

**EXPLANATORY MEMORANDUM TO
THE EDUCATION (STUDENT LOANS) (REPAYMENT) (AMENDMENT) (NO. 2)
REGULATIONS 2012**

2012 No. 1309

1. This explanatory memorandum has been prepared by the Department for Business Innovation and Skills and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments. These are composite regulations with Welsh Ministers and these regulations will also be laid before the National Assembly for Wales.

2. **Purpose of the instrument**

- 2.1 The Instrument further amends the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470). They bring into force the Higher Education Reforms which affect the repayment of Income Contingent student loans issued to new students in September 2012 or later. Additionally, there are some changes which will apply to the existing income contingent repayment system.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

- 3.1 None

4. **Legislative Context**

- 4.1 The Higher Education White Paper addressed the wider issues that emerged as a result of our proposed reforms – and set out the long term strategy.
<http://www.hepi.ac.uk/455-1987/Higher-Education--Students-at-the-Heart-of-the-System.-An-Analysis-of-the-Higher-Education-White-Paper-.html>

- 4.2 Changes to introduce the part-time loan package and the post 2012 interest rate were included in The Education Act 2011. This is available at:
<http://www.legislation.gov.uk/ukpga/2011/21/contents/enacted/data.htm>

- 4.3 This Instrument further amends the Education (Student Loans)(Repayment) Regulations 2009, which govern the repayment of Income Contingent student loans and are made under section 22 of the Teaching and Higher Education Act. The Higher Education White Paper set out a vision for radical reform of English Higher Education. This Instrument introduces changes resulting from the White Paper to the repayment system for new borrowers entering higher education for the first time from September 2012 and also some changes for borrowers under the current repayment system.

5. Territorial Extent and Application

5.1 This instrument has the same territorial extent and application as the provisions it amends in the Education (Student Loans) (Repayment) Regulations 2009. Those Regulations extend to England and Wales, but they also extend to all of the United Kingdom in so far as it imposes any obligation or confers any power on Her Majesty's Revenue and Customs (HMRC), an employer or a borrower in relation to repayment under Parts 3 or 4 of the Education (Student Loans)(Repayment) Regulations 2009.

5.2 These are composite regulations with Wales.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

7.1 The Education Act 2011 allows the Secretary of State and Welsh Ministers to prescribe exceptions to the application of the new interest rate limit for student loans in relation to any student who begins a course on or after 1 September 2012. These Regulations ensure that the terms of the new student finance system, including real interest rates, are applicable to only those who start new courses in September 2012 or later. Those who are studying at a course which started before 1 September 2012 and then start an end-on course or transfer to another course on or after 1 September 2012 will continue to take out loans under the existing student finance system.

7.2 The new repayment system is designed to be sustainable, affordable and progressive. Repayments will be income contingent, ensuring that repayments match ability to pay. By raising the repayment threshold to £21,000 and introducing a progressive rate of interest, there will be a greater protection to the lowest graduate earners. After 30 years all borrowers will have any outstanding balance written off. The changes to the repayment system to be implemented by these amending regulations will apply to new students who commence their studies in September 2012 or later. The main changes are:

7.3 Real and variable interest rates on student loans for students starting courses on or after 1 September 2012 are to be introduced as follows:

- Interest rate whilst studying, new students starting a higher education course from September 2012 onwards will be charged interest at RPI (Retail Price Index) + 3% whilst studying. This rate will apply until the borrower is liable to make repayments.
- Variable interest rates - Once a borrower has reached their Repayment Due Date, the rate of interest charged will depend upon the borrower's income. Borrowers earning

£21,000 or less will be charged a rate equivalent to RPI. Interest will then be charged on a sliding scale up to £41,000 where the interest rate will be RPI + 3%.

- Overseas residents – the £21,000 and £41,000 thresholds for borrowers will be calculated so as to reflect relative purchasing powers so that variable interest can be applied to borrowers who reside overseas on a consistent basis. World Bank data will determine the relevant threshold for each country. Student Loans Company (SLC) will establish a 12 month repayment schedule with both repayments and interest based on predicted income. This may be re-determined, if appropriate, during or at the end of that 12 month period
- Interest rate for borrowers who are due to repay before April 2016. HMRC will not collect repayments under the new system before April 2016, though borrowers are free to make payments direct to the Student Loan Company. Some borrowers who are on short courses or who leave their course early would ordinarily be due to start repayments before that date. Those borrowers will be charged interest at RPI + 3% until the April after they leave their course; RPI only from that date until April 2016; and the appropriate rate of variable interest from April 2016.
- Interest rate for borrowers who lose touch with the SLC - These borrowers will be charged interest at the rate of RPI + 3%. This rate will be charged until they get in touch with SLC and have provided the relevant information, such as evidence of earnings. Once SLC have the information it requires, the appropriate income dependent interest rate will apply. This will apply to all new borrowers and will include those who move overseas straight after graduation without advising the SLC.

7.4 The repayment threshold will be £21,000. Setting the contribution at £21,000 is a core part of making the system more progressive. It will mean that low earning graduates are not required to make payments and those that earn above £21,000 will contribute less each month than borrowers would under the current system. Raising the threshold for new graduates is part of the overall package of reforms to make the system more progressive and protect those that do not go on to enjoy high earnings – whilst asking those that do to contribute more.

7.5 The earliest date for repayment for all new borrowers will be April 2016, with no deductions being made by employers or through Self Assessment until April 2016. However, borrowers may make direct payments to SLC at any time. After April 2016, those earning above the threshold who are due to repay will repay 9% of their income above £21,000.

7.6 Write-off of loan – the outstanding balance of a loan will be cancelled 30 years after the Repayment Due Date. The loan will also be cancelled if the borrower dies or the borrower receives a disability related benefit and, because of the disability, is permanently unfit for work.

7.7 Credit balance - Interest Rate – We will implement new interest rate provisions for both new and existing borrowers who have student loan balances in credit due to over-repayment. These changes will apply from 6 April 2016.

- For the existing system - From the date the loan is repaid in full, interest will continue to accrue on the credit balance at the rate of RPI (subject to the low interest cap being in use). As soon as SLC is aware of the over-repayment, they will write to the borrower and advise them that they have over-repaid their loan, and that interest will continue to accrue on the credit balance at RPI (or low interest cap) until a refund is made or for a further 60 days, whichever is sooner. Beyond that 60 day notice period, no further interest will accrue on the credit balance.
- For the new system - From the date the loan is repaid in full, interest will accrue on the credit balance at the rate of RPI only, irrespective of the (variable) rate of interest which has been charged up to that point. As soon as SLC is aware of the over-repayment, they will write to the borrower and advise them that they have over-repaid their loan, and that interest will continue to accrue on the credit balance at RPI until a refund is made or for a further 60 days, whichever is sooner. Beyond that 60 day notice period, no further interest will accrue on the credit balance.
- For borrowers with both types of loans - Where a loan under the existing student finance system has been over-repaid, borrowers will be offered the option to either be refunded or to use the over-repaid amount towards repayment of the remaining new student finance system loan. Where SLC do not receive a response, after 60 days the over-repayment will automatically default to the outstanding loan balance.

