional charges on education.

Supporting wider access to higher education

Through the *Learning for All*[19] agenda we are working closely with the Scottish Funding Council and institutions to make higher education accessible for all, regardless of background, circumstance or geography.

We have considered a wide range of evidence and research surrounding the impact of student finance on the behaviour of learners and widening access. While It is clear that finance is by no means the only influencing factor on access, it is clearly a significant factor for many. From the wide range of studies we have considered, some undertaken in Scotland and others more widely across the rest of the UK, some key themes emerge in relation to student funding.

- As you would expect, debt or the perception of debt has a more significant impact on those from lower income backgrounds.[20, 21, 22]
- For many it can be a barrier to entering higher education at all.[14]
- For others who chose to enter, it can limit opportunities, restricting options on where to study and sometimes what courses to chose.[23]
- Term-time employment has grown[24] and students from working class backgrounds tend to have to work longer hours for lower wages[25].

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[16] The Labour Market Effects of Qualifications - www.futureskillsscotland.org.uk
[17] www.universities-scotland.ac.uk/uploads/publications/Wellbeing%20Scotland%202007.pdf
[18] www.universities-scotland.ac.uk/uploads/publications/Prosperity%20Scotland%202006.pdf
[19] www.sfc.ac.uk/publications/Learning_for_all_measures_of_success_March_2008.pdf
[20] Callender, C. & Jackson, J. 2005. Does the Fear of Debt Deter Students from Higher Education? *Journal of Social Policy*. V34. N4 pp509-540.
[21] Buie, E. 2003. Opportunity knocks or university challenge. *Search*. N39 pp28-31
[22] Joseph Rowntree Foundation (2003) – Losing Out? Socioeconomic disadvantage and experience in further and higher education
[23] Davies, P et al (2008) for Sutton Trust – Knowing where to study? Fees, bursaries and fair access.
[24] Metcalf, H. 2005. Paying for University: The Impact of Increasing Costs on Student Employment, Debt and Satisfaction. National Institute Economic Review. N191
[25] Brennan et al. 2005. Survey of Higher Education Students' Attitudes to Debt and Term-time Working and their Impact on Attainment

- Financial pressures and the need to work longer hours can increase chances of drop-out.[26]
- For those from lower income backgrounds, there is a more negative balance between the costs and benefits of higher education.[14]
- Financial pressures are more acute on older learners and those from working-class backgrounds.[27]

The student body is very diverse and there are a wide range of opinions as to what the ideal student support system would look like. What is clear from much of this research is that the demand for HE is still high and there are who many see the potential costs of higher education as a good investment. This has been reflected in overall participation rate in England with the introduction of fees. However, for a significant number – particularly those from less affluent backgrounds – the costs of higher education and the inevitable debt associated with this will either put them off entering completely or it will severely restrict their choices if they do participate.

As well as having different attitudes to debt, students in higher education also have differing financial pressures. *Higher and Further Education Students' Income, Expenditure and Debt in Scotland 2004-05*[28] showed that students who were over 25, living with a partner or who had dependent children had the highest incomes, but also the highest expenditure.

As many of this group had financial commitments before entering higher education the financial pressures seemed to be most acute on them. Conversely, younger students staying in the parental home tended to have the lowest incomes and expenditure.

From the SAAS data we know that 19% of students supported by SAAS are classed as independent, so are not entitled to the Young Student's Bursary. We also know that around 55% of students stay away from home while at university, so are likely to face greater financial pressures from a number of areas including rent and rising food and fuel costs.

The overall picture from the income and expenditure survey is that while there are many students who clearly manage to live on the funds available while studying, there are others who experience real hardship. While many see debt as a significant barrier to participation, many also consider student hardship and the lack of resources while studying to be the main issue. There is clearly evidence available to support both sides of this argument. This leaves the question of how we design a system that can recognise and genuinely target those who need support most while doing what we can to make higher education truly accessible to all.

