



# HOUSE OF LORDS

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The Rt Hon Damian Hinds MP  
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The Economic Affairs Committee considered your response to its most recent report, *Treating Students Fairly: The Economics of Post-School Education*, at its meeting on 4 September.

Having met with you to discuss the report before the summer recess, we were disappointed that the response failed to engage with its central arguments, along with many of its conclusions and recommendations which have gone unacknowledged in your response. In particular, we were surprised to see that the Government did not respond to any aspect of our chapter on student loans and the public accounts. This chapter outlined the extent to which the national accounting is influencing the financing of higher education and masking its true cost.

We concluded that recent changes to higher education financing have been motivated mainly by the desire to lower the deficit. The decision to switch almost all higher education funding to tuition fees hides the true cost of public spending on higher education. When the change was made in 2012, the upfront spend by the Government on higher education increased by £3 billion but as the vast majority of funding was provided through loans rather than grants, the deficit figure was improved by £3.8 billion. Write-offs on student loans will be included in the deficit only when the loans expire in 30 years; if the loans are sold before that point, the write-offs never hit the deficit.

The high rate of interest on student loans creates the illusion that Government borrowing is lower than it actually is. It was presented as a progressive measure but in reality, the motivation appears to have been the flattering effect that accrued interest on those loans will have on the deficit. Future governments will have to adjust spending plans to recognise historic student loan losses: in today's money, that would mean the 2047/48 government having to find an extra £8.4 billion to cover expected losses on the 2017/18 student loans. Alternatively, a future government may attempt to abandon the use of public sector net borrowing as a measure of the strength of the economy.

It is unacceptable to expect future taxpayers to bear the brunt for funding today's students.

Most student loans will not be repaid in full: some will be paid in full, some not at all, and a lot only partially repaid. We recommended that the expected write-offs should be shown in the deficit when the loan is issued. The true cost of funding higher education would then be immediately apparent. This would allow for a better discussion as to where funding in the higher education system should be allocated.

It is essential for our economy and society that this informed discussion can take place to improve the system we have for preparing people for their futures. We welcome the letter from the Deputy National Statistician (dated 10 August) and the publication by the Office for National Statistics of the main accounting options they have been considering as part of the student loan review in July. However, this does not excuse the Government's lack of consideration or acknowledgement of this fundamental part of our report.

Furthermore, your response also failed to address our recommendation to scrap the Government's target of three million new apprenticeship starts by 2020. The target prioritises quantity over quality, and framing a target in terms of starts makes no sense when about 40 per cent of starts are not completed. It also treats a one-year apprenticeship as equivalent to a three-year apprenticeship. The target encourages the rebadging of training which should not be funded or described as an apprenticeship.

Can you explain why the Government decided not to respond to these important issues?

We recognise the significant opportunity that your Review of Post-18 Education and Funding represents to ensure the system of higher education in England works for everyone, and we hope that our report helps to inform the outcome of that work. We also appreciate that the Review of Post-18 Education and Funding is ongoing. As such I ask that you revisit your response to the Committee, addressing our report in its entirety once Philip Augar and his colleagues have reported to you, and the Review has been completed.

We are committed to pursuing the implementation of our recommendations, and we look forward to working closely with you in doing so. In the meantime, I have tabled a motion to debate the report in the House of Lords.

I copy this letter to the Leader of the House of Lords and Philip Augar.

*Yours ever*

*Michael*

Lord Forsyth of Drumlean  
Chairman of the Economic Affairs Committee