7.8 There are new provisions for part-time students who will be liable to start making repayments from the 6th April which falls after the 4th anniversary of the start date of the course, even if studies continue after that date, or the 6th April which falls after the student leaves their course – whichever is sooner. On that date, interest will be variable (rather than RPI + 3%). Repayments will commence once the borrower is earning above £21,000.

7.9 The regulations also set out the repayment due dates when a borrower changes their mode of study – part-time to full-time or vice versa. The date will be the part-time repayment due date where a student changes from full to part time study; and full-time due date where a student changes from part-time to full time, unless the student is already liable to repay in which case there is no change.

8. Consultation outcome

8.1 The changes were widely publicised in the Government’s White Paper – Higher Education - Students at the Heart of the System and the public had the opportunity to respond to that. They were also raised and debated in Parliament during the passage of the Education Act 2011.

9. Guidance

9.1 Guidance will be available on SLC’s website in the form of on-line booklets and on DirectGov. Information is also available on the BIS website.

10. Impact

10.1 The impact on business, charities or voluntary bodies is nil.

10.2 We have undertaken an Equality Impact Assessment (EqIA) of these regulations as part of our ongoing duty. It is attached to this memorandum and will be published alongside the Explanatory Memorandum on the legislation website. It can be found at www.legislation.gov.uk

10.3 Previously, the Department undertook an EqIA, which was published in November 2010, when we introduced regulations which raised tuition fees. As well as covering the fees, it also covered some other parts of the Higher Education reform package, including some of the changes to student support terms. That EqIA went through the internal peer review process and was published alongside those regulations and with an impact assessment. (It can be found at <http://www.bis.gov.uk/assets/biscore/higher-education/docs/i/10-1310-interim-equality-impact-assessment-he-funding-and-student>).

11. Regulating small business

11.1 The legislation does not apply to small business, other than the role they play in collecting student loans via PAYE.

12. Monitoring & review

12.1 The Education Act 2011 prescribes that the rate of interest on student loans will be “lower than those prevailing on the market, or no higher than those prevailing on the market where the other terms on which such loans are provided are more favourable to borrowers than those prevailing on the market.” We have undertaken a detailed analysis to define what ‘the market’ is; what the rates prevailing on that market are; and how we will monitor those rates going forward. We believe that the most suitable benchmark for monitoring the compliance of student loan interest rates with the terms of the Education Act 2011 is the Bank of England (BoE) published rates for £10,000 unsecured personal loans. Analysts will continue to review whether this remains the most relevant benchmark available for monitoring the rates of interest on the prevailing market.

12.2 Many changes in this instrument will only be implemented from April 2016. The Department is working closely with both HMRC and the SLC in setting up the process and appropriate measures will be put in place over the coming months.

13. Contact

Kathryn Symms at the Department for Business Innovation and Skills - Tel 01325 391187 or email kathryn.symms@bis.gsi.gov.uk - can answer any queries regarding the instrument for England and UK wide provisions.

HIGHER EDUCATION

Education (Student Loans)
(Repayment) (Amendment)
(No. 2) Regulations 2012:
Equality Impact Assessment

MAY 2012

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Introduction

Under the Equality Act 2010, the Department, as a public authority, is legally obliged to give due regard to equality issues when making policy decisions - the public sector equality duty, also called the general equality duty. Analysing the effects on equality of these regulations through developing an equality impact assessment is one method of ensuring that thinking about equality issues is built into the policy process, and informs Ministers' decision making.

BIS, as a public sector authority, must in the exercise of its functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

The general equality duty covers the following protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. As disadvantage in higher education is still apparent in connection to family income and economic status we will also look at the impact on individuals from lower income groups. We will use the terms protected and disadvantaged groups as well as protected characteristics. Protected groups is a reference to people with protected characteristics, and disadvantaged groups refers to low income groups.

Any queries and comments about this equality impact assessment should be addressed to:

Kathryn Symms, Department for Business, Innovation and Skills, Mowden Hall, Staindrop Road, Darlington, DL3 9BG, Kathryn.Symms@bis.gsi.gov.uk

Description of the policy

1. The intention of the Education (Student Loans) (Repayment) (Amendment) (No. 2) Regulations 2012 is to implement the new student finance arrangements for the repayment of loans, for example the introduction of the £21,000 threshold in April 2016, real rates of interest from September 2012 and a 30 year write-off policy. The intended outcome is that the system is progressive and affordable. Those who gain most from their higher education (HE) will pay the most due to the introduction of variable rates of interest once the student is due to start making repayments. As such the regulations will impact on those students who take out loans under the new arrangements. The new repayment arrangements are part of the Government's package of reforms aimed at securing the sustainable funding of high quality higher education.

Summary of analysis and impact

2. After carrying out a rigorous assessment of the elements of the regulations against the three limbs of the duty and in relation to each protected characteristic we conclude that the statutory objectives engaged by the changes are the objectives of 'advancing equality of opportunity' in relation to age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation and to a lesser extent 'fostering good relations' and 'elimination of discrimination' in relation to the religion and belief characteristic.
3. We have given due regard to the need to eliminate unlawful discrimination, harassment and victimisation and we do not consider, nor have evidence that, the existing higher education repayment provisions/student support package produce unlawful discrimination, harassment and victimisation, and our assessment is the same for our proposed provisions in these new regulations. We have also concluded that fostering good relations is not relevant overall in terms of the intended outcomes of these regulations (apart from potentially in relation to the protected characteristic of religion or belief, as outlined below in terms of the possible impact of charging a real rate of interest.)
4. We have assessed the impact of the regulations on protected and disadvantaged groups. Student loans are repaid on an income contingent basis. Because of the focus of the regulations on income status in relation to repayment of student loans we have concluded that it is this aspect that has relevance in terms of protected and disadvantaged groups. Reviewing the regulations in relation to protected and disadvantaged groups individually has not highlighted other areas of impact, apart from the potential adverse impact of charging a real rate of interest for some Muslim students, as the charging and paying of interest may be considered forbidden (see paragraph 21), and other religious students who might share this view.
5. Current evidence points to diminishing inequalities in HE, indeed, higher representation from previously under-represented groups in some circumstances (see Annex 1). Evidence about participation in higher education does seem to indicate that there is good representation from protected and disadvantaged groups such as women and minority ethnic communities; the proportion of students declaring a disability has increased; and the proportion of young people living in the most disadvantaged areas who enter higher education has increased. These groups have traditionally been under-represented in HE. A summary of participation in HE is provided at Annex 1.