[26] NUS Scotland – Scotland's Lost Opportunities (2008)
[27] Higher and Further Education Students' Income, Expenditure and Debt in Scotland 2004-05
[28] www.scotland.gov.uk/Topics/Statistics/Browse/Lifelong-learning/SIES

6. SERVICING EXISTING STUDENT LOAN DEBT

As the introduction to this paper clearly explains, this Government's ability to service the existing student loan debt of Scottish-domiciled borrowers has been severely restricted by a number of factors. To recap, the combination of the devolution settlement in relation to student loans, the tightest spending review settlement since devolution and the lack of Parliamentary support has meant that we have been unable to provide any funding to service debt during this spending review. The financial situation means that for now our focus is on reducing debt at the source by paying fewer loans and replacing them with grants, the case for which is made earlier in this paper.

However, we still believe that servicing the existing student loan debt would bring real benefits to our graduates who have been forced to enter the world of work burdened by unfair and unnecessary levels of student loan debt.

While this Government can not commit resources ahead of the next spending review we would like to use this consultation paper to set out how a servicing arrangement may work in future. This will allow us to consider potential options for servicing as we head into this next spending cycle providing us with some useful feedback to inform what our spending priorities should be in student support, should the current financial restrictions and political constraints continue.

Meeting the costs of debt

The accumulated debt of Scottish-domiciled student loan borrowers currently sits at just over £2 billion. From this debt, we expect roughly £64 million a year, on average, to be repaid through the Student Loans Company and HM Revenue and Customs by the end of this spending review period. Our proposal is that the Government could service the loan debt by meeting these annual repayments on behalf of borrowers. While this seems like a simple proposal in theory, in practice it becomes much more complicated due to the accounting rules (including those instructed by HM Treasury) which are applied to student loans and the existing debt as these restrict some possible courses of action.

Engagement with HM Treasury

While the current accumulated debt is accounted for by the Scottish Government, the debt is essentially owned by HM Treasury as they ultimately fund all areas of Government and, in relation to loans, they fund all student loan advances which create the debt. As a result of this, any move to service the debt will require engagement with HM Treasury to engineer a solution that would allow us to work within the existing accounting rules. To date, no discussions have taken place with the Chancellor of the Exchequer or other HM Treasury Ministers as, for the reasons outlined elsewhere in this paper, we have not been able to commit any financial resources to this policy at this time.

Servicing Interest

Another possible approach to service the loan debt would be for the Government to put a further subsidy on the existing loan debt by paying the interest on the loans, effectively giving the loan debt a 0% interest rate. Such a move would not change the amount owed by each individual, but would stop it increasing each year meaning that the amount owned by individuals would not increase and in real terms the amount would decrease over time due to the effects of inflation. To give an indication of the potential cost of this, last year the SLC added interest of around £50 million to the loan accounts of Scottish-domiciled borrowers.

Other Options

Another option which has been suggested centres around selling Scottish Loan debt to a third party. The Department for Innovation, Universities and Skills has recently legislated to allow sales of income contingent loan debt from English and Welsh borrowers in the future. This follows on from two sales of mortgage style loan debt in 1998 and 1999.

However, this does not immediately address the repayment issue as borrowers would still be required to repay loans to the third party. For this to work, we would have to negotiate a repayment arrangement from Government, rather than from individual borrowers, with the third party. This would add additional complexity to any loan sale negotiations and as a result, it seems unlikely that such a move would be possible at the current time as it would require discussion with HM Treasury and would rely on finding a suitable buyer. This may be particularly difficult in the current economic climate.

Legislative Implications

Almost any course of action to service debt will require some sort of legislative basis. The full extent of what is required would depend on the approach chosen, for example, the sale of loan debt would require primary legislation in the Scottish Parliament. Further consideration would have to be given to the potential legal considerations in developing any approach to servicing.

Question

What are your views on our proposals to service existing student debt if funding becomes available in future?

7. CONCLUSION

In summary then, this Government believes that loans are wrong for Scotland and should be replaced by grants. Due to the restrictions on us, we cannot do this immediately, but have set out £30 million to begin this next phase of the transition.