6. The only evidence available to us at this stage regarding the new system is the latest 2012 UCAS application data. The figures for April show that while the total number of applicants in 2012 is down on 2011 by -7.7%, the fall is smaller for females compared to males (-7.1% vs -8.6%). UCAS published an analysis of application rates for POLAR¹ groups in January 2012 which showed that application rates from the two least affluent categories have remained broadly the same as last year, with rates for the more affluent categories reducing more significantly. We are exploring with UCAS the feasibility of obtaining minority ethnic and disability application data before the end of the application cycle. It is important to note, however, that the 2012 UCAS data will only provide a limited insight to the potential impacts of the student funding reforms. The actual impacts of the funding reforms may emerge more slowly and only be identifiable through the analysis of trends over the longer term. No figures on student finance applications are available at this stage.
7. The regulations implement parts of the Department's policy aimed at ensuring that potential eligible students are treated fairly in the student loan repayment arrangements, as such advancing equality of opportunity where this is relevant by implementing a progressive repayment system.
8. We have previously considered equality impacts of the underlying policy implemented in these regulations in the November 2010 , '*Urgent reforms to higher education funding and student finance*' Equality Impact Assessment (November 2010 EqIA – available here <http://www.bis.gov.uk/assets/biscore/higher-education/docs/i/10-1310-interim-equality-impact-assessment-he-funding-and-student-finance.pdf>), and the wider HE context and broader HE reform package in the HE White Paper Equality Impact Assessment (June 2011 EqIA – available here <http://discuss.bis.gov.uk/hereform/all-documents/>). The latter also looked at research and evidence in relation to issues of debt-aversion and low-income groups.
9. As would be expected, there have been further opinion reports and analytical reports about the HE reforms². While these reports essentially considered in detail the student funding and wider HE reforms from a general perspective, they did not raise any equality related issues regarding the design of the reforms. In addition, the new student funding system builds on the design recommendations from the independent Browne Review of HE funding and student finance³. During the 'call for evidence' no equality issues specific to these regulations were identified, other than the issue of interest rate and Muslim students. Overall, we are not aware of further evidence from these or other sources that changes the conclusions we have reached in our impact analysis of these regulations. BIS has

¹ POLAR classification is used as a measure of disadvantage. It defines geographical areas according to their participation rates for young entrants to Higher Education.

² Examples include:
Independent analysis on the HE reforms by Professors Barr and Shephard. For example see <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/885/885we08.htm>. This paper presents economic evidence that argues that the reform proposals are right in that they raise the fees cap and raise the interest rate on student loans. In their view, the proposed loan repayment terms are too generous.

Independent analysis by the Institute of Fiscal Studies: <http://www.ifs.org.uk/bns/bn113.pdf>. This analysis of repayments and the wider reforms broadly agrees with BIS analyses. The study finds that the Government's proposals appear more progressive than the current system or that proposed by Lord Browne. The highest earning graduates would pay more on average than both the current system and that proposed by Lord Browne, while lower earning graduates would pay back less.

<http://www.hepi.ac.uk/466-1987/Higher-Education--Students-at-the-Heart-of-the-System.-An-Analysis-of-the-Higher-Education-White-Paper-.html>

³ <http://www.bis.gov.uk/assets/biscore/corporate/docs/s/10-1208-securing-sustainable-higher-education-browne-report.pdf>

undertaken its own further analysis using student loan repayment data, and modelling to inform this impact assessment. The conclusions of our impact analysis are provided below.

10. In our further analysis, set out below, we have considered the impact of the various policies on protected and disadvantaged groups. We have considered impacts on each protected group and concluded that the potential for any significant impact will be connected to the income status of the graduate, as the regulations relate to a loan system where eligibility for loans and repayment are contingent on income.
11. We have included analysis where we believe there could be a significant impact, either positive or adverse. We have concluded that the graduates who are likely to earn less and therefore repay less are more likely to be part-time workers, female, disabled, and from an ethnic minority background, so generally the changes in the regulations should benefit them disproportionately⁴. This is largely due to the higher threshold (£21,000) and the 30 year write-off policy. We do not believe there will be significant impacts for others in the protected or disadvantaged groups (for example in relation to age, or men, or non-disabled, or the White group) and we do not have particular evidence relating to gender reassignment, pregnancy and maternity or sexual orientation, we have not received evidence from the groups concerned. For the future, we will consider how best to understand the impact of our policies on other protected groups where there is more limited availability of evidence and data. In relation to the protected characteristic of religion or belief we acknowledge that a real interest rate may have a negative impact on some Muslim students, or others with similar views about interest.

⁴ LFS data Q1 2010 - Q4 2011; working age population (males 16-64, females 16-59) with first degree as highest qualification, in full-time employment.

Repayment threshold

12. The threshold for repayment is being increased to £21,000, and repayments will only be taken at 9% of income above that level. This means individuals will repay less each week than they do under the current system. We have concluded that disabled students, as well as women and other low paid workers, are likely to benefit from the protection afforded by the higher repayment threshold.
13. At the time of the November 2010 Equality Impact Assessment (EqIA), there were two key measures by which we illustrated that lower earners would be protected and those that benefitted the most from HE would make the largest contribution to the cost of the system. We estimated that:
 - Around a quarter of graduates would be better off under the new system than they would have been under the current system; and
 - The top 30% of earners are likely to pay back more than double the bottom 25% (the lowest-paid.)
14. Our latest analysis shows that both of these statements still hold. When compared to the current system with the repayment threshold frozen at £15,000, we estimate 25% of graduates will be better off. However, the Education (Student Loan) (Repayment) (Amendment) Regulations 2011(SI 2011/784) legislated for the uprating of the £15,000 threshold by RPI (Retail Price Index) annually from April 2012 to April 2015 inclusive. It should therefore be noted that the precise estimate of the percentage of graduates who will be 'better off' is 22% when compared to the current system, under the assumption that the £15k repayment threshold increases annually with RPI for the remaining life of the loans.
15. Our recent analysis therefore confirms that protected and disadvantaged groups are not adversely impacted upon.
16. A number of changes to our modelling of repayments have taken place since the November 2010 EqIA. We have moved from using long term assumptions for RPI and average earnings growth to short term assumptions provided by the Office for Budget Responsibility (OBR). The impact of this has been to increase the estimated cost of loans issued under both current and new systems. Changes have also been made to the modelling of individual graduate lifetime earnings, which have reduced the estimated cost. One aspect of the changes is to increase the movement of individuals around the income distribution during their careers, which affects the comparisons of repayments by decile. The key differences between our current estimates and the November EqIA are that fewer high earners are estimated to repay more than 100% of their original loans in net-present-value terms; more middle earners do repay in full, some of which pay back more than 100%, and crucially those borrowers in deciles 1 to 3 – the lowest paid - are now expected to repay less in absolute terms (under both the current and new systems).
17. Having considered the impact on gender, our latest estimates still indicate that around 9% of men and 32% of women will repay less under the new system. (Further detail is provided in Annex 2.)

Write-off of the loan

18. Write-off of loan – the outstanding balance of a loan will be cancelled after 30 years. Whilst this is an increase from the existing 25 year write-off, this will not have a disproportionately high impact on vulnerable groups. The level of protection for lower earners can be illustrated by examining the percentage of graduates who we estimate will have part or all of their loans written-off after 30 years or due to death or permanent disability. Our latest analysis gives an estimate of around 40% if we assume debts of £30k per borrower and 50% if we assume debts of £34.5k.
19. Lower earners will therefore be more likely to benefit from the write-off as their income levels would have meant they might not reach a stage where they would have paid off the loan in full. Women, minority ethnic groups and disabled people would benefit from this policy as they are more likely to be represented in lower income groups.

Real and Variable Interest rate provisions

20. Although loans will still be subsidised by Government, and the maximum rate of interest payable would be different from a commercial rate of interest, real interest rates may have a negative impact on some Muslim students (and this could also apply to other religious groups although we have not received representations or evidence concerning other religious groups, for example through the HE White Paper and connected consultations). Our understanding of this issue has been informed by ongoing discussions and correspondence with banks which provide *Shariah* finance and other Islamic finance experts, student groups, Muslim advisory groups as well as *Shariah* scholars.
21. The real rate of interest might deter some Muslim students from taking advantage of the scheme because real interest rates may be considered *riba* (forbidden) by those Muslim students who take a strict interpretation of the *Shariah* law on interest. Even though the interest rate on student loans will be below that prevailing on the market for similar loans, and will be subsidised by the Government, loans may still be considered *riba* by some Muslims. The concept of “necessity” – acknowledged by some *Fiqh* (Islamic jurisprudence) allows Muslims to do certain things if they are living in a non-Muslim country which would otherwise be *haram* (forbidden). There are the five major Muslim schools of thought and they do not agree what constitutes necessity.
22. Some Muslims believe that the changes to higher education may be unaffordable. Advice from *Shariah* scholars is that the student should first try to borrow money from their family, friends or any other source as *Qard-I Hassanah* (interest free loan) but if this is not possible they may take the loan with firm intentions to repay it as soon as possible. Whilst approaching family and friends for loans might get around the problem of interest, for most students it is simply not a realistic proposition with the new levels of fees.
23. It is unclear how many Muslim students might be affected by the introduction of real interest rates. Further work is being undertaken to try to understand the number of students who might be affected by these changes. This is likely to include stakeholder surveys on attitudes to student finance and the payment of real interest rates.
24. We recognise that some Muslim students will have concerns. Ministers, with officials, have been exploring whether an alternative finance arrangement is possible which would be *Shariah* compliant. This has included discussions with the Federation of Student Islamic

Societies (FOSIS), *Shariah* experts, banks and other Islamic finance experts. For example, we have a model - a commodity *Murabaha* - which matches the payment of the traditional loans, but this would require primary legislation and could not be available for several years after the new interest rates have been implemented. There is no robust evidence at the moment on take up rate by potential students of an alternative system, or of the number of students this would impact.

25. Throughout this process, we have been mindful that we need to ensure that we foster good relations between Muslims and others who share the protected characteristic of religion or belief, and those who do not. Consequently, we have always been clear that any alternative finance systems would not be specifically for Muslim students.
26. The regulations legislate for a single student loan system which meets the needs of the majority of students. However, we continue to accept the importance of the concerns raised and continue to work with representatives of the Muslim community to ensure the student finance system is accessible to as many people as possible. This issue will be relevant for other religions which may also have rules about interest rates. We will need to encourage borrowers to consider the package as a whole, including the many favourable elements, such as protection for low earners, and the 30 year write off.

Interest rates and repayments from those who leave the UK to reside abroad

27. Interest on loans will be applied at RPI plus 3% while studying and up until the borrower is liable to repay. Interest is then dependent on income. Those earning £21,000 or less will be charged RPI. For those earning between £21,000 a year and £41,000 a year, interest will be applied between RPI and RPI + 3% on a gradual scale depending on income. For those earning £41,000 or more, interest will be applied at RPI + 3%.
28. In order to ensure all those who move abroad are not disadvantaged, there will be equivalent £21,000 and £41,000 thresholds for borrowers who reside overseas so that variable interest can be applied. World Bank data will determine the relevant threshold for each country to ensure that local contexts are used to inform the thresholds. We do not anticipate any specific equality implications arising from this proposal.

New part-time students

29. New part-time students will be able to apply for a loan for fees for the first time. Part-time students will become liable for repayment of their loan on the 6th April which falls after the 4th anniversary of the start date of the course, even if studies continue after that date, or in the April after they leave their course, whichever is sooner. On that date, interest will be variable (rather than RPI + 3%). Repayments will only commence once the borrower is earning above £21,000.
30. During the passage of the Education Bill, we took account of equality issues and accepted evidence from the sector that part-time students are more likely to be mature students, studying whilst looking after their family, and with mortgages and other financial commitments. It was agreed to change the repayment due date from 3 years after the start of the course, to 4 years.

31. Our data indicates that this policy will enable more people to access financial support, so will be of benefit to those students who need the support. Data indicates that more women study part-time than men (and fewer minority ethnic students than white students, or disabled students compared with non-disabled students). So there is potential for this policy to have a beneficial impact for women, aiding equality of opportunity in accessing HE.
32. Part-time workers are likely to be low earners, and will therefore benefit from the higher £21,000 threshold and the 30 year write-off. Women, minority ethnic groups and disabled people would benefit from this policy as they are more likely to be represented in lower income groups.

Credit balance – Interest Rate

33. Credit balance - Interest Rate – we have considered whether vulnerable groups will be affected by our policy to pay no interest on credit balances 60 days after the borrower has been advised of the refund due to them, and that interest will cease to accrue on the balance after the 60 day notice period. We do not believe that any groups (including protected groups) will be unfairly disadvantaged because of the long notice period. After the 60 day notice period, borrowers will still be eligible for the refund at any time as soon as they provide the necessary bank details to the Student Loans Company (SLC).