That said, we appreciate the arguments made by students and others, that there is a case for the overall amount of student support to be increased, especially in light of the current financial pressures which have recently emerged. Therefore, we would welcome views from a wide range of stakeholders to ensure that this significant investment is used to best effect by benefiting those students most in need.

The options presented raise a number of other important issues such as how we support independent and dependent students, how we support learners in college and university and how we ensure students continue to have an adequate level of support that is affordable to maintain. It is important that these are explored further during the consultation process.

By presenting possible options for servicing debt, we also hope to explore what our funding priorities should be in future as we continue to work under the financial and political constraints we have inherited as part of the devolution settlement.

Question

Overall, based on the options and issues presented in this paper, we would welcome your views on what our funding priorities should be for the £30 million pounds available in 2010-11 and in future years.

ANNEX A

THE STUDENT LOANS SYSTEM

To address the questions that will be raised in this consultation paper, it is essential to have a sound understanding of the how the current loan system works. The accounting systems surrounding loans can appear complicated, as can much of the terminology used, so this will hopefully clarify where the financial pressures lie at the moment. This will allow a better understanding of how future scenarios may change this.

Student loans are demand led and are paid on an entitlement basis. This means that if someone has a place in HE and meets the eligibility criteria, they are due to receive a loan. All funding for student loans in Scotland is accounted for through the budget for the Student Awards Agency for Scotland (SAAS).

The SAAS budget for the next three years, from *The Scottish Budget Spending Review 2007*[29]*,* is set out below (Table 6), followed by definitions of what each element of the budget is used for. It should be noted that since the publication of this document, the cost of student loans figure (line 6) has been reduced from £74.4 million to £71.4 million in *Scotland's Budget Documents 2008-09*[30]*:* The budget for future years has been adjusted to reflect this. All other figures remain the same.

Table 6 **£m**

	2007-08 Budget	2008-09 Draft Budget	2009-10 Plans	2010-11 Plans
1. SAAS Running Costs	6.5	6.7	6.4	6.6
2. SAAS Capital Charges	1.2	1.2	1.2	1.3
3. Fees, Grants and Bursaries	274.7	281.2	279.5	305.2
4. Student Loans Company Administration	5.2	5.3	5.5	5.6
5. Unwinding of Debt Sale Subsidy Provision	7.0	4.0	4.0	4.0
6. Cost of Student Loans	74.4	71.4	71.4	71.4
7. Unwinding of Discounts on Write-off Provision	9.0	12.0	12.0	12.0
8. Student Loans Net New Lending (AME)	161.1	124.3	124.7	124.7
Total	**539.1**	**506.1**	**504.7**	**530.8**
9. Student Loan Interest Subsidy to Banks (OTME)	13.2	4.5	4.5	4.5

Source: Scottish Government

1. **SAAS Running Costs –** Staff and other cost of running SAAS. Includes capital costs of systems development and equipment.
2. **SAAS Capital Charges –** Cost of capital and depreciation charges.
3. **Fees, Grants and Bursaries –** Expenditure on fees and non-repayable awards to students, including the Young Students Bursary and supplementary awards. This also includes discretionary funds (also known as hardship or widening access funds) and takes account of repayments of awards recovered due to drop out etc.
4. **Student Loans Company Administration –** Scottish contribution to the running costs of the Student Loans Company for payment and collection of student loans.
5. **Unwinding of Debt Sale Subsidy Provision –** Maintenance of provisions made to service interest on the old mortgage-style student loans which were sold to banks in 1998 and 1999.

[29] *Scottish Budget Spending Review 2007* - www.scotland.gov.uk/Publications/2007/11/13092240/0
[30] Scotland's Budget Documents 2008-09: Budget (Scotland) Bill Supporting Document for the year ending 31 March 2009 - www.scotland.gov.uk/Publications/2008/02/21153821/0.