Annex 1 - Snapshot of participation in HE

1. The charts provide a snapshot of participation in HE.
2. **Enrolments** – the raw numbers below show enrolments broken down by protected characteristics and disadvantaged groups (see Charts 1-3).

Chart 1 - UK Domiciled Undergraduate Enrolments
English HEIs 2010/11

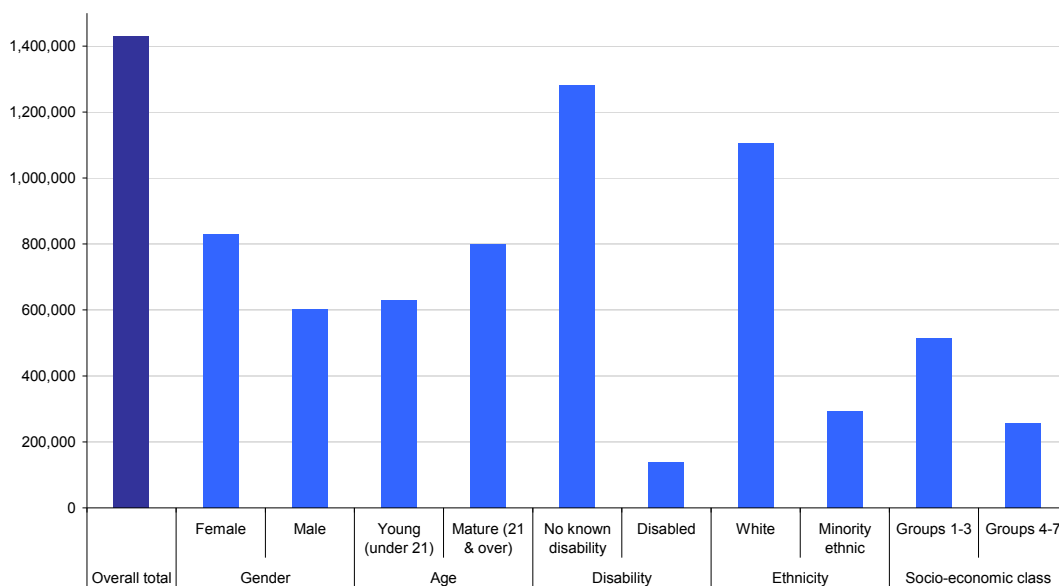
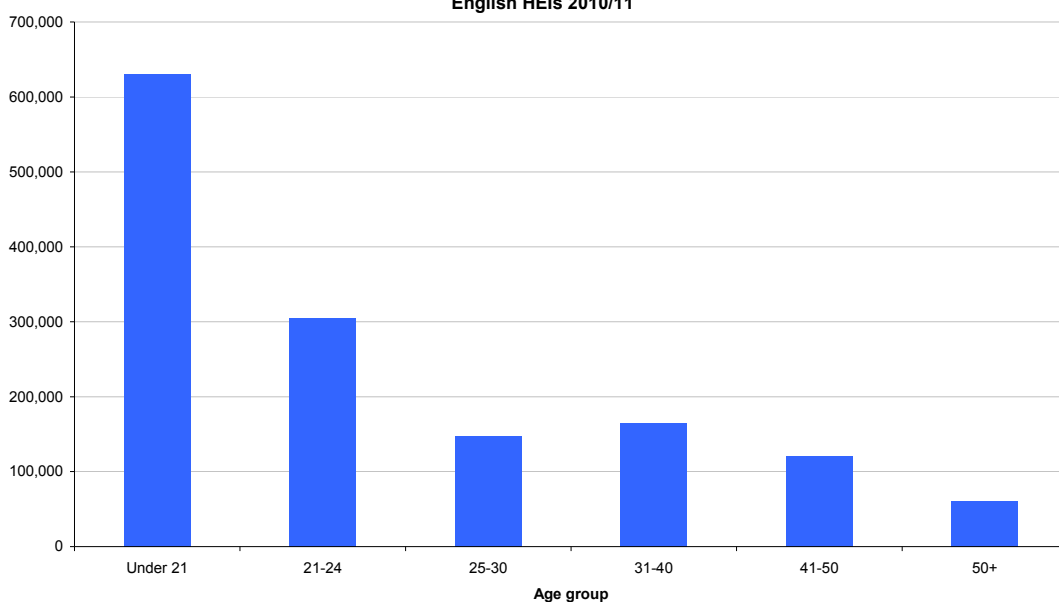
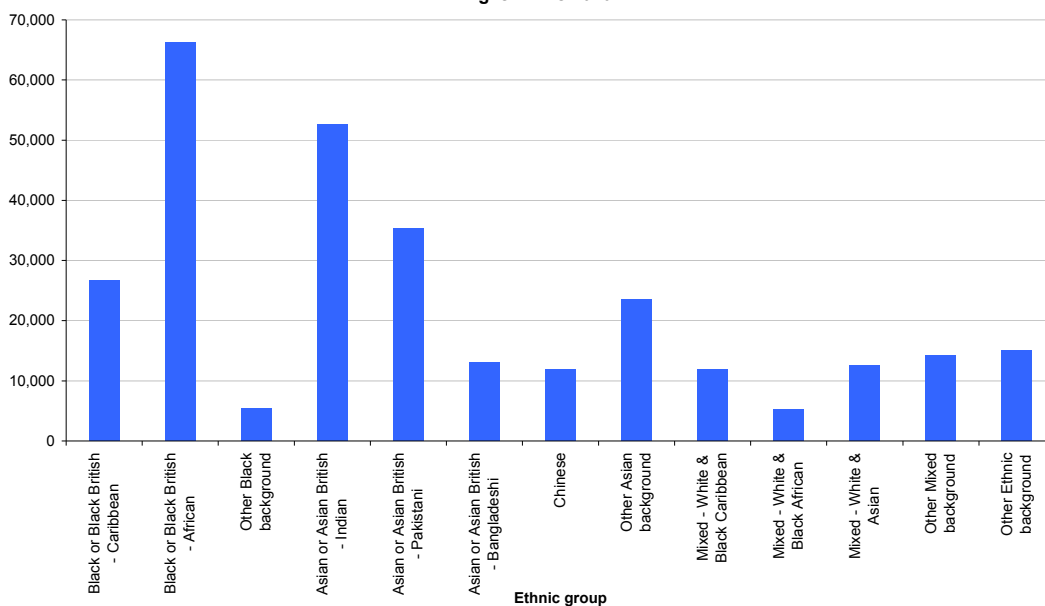


Chart 2 - UK Domiciled Undergraduate Enrolments by Age Group
English HEIs 2010/11



**Chart 3 - UK Domiciled Ethnic Minority Undergraduate Enrolments
English HEIs 2010/11**



- Raw enrolment figures show one aspect of participation in higher education. In ‘Why the Difference’ Conor et al⁵ provided a breakdown of higher education initial participation rates by ethnicity (see Table 1).

⁵ <https://www.education.gov.uk/publications/RSG/publicationDetail/Page1/RR552>

Table 1: Higher Education Initial Participation Rates (HEIPRs) for English domiciled first-time entrants (full- and part-time) to HE courses (in universities and colleges), by individual ethnic/gender group, 2001/02

Ethnic group	Female			Male			All		
	Est. pop.	HE entrants	HEIPR %	Est. pop.	HE entrants	HEIPR %	Est. pop.	HE entrants	HEIPR %
White	3,838,120	105,470	41	3,898,230	90,410	34	7,736,360	195,880	38
All minority ethnic groups	541,350	22,230	58	524,580	21,120	55	1,065,930	43,360	56
Black Caribbean	52,330	1,870	52	45,210	1,160	36	97,540	3,100	45
Black African	64,020	3,100	75	56,650	2,660	71	120,670	5,800	73
Black Other	11,480	610	72	10,320	440	56	21,800	1,050	64
Indian	131,670	6,470	72	129,630	6,390	70	261,310	12,900	71
Pakistani	102,460	3,330	44	102,020	4,090	54	204,480	7,420	49
Bangladeshi	44,300	1,030	33	39,000	1,220	43	83,300	2,310	39
Chinese	35,700	1,370	50	36,940	1,420	47	72,640	2,840	49
Asian Other	26,710	1,600	94	35,140	1,630	74	60,850	3,230	83
Mixed ethnic	73,700	2,580	44	69,680	2,040	35	143,350	4,610	40
All (known ethnicity)	4,379,470	127,700	43	4,422,810	111,530	37	8,802,290	239,240	40

Source: Census April 2001, HESA and ILR records 2001/02

Notes:

- 1) The 'estimated population' and 'HE entrants' columns show the total numbers in the relevant populations. The HEIPR is calculated as a sum of percentages participating in each age group year (17-30).
- 2) The overall HEIPR has been adjusted to exclude ethnicity unknowns, so is lower (at 40 per cent) than the published overall HEIPR (43.5 per cent) for 2001/02.
- 3) The HEIPR figures for all ethnic groups should be treated with caution because of some unreliability and uncertainty inherent in the data sources. For further details, see DfES report 552 Why the Difference, page 150.

4. Combining recent Labour Force Survey (LFS) data with Higher Education Statistics Agency (HESA) estimates of higher education entrants we can attempt to provide an updated snapshot of participation rates of people from minority ethnic backgrounds compared with their representation in the working population. Although the LFS cannot produce as accurate population estimates as the census, and may in itself under or over represent certain ethnic groups in the working population, it will still provide relatively robust estimates. The charts below show that as a whole all minority ethnic groups (apart from the 'other' group, and Bangladeshi group in the under 30s chart) are represented in higher proportions in higher education than in the working population (in the general or under 30s

working populations). As a proportion of the higher education population it is students from the 'White' group who are under-represented, in relation to their proportion in the working population. (See Charts 4 and 5.)

Chart 4 - Representation of ethnic groups in the undergraduate population compared to overall population (aged under 30)

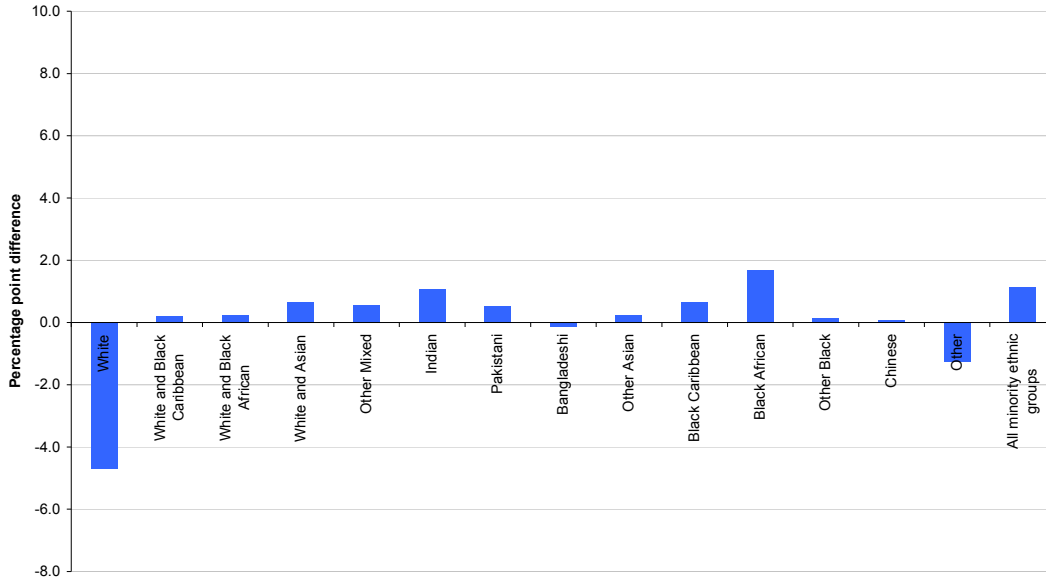
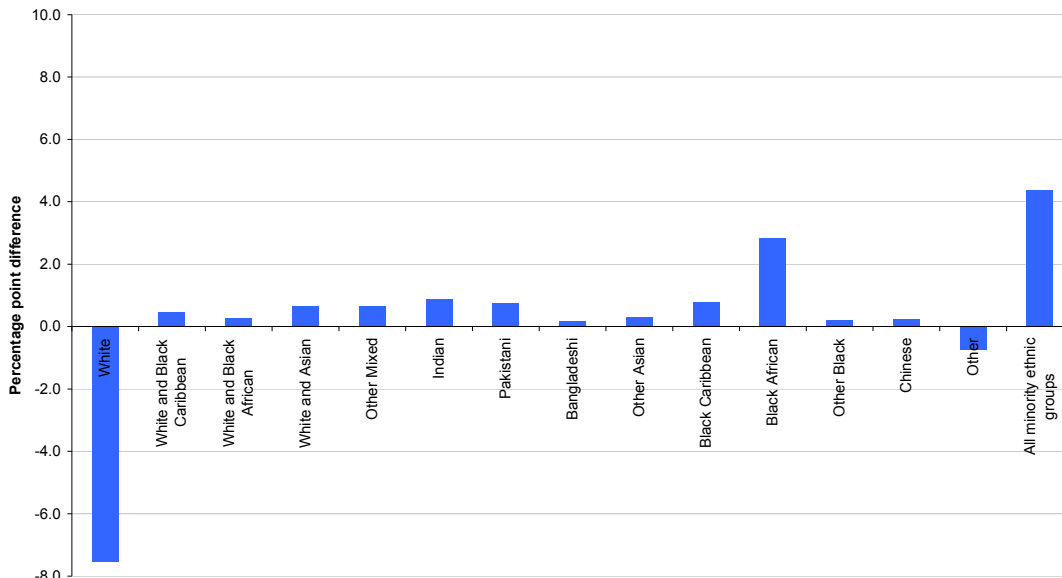