6. **Cost of Student Loans –** This represents the DEL cost of issuing student loans. It is largely made up of the RAB (Resource Accounting and Budgeting) charge (explained in more detail below) of 31% of all loans advanced. As well as the RAB charge, the costs of student loans contains provision to provide flexibility in the budget for any additional charges associated with loans that may arise throughout the year.
7. **Unwinding of Discounts on Write-off Provision –** Maintenance of provisions to account for inflation.
8. **Student Loans Net New Lending (AME) –** This is the net effect of student loan lending considering the amount of loans paid out against loan repayments made each year. In 2008-09 this figure is made up with £180.3 million being paid out in loans netted against an assumed £56 million in loan repayments. Loan payments and repayments are attributed to the AME budget (explained below). There is a significant drop in loan spend between 2007-08 and 2008-09 due to three policy changes:
   - The abolition of the Graduate Endowment means that £14 million is no longer required from 2008-09,
   - Loan repayments are expected to increase by £10 million a year from 2008-09,
   - The introduction of monthly loan payments increased loan spend on a one-off basis in 2007-08. As a result, there is a subsequent drop of £12 million annually.
9. **Student Loan Interest Subsidy to Banks (OTME) –** Payments to service debt that has been sold. OTME is explained below.

The Scottish Budget

In considering how the different elements of this budget interact, it is important to understand the different classifications of Government expenditure and the balance of funding controlled by the Scottish Government compared to that controlled directly by HM Treasury.

The **Departmental Expenditure Limit (DEL)** forms the majority of the Scottish Government's budget and is made up of operating and capital expenditure. DEL is set for three years during the Spending Review process.

Annually Managed Expenditure (AME) is agreed with HM Treasury each year and contains those elements of expenditure that are not readily predictable, for example, NHS and teachers' pensions. Student loans are paid out of AME rather than DEL due to their demand-led nature. Repayments received are also applied to AME and the accumulated loan debt is accounted for by the Scottish Government.

Total Managed Expenditure (TME) comprises the Departmental Expenditure Limit and Annually Managed Expenditure. Expenditure not classified as DEL or AME is said to be outside TME **(OTME).** The Student Loan Interest Subsidy to Banks in relation to debt sold is classified as an OTME transaction.

Implications for Loans

In practice, what this means is that the Scottish Government essentially only has control over spending through DEL. While student support policy is devolved, HM Treasury control AME budgets so that under current arrangements we would not be able to re-allocate existing AME expenditure (i.e. student loans) to DEL expenditure (i.e. grants), as a result of any policy changes in Scotland

ANNEX B

COST OF STUDENT LOANS

There are a number of costs to the DEL budget associated with student loans, the main one being the *cost of student loans* (line 6 in table 6). The most significant part of this cost is often referred to as the RAB (Resource Accounting and Budgeting) charge.

The **RAB charge** is an estimate of the percentage of the face value of loans issued in a given year which reflects the resource cost over the expected life of the loan to the government of making the loans. The charge is made up of:

- the face value of loans issued that are not expected to be repaid due to low income, death of the borrower, etc; and
- the net present value of the interest subsidy on loans. Interest on student loans is subsidised by Government so that the value of loan debt only increases by the rate of inflation.

For the current spending review period, the RAB charge is set at **31%** in Scotland, so every £1 of loan paid out should cost us 31p. In addition to this charge, the *cost of student loans* also contains provision which allow flexibility in the budget to meet any unexpected pressures in relation to loans which may arise throughout the year. Of this 31% roughly 12% is applied to write-off of loans and around 19% to the interest subsidy. As set out above, the *cost of student loans* budget is set at £71.4 million in 2008-09 and is accounted for in DEL in the year the loans are paid out.

However, as shown in table 7 (below), the *cost of student loans* is not the only cost in the DEL budget which relates to student loans. Other loan costs in the 2008-09 Budget are:

- £5.3 million - running costs for the Student Loans Company
- £16 million – unwinding provisions to subsidise interest on the loan debt and the debt sold to banks.

When added to the *cost of student loans* this means that there is **£92.7 million** allocated from DEL in 2008-09 to support the payment of **£180.3 million** of loans and manage the outstanding loan debt. Across DEL and AME in 2008-09, when repayments are taken into account, the total budget allocation was **£217 million** including **£180.3 million** advanced in loans.