Chart 5 - Representation of ethnic groups in undergraduate population compared to overall population (working age)



- Other research also shows that young people from minority ethnic backgrounds are overwhelmingly more likely to enter higher education compared to White people with the same prior attainment⁶. Those from minority ethnic groups are also more likely to attend the most selective universities, compared with people from White groups with the same

⁶ <http://www.education.gov.uk/research/data/uploadfiles/DIUS-RR-08-14.pdf>

prior attainment. Apart from Black Caribbean young people who are almost as likely as the White group to attend such universities⁷.

⁷ <http://www.ifs.org.uk/publications/4234>

Annex 2 - Distributional Effects of the 12/13 student loan repayment system

1. At the time of the November 2010 Equality Impact Assessment, there were two key measures by which we illustrated that lower earners would be protected and those that benefitted the most from HE would make the largest contribution to the cost of the system. We estimated that:
 - Around a quarter of graduates would be better off under the new system than they would have been under the current system; and
 - The top 30% of earners are likely to pay back more than double the bottom 25% (the lowest-paid).
2. Our latest analysis shows that both of these statements still hold. However it should be noted that the precise estimate of the percentage of graduates who will be 'better off' is 22% when compared to the current system, under the assumption that the £15k repayment threshold increases annually with RPI for the remaining life of the loans. When compared to the current system with the repayment threshold frozen, as it has been since 2005 until April 2012, the estimate is 25%.
3. The level of protection for lower earners can also be illustrated by examining the percentage of graduates who have part or all of their loans written-off after 30 years or due to death or permanent disability. We have previously stated that this will apply to around 40-50% of borrowers. Our latest analysis gives an estimate of around 40% if we assume debts of £30k per borrower and 50% if we assume debts of £34.5k. This indicator is particularly sensitive to modelling assumptions, because the average repayment period is expected to be so close to the 30 year write-off point.

A simplified cohort of borrowers

4. The Impact Assessment included charts of the net-present-value of repayments by lifetime earnings decile from the BIS student loan repayment model. The first of these showed repayments for typical English-domiciled First degree students on 3 year courses, taking out maintenance and fee loans each year. They were assumed to have borrowed £21k under the current system and £30k under the new system. The second chart showed repayments for the same students split by gender. The analysis was published before the intention to uprate the threshold annually was announced, and so was done on the basis of 5-yearly uprating in line with average earnings growth.

Revisions to modelling and assumptions

5. A number of changes to our modelling of repayments have taken place since the Impact Assessment. We have moved from using long term assumptions for RPI and average earnings growth to short term assumptions provided by the Office for Budget Responsibility (OBR). The impact of this has been to increase the estimated cost of loans issued under both current and new systems. Changes have also been made to the modelling of individual graduate lifetime earnings, which have reduced the estimated cost. One aspect of the changes is to increase the movement of individuals around the income distribution during their careers, which affects the comparisons of repayments by decile, as will be

illustrated in the charts below. Our central modelling now assumes the average borrowing by a typical student on a 3 year course will be around £34.5k (£7.5k fee loans and £4k maintenance loan each year).

Change in graduate contributions by graduate lifetime earnings: November 2010 EQIA v March 2012

Figure 1: November 2010 EQIA – Current System (£21k debt and threshold increasing annually with inflation) v New System (£30k debt and threshold uprated every 5 years with earnings)

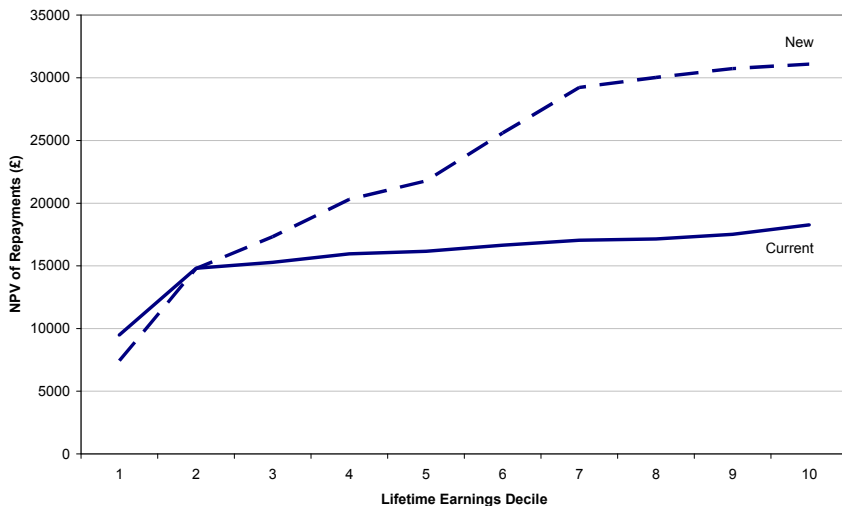
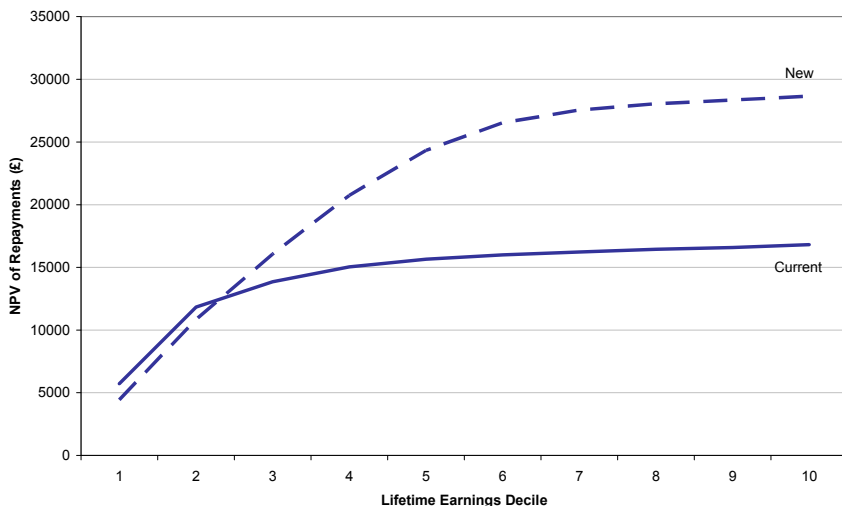


Figure 2: March 2012 - Current System (£21k debt and threshold increasing annually with inflation) v New System (£30k debt and threshold uprated annually with earnings)



6. Figure 1 is taken from the November 2010 Equality Impact Assessment while Figure 2 is from our most recent model. Both charts consider repayments of £30k of loans under the new system by borrowers ranked by lifetime earnings decile.