Table 7 **£m**

Loans paid out (AME)	180.3
Loan Repayments (AME)	-56.0
Total cost of loans (DEL)	92.7
Cost of Student Loans	*71.4*
Student Loans Company Administration	*5.3*
Unwinding of Debt Sale Subsidy Provision	*4.0*
Unwinding of Discounts on Write-off Provision	*12.0*
DEL budget as % of (gross) loans issued budget	51%
Total (net) budget (DEL and AME)	**217.0**

Source: Scottish Government

Variable Costs

DEL costs relating to loans can be split into two categories – those tied to the payment of loans, which are variable, and those associated with the loan debt, which are fixed. Referring to table 7 the *cost of student loans* is variable and is directly linked to the payment of loans. If we were to stop paying maintenance loans completely then this cost would be almost completely reduced to zero. The variable cost of student loans for 2008/09 is budgeted to be £71.4 million

Fixed Costs

The fixed costs relate to the servicing of the loan debt. Running costs for the Student Loans Company (currently £5.3 million) may reduce slightly if no loans are being paid, but the most cost-intensive part of their operation is around collections, so while the loan debt remains, there is only potential for marginal savings on the SLC running costs.

Similarly, *the unwinding of discount on write-off provision* (£12 million) will also remain, while we have a loan debt to service. If the loan debt was to be reduced or removed then we would expect these costs to reduce, or no longer be required. The other *unwinding provision* for the *debt sale subsidy* (£4 million) will also continue to be required unless the loan debt previously sold to banks is paid off.

This gives an overall fixed budget of **£21.3 million**.

ANNEX C

OTHER FUNDING ISSUES

What is support for?

We need to be clear about what costs the financial support offered to students through both models is intended to pay for: e.g. (general living costs including accommodation, food, clothes; additional costs of studying including books, equipment, laptop; and additional travel costs incurred to and from institution/placements etc.) and what specific circumstances experienced by some students that should be supported by supplementary support e.g. disability and dependant children and childcare.

Postgraduate Support

Fee and maintenance (grant) support is currently offered for taught post-graduate study through the Postgraduate Student Allowance Scheme (PSAS). Anyone who is allocated a PSAS place (based on academic excellence) has their fees paid regardless of income, but only around 56% of PSAS students are eligible for the income-assessed maintenance grant. PSAS students are also eligible for supplementary grants.

There are currently around 1800 PSAS places each year – 300 places are reserved for law students studying for the Diploma in Legal Practice in HEIs; 120 places for those studying in RUK; leaving around 1400 for EU (who receive fee only support) and Scottish students studying other taught postgraduate in Scottish HEIs.

Retaining support for postgraduate provision is strategically important for Scotland to support the development of the high levels skills which are needed to support the economy.

Recent discussions with institutions have also revealed that they believe that the ability to provide support to taught postgraduate Scottish students gives them considerable leverage in attracting international students to these courses as international students want to be able to study amongst Scottish students.

If we were to remove this support then an additional **£8.9 million** could used towards cost of grants initially, based on the 1,720 students who received PSAS awards in 2006-07. However, a commitment was made in Skills for Scotland to review the individual support arrangements for taught postgraduate study and this review is currently underway. As such, we have not factored any such saving into our plans and we believe that there is a strong case for retaining this.

Alternatives Options for Supporting Second Degrees

If we were to remove support for second degrees then we may have to consider a new approach to supporting such routes as they remain an essential path to continuous development, in line with our commitment to lifelong learning and skills development.

We could consider some extension or development to the Career Development Loans (CDL) scheme. A CDL is a deferred repayment bank loan which is available through three high street banks, who provide the loan capital. The UK government pays the interest on the loan whilst the student is studying. From then onwards the individual is responsible for the repayment of the capital and interest directly to the bank. It may be possible to use this model to develop a Scotland specific CDL scheme to help individuals fund courses such as second degrees or taught postgraduate degrees.

In June 2006 we carried out a detailed options appraisal looking at the costs and benefits of introducing a Scotland specific CDL scheme. This included the option to provide a CDL scheme to support vocational postgraduate funding. The estimated costs to set up this scheme were **£1.2 million**, with annual budgetary and running costs of **£1.3 million**[31].

These costs would increase if previous study was to be included, but more work would be required to establish the full extent.

Discretionary Funds and Supplementary Support

This paper has deliberately focussed on the mainstream living support in higher education and other than travel, has not touched on any other areas of discretionary or supplementary support. In a grant-based system, we would expect the overall level of support to be the same as it is now for the majority of students. Therefore, we did not see any reason that this would affect the need for additional support for those with dependents, lone parents etc. Similarly, we would not expect this to have a significant impact on the discretionary funds.

If income is raised to an agreed minimum income level then it could be agued that this is a generally accepted level of earnings and therefore additional support is not required and these pots could recycled into increasing the overall level of support. However, the full implications of this would have to be considered when a definitive end result appears from the consultation.

The Disabled Students Allowance is currently being reviewed as part of a separate exercise and will not be affected by this consultation.

Thresholds

For 2008-09 the income assessment thresholds for the Young Students Bursary are up to £18,820 for the full amount and then up to £33,330 for any support. The options set out in this paper generally assume that these thresholds will remain the same, rising in line with the rate of inflation, although more detailed modelling could be taken forward to look at changing these thresholds.

[31] Scottish Government figures. These provide a broad estimate of possible costs. In addition there are annual opportunity costs to the learner of £1.9m annually. Opportunity costs represent foregone earnings to the learner.

ANNEX D

SUMMARY OF FUNDING

Finance Available for Future Policy Developments - based on budget projection for 2010-11.

£m

Budget	**DEL**	**AME**
Fee, Grants and Bursaries – *Not including the additional £30m*	275.2	
Student Loans Net New Lending *(which includes:)*[32]		124.7
Loan Payments		188.7
Loan Repayments		64.0
Cost of Loans	71.4	
Other Costs (SAAS and SLC running costs etc.)	29.5	
Total Funding	**376.1**	**124.7**

Effect of investing the additional £30m		
Option 1 - Loans to Grants	+30.0	-43.4
Option 2 – Minimum Income	+30.0	0
Option 3 – Hybrid	+30.0	-10.0

Options to make the system fairer (possible savings)		
Those on second degrees	5.6	18.0
Minimum Loan	5.6	18.3
Total possible savings	**11.9**	**38.3**

[32] These figures are based on estimates provided for the 2007 Spending Review. Latest projections suggest that the net new lending in 2010-11 will be £135m, based on loan payments of £205m and repayments of £70m.

ANNEX E

LIST OF CONSULTEES

All colleges, universities and other higher education institutions
Association of Scotlands' Colleges
Association of University Administrators
Association of University Teachers
British Medical Association Scotland
CBI Scotland
Chambers Of Commerce
Coalition of Higher Education Students in Scotland
Convention of Scottish Local Authorities
Educational Institute for Scotland
Enterprise and Culture Committee
Equality and Human Rights Commission
Federation Of Small Businesses
Higher Education Funding Council for England
HM Inspectorate for Education
Institute of Directors
Learning & Teaching Scotland
Local Enterprise Companies
NHS Education for Scotland
NUS Scotland
QAA Scotland
Scottish Civic Forum
Scottish Council for Development and Industry
Scottish Council of National Training Organisations
Scottish Further & Higher Education Funding Council
Scottish Inter FAITH Council
Scottish Qualifications Authority
Scottish Trades Union Congress
Skill Scotland
Skills Development Scotland
Student Loans Company
UNISON Scotland
Universities Scotland
University and Colleges Union

ANNEX F

ARRANGEMENTS FOR CONSULTATION

This consultation is being issued to a wide range of stakeholders (set out in Annex E). Anyone that has an interest in the issues raised in this paper is encouraged to respond and we ask that respondents complete all sections of the consultation that they consider relevant.