7. The key differences illustrated by these charts are for medium and high earners under the new system. Fewer high earners repay more than 100% of their original loans in net-present-value terms and so the average total repayment for the highest deciles is now lower than £30k. More middle earners do repay in full, some of which pay back more than

100%, so Figure 2 shows much higher average repayments for them. This is because over time individuals are assumed to move around the income distribution more in our latest model (low and middle earners are more likely to have some years with higher earnings).

- That revised approach to the simulation of earnings also means that borrowers in deciles 1 to 3 are now expected to repay less in absolute terms (under both the current and new systems).

Change in graduate contributions by graduate lifetime earnings split by gender: November 2010 EQIA v March 2012

Figure 3: November 2010 EQIA – Current System (£21k debt and threshold increasing annually with inflation) v New System (£30k debt and threshold updated every 5 years with earnings)

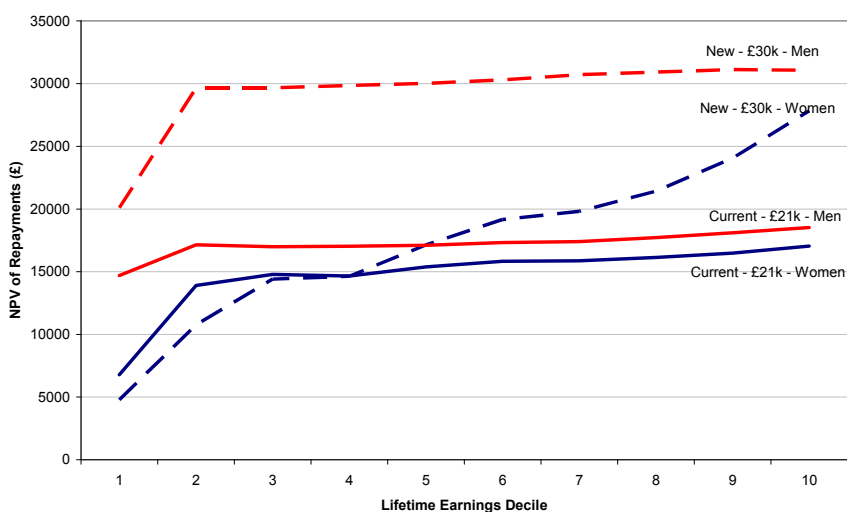
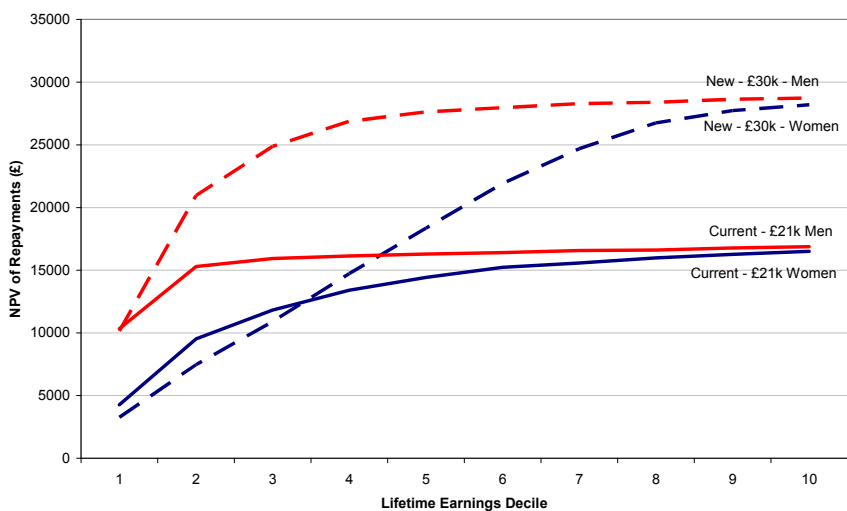


Figure 4: March 2012 - Current System (£21k debt and threshold increasing annually with inflation) v New System (£30k debt and threshold updated annually with earnings)



- Figures 3 and 4 show the same repayments as Figures 1 and 2, but with a further split by gender. Our latest estimates suggest that around 9% of men and 32% of women will repay less under the new system. The difference between men and women for the new system is still much greater than under the current system, but that difference is smaller than we

previously estimated. The difference in repayments is due to the lower position of women in the graduate lifetime earnings distribution.

Monitoring and review

As for the changes implemented following the 2006/07 reforms, we shall continue to monitor (on an annual basis):

The proportion of students who are:

- Female
- From an ethnic minority background
- Disabled
- Mature (using HESA data)

The proportion of applicants/accepted applicants who are:

- Female
- From an ethnic minority background
- Disabled
- Mature (using UCAS data)

The proportion of English-domiciled state school pupils who progress to Higher Education by:

- Gender
- Ethnicity
- Special Educational Needs status (using matched NPD-HESA data)

The income and expenditure of students by:

- Gender
- Ethnicity
- Disability (sample sizes permitting)
- Age (using the Student Income and Expenditure Survey)

Student satisfaction by:

- Gender
- Ethnicity
- Disability
- Age (using the National Student Survey)

The proportion of students on full/partial/nil grants who are:

- Female
- From an ethnic minority background
- Disabled
- Mature (using linked ILR-HESA data)

Where possible, part-time study shall be separated out from full-time study.

Changes will be implemented from Academic Year 2012/13 onwards. As in 2006/07, we may expect an anticipation effect in 2011/12 so the baseline for monitoring the changes will be Academic Year 2010/11. Any possible impacts on participation and the composition of the student body will be picked up from 2012/13 onwards. Impacts on the student experience and outcomes will become available much later.

For the future, we will consider how best to understand the impact of our policies on other protected groups where there is more limited availability of evidence and data.

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