Responding to this Consultation Paper

We are inviting written responses to this consultation by 30 April 2009. Please send your response to:

Supporting a Smarter Scotland (CON 1115),
CSU, Spur U5b,
Saughton House,
Broomhouse Drive,
Edinburgh,
EH11 3XD

Or by email to:

hestudentsupportconsultation@scotland.gsi.gov.uk

If you have any queries regarding this consultation please contact Anna Devlin on 0141 242 0194.

We would be grateful if you would clearly indicate on your response which questions or part of the consultation paper you are responding to as this will aid our analysis of the responses received. To assist this, a list of all the questions in the document is provided at Annex I.

This consultation, and all other Scottish Government consultations, can be viewed on the consultation web pages of the Scottish Government website at http://www.scotland.gov.uk/consultations. You can Freephone 0800 77 1234 to find out where your nearest public internet access point is.

The Scottish Government has an email alert system for consultations (http://www.scotland.gov.uk/Consultations/seConsult). This system allows stakeholder individuals and organisations to register and receive a weekly email containing details of all new consultations (including web links). SEConsult compliments, but in no way replaces the Scottish Government distribution lists, and is designed to allow stakeholders to keep up to date with all Scottish Government consultation activity, and therefore be alerted at the earliest opportunity to those most of interest. We would encourage you to register.

Alternative Formats

The text to this consultation paper will be made available in alternative formats. Anyone requiring the document in an alternative format should contact Anna Devlin at hestudentsupportconsultation@scotland.gsi.gov.uk or the address below.

Handling your Response

We need to know how you wish your response to be handled, and in particular, whether you are happy for your response to be made public. Please complete and return the **Respondent Information Form included at Annex G** of this paper as this will ensure that we will treat your response appropriately. If you ask your response not to be published, we will regard as confidential and will treat accordingly.

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Next Steps in the Process

Where respondents have given their permission for their responses to be made public (see the enclosed Respondent Information Form), these will be made available to the public in the Scottish Government Library by 28 May 2009 and on the Scottish Government consultation web pages by 28 May 2009. We will check all responses where agreement to publish has been given for potentially defamatory material before logging them in the library or placing them on the website. You can make arrangements to view responses by contacting the Scottish Government Library on 0131 244 4552. Responses can be copied and sent to you, but a charge may be made for this service.

What Happens Next

Following the closing date, all responses will be analysed and considered along with any other available evidence to help us reach a decision on the matters discussed. We aim to issue a report on this consultation by the end of September 2009.

Comments and Complaints

If you have any comments about how this consultation exercise has been conducted, please send them to:

Anna Devlin
Scottish Government
Lifelong Learning Directorate
Higher Education and Learner Support Division
Europa Building
450 Argyle Street
Glasgow
G2 8LG

ANNEX G

RESPONDENT INFORMATION FORM

Supporting a Smarter Scotland – A consultation on supporting learners in higher education

Please complete the details below and return it with your response. This will help ensure we handle your response appropriately. Thank you for your help.

Name:

Postal Address:

1. Are you responding: (please tick one box)
   - (a) as an individual ☐ go to Q2a/b and then Q4
   - (b) **on behalf of** a group/organisation ☐ go to Q3 and then Q4

INDIVIDUALS

2a. Do you agree to your response being made available to the public (in the Scottish Government library and/or on the Scottish Government website)?

Yes (go to 2b below) ☐
No, not at all ☐ we will treat your response as confidential

2b. Where *confidentiality is not requested*, we will make your response available to the public on the following basis (**please tick <u>one</u>** of the following boxes)

Yes, make my response, name and address all available ☐
Yes, make my response available, but not my name or address ☐
Yes, make my response and name available, but not my address ☐

ON BEHALF OF GROUPS OR ORGANISATIONS:

3 The name and address of your organisation ***will be made available to the public*** (in the Scottish Government library and/or on the Scottish Government website). Are you also content for your **response** to be made available?

Yes ☐
No ☐ We will treat your response as confidential

SHARING RESPONSES/FUTURE ENGAGEMENT

4 We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for the Scottish Government to contact you again in the future in relation to this consultation response?

Yes ☐
No ☐

ANNEX H

THE SCOTTISH GOVERNMENT CONSULTATION PROCESS

Consultation is an essential and important aspect of Scottish Government working methods. Given the wide-ranging areas of work of the Scottish Government, there are many varied types of consultation. However, in general, Scottish Government consultation exercises aim to provide opportunities for all those who wish to express their opinions on a proposed area of work to do so in ways which will inform and enhance that work.

The Scottish Government encourages consultation that is thorough, effective and appropriate to the issue under consideration and the nature of the target audience. Consultation exercises take account of a wide range of factors, and no two exercises are likely to be the same.

Typically Scottish Government consultations involve a written paper inviting answers to specific questions or more general views about the material presented. Written papers are distributed to organisations and individuals with an interest in the issue, and they are also placed on the Scottish Government web site enabling a wider audience to access the paper and submit their responses. Consultation exercises may also involve seeking views in a number of different ways, such as through public meetings, focus groups or questionnaire exercises. Copies of all the written responses received to a consultation exercise (except those where the individual or organisation requested confidentiality) are placed in the Scottish Government library at Saughton House, Edinburgh (K Spur, Saughton House, Broomhouse Drive, Edinburgh, EH11 3XD, telephone 0131 244 4565).

All Scottish Government consultation papers and related publications (e.g., analysis of response reports) can be accessed at: Scottish Government consultations (http://www.scotland.gov.uk/consultations).

The views and suggestions detailed in consultation responses are analysed and used as part of the decision making process, along with a range of other available information and evidence. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

Final decisions on the issues under consideration will also take account of a range of other factors, including other available information and research evidence.

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

ANNEX I

CONSULTATION QUESTIONS

Thank you for taking the time to respond to this consultation on higher education student support. To assist you in forming your response to this consultation, the following annex lists all of the questions contained in the paper. You do not need to answer all of these questions, but we would appreciate the widest possible range of responses and all will be considered.

Section 3 – Investing in Student Support

Option 1a

- *What are your views on the proposal to begin a move to grants by extending the Young Students Bursary?*
- *Do you feel that the focus of bursary support should continue to be on dependent students?*

Option 1b

- *What are your views on the extension of bursary support to independent students as part of a transition to grants?*

Option 1c

- *What are your views on the proposal from the ASC to introduce full bursary/grant support for higher education courses in colleges?*
- *In particular, what are you thoughts on the potential for this to change the nature of support so that it would be based on what type of institution you were attending rather than your level of study?*

Option 2

- *What are your views on the NUS proposal to increase the overall support available by increasing the grant support currently available?*
- *How should we address the potential effect on parental or partner contributions?*
- *How should the increase in income be addressed for independent students who receive no bursary support?*

Option 3

- *What are your views on this hybrid option aimed at those on the lowest incomes?*

Other options

- *Are there any other initiatives or ideas that you believe we should explore further?*

Section 4 – Fairer Entitlement to Support

Support for Second HE Qualifications

- *What are your views on the options proposed to ensure that the funds available are used as fairly as possible to give students adequate support for their first degree?*
- *Do you agree that we should consider removing student loan support for second degrees?*
- *Alternatively, should we be maintaining funding for this group to explore more avenues to support opportunities to retrain or upskill those who may face redundancy as part of the effects of the economic situation?*

Minimum Loan

- *Do you believe that there is a case for removing the minimum loan?*

Travel Expenses

- *Do you think that support for travel expenses should by subsumed into the main grant pot or should it remain a separate, claim-based fund?*
- *Should we differentiate between day-to-day travel expenses and trip to and from home from those who stay away from home?*

Section 6 – Servicing Existing Student Loan Debt

- *What are your views on our proposals to service existing student debt if funding becomes available in future?*

Section 7 – Conclusion

- *Overall, based on the options and issues presented in this paper, we would welcome your views on what our funding priorities should be for the £30 million pounds available in 2010-11 and in future years.*