NEWS RELEASE

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Report by the Comptroller and Auditor General

The sale of student loans

The government's sale of its first batch of student loans was carried out efficiently, but its method for determining whether the sale would secure value for money for taxpayers had limitations, says today's report by the National Audit Office (NAO).

The NAO has found that the Department for Education (the Department) and HM Treasury measure the value of the student loan book in different ways, which increases the risk that they could be selling loans to private investors too cheaply relative to their long-term value.

The sale of student loans is part of a wider government aim to sell public assets where there is no policy reason for continued public ownership. The government hopes to sell a portion of its student loan book between 2017 and 2022 to raise approximately £12 billion. This will have no detrimental impact on borrowers.

In December 2017, the Department completed its first sale of income-based loans to private investors, consisting of the loans of over 400,000 borrowers that became eligible for repayment between 2002 and 2006. HM Treasury identified what assets could be sold and this was carried out on behalf of the Department by UK Government Investments (UKGI).

The government has, in effect, sold an uncertain stream of future repayments in exchange for a lump sum upfront. The loans, which had a face value of £3.5 billion, were sold for £1.7 billion, meaning that government received 48p for every £1 of loans sold. When issuing loans, government does not expect to receive all the money back from borrowers, estimating in its latest accounts that for loans issued before 2012 only 65-70% by value will be repaid. The sold loans are expected to have even lower repayment rates because they are older loans and nearly half had been repaid in full by the time of the sale.

A key incentive for HM Treasury in selling the loans was to reduce its Public Sector Net Debt (PSND) and avoid future write offs of unpaid student loans. However, PSND provides a narrow view of debt, as it does not take account of the potential income government would receive from student loan repayments. We estimate a net loss of future receipts from student loan repayments as a result of the sale of around £604 million. The Treasury Committee, the Office for Budget Responsibility and the International Monetary Fund have questioned the continued focus on PSND.

Other measures of the sale's impact show a different effect on government's financial position. For example, the sale of £3.5 billion of loans for £1.7 billion resulted in a £1.8 billion increase in Public Sector Net Financial Liabilities (PSNFL) or a £0.9 billion accounting loss on the Department's accounts. PSNFL does not take into account that, when the Department issued the loans, it did not expect them all to be repaid. This subsidy explains some of the £1.8 billion loss. While each measure has its limitations, HM Treasury's objectives for the sale only focused on PSND.

UKGI ran the sale process well and achieved value for money by selling the student loans at the upper estimate of what the market would pay. The government actually placed a lower value on keeping the loans that the sum investors ended up paying. If UKGI's forecasts are correct, the £1.7 billion sale price suggests investors will receive on average a 6.5% per year return on their investment.

However, the ultimate value of student loans is uncertain and there is a possibility that investors will fare much better or worse than expected. For example, if UKGI's model underestimates the level of future repayments by borrowers then investors' returns will increase, and if new information reduces investors' perception of risk, the value of the loans may increase in the secondary market.

While HM Treasury uses one method to support its decision to sell student loans, the Department uses another method to calculate the cost of student loans when they are added to the government's balance sheet. This reduces transparency and risks government not knowing the ultimate value and cost to the taxpayer of student loans when they are issued, and of selling assets too cheaply.

The NAO recommends that government takes a comprehensive view of the financial impact of selling student loans on its current and future financial liabilities. The government should also reassess the options for every sale to help it achieve value for money.

Amyas Morse, the head of the NAO, said today:

"The inherent limitations in the way the government assesses the value of student loans when selling them increases the risk that they could be sold at too low a price. The rapidly growing student loan book is a significant government asset, so I would expect to see greater consideration of the financial impact of selling and awareness of whether this provides value for money to taxpayers."

Key facts

	£3.5 bn face value of the loans sold before taking account of any impairments	**£1.7 bn** proceeds to the government from the sale of student loans and reduction in public sector net debt	**411,000** approximate number of borrowers whose loans have been included in the sale

£43 billion	face value of all English student loans issued before 2012 and identified for sale as of March 2017

£12 billion	government's planned proceeds from the initial wave of student loan sales between 2017 and 2022
£0.9 billion	accounting loss on the Department for Education's accounts resulting from the sale
£0.6 billion	estimated net loss of future receipts from student loan repayments as a result of the sale
£102 billion	face value of all English student loans as of March 2018
£473 billion	government forecasts for the face value of all student loans as of March 2049 in 2018-19 values
55%-60%	government's long-term estimate of the value of loans that will be repaid

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Notes for Editors

1. Since 1990 the government has allowed universities and higher education providers to charge fees to students. Over time it has also replaced grant-based support with a system of student loans. The terms of these loans have changed with time and student loan repayments are now based on the level of income students earn after leaving higher education.
2. Government's student loan portfolio is expanding rapidly. The face value of all outstanding student loans rose from £89 billion in March 2017 to £102 billion in March 2018. The value of outstanding student loans is expected to reach £473 billion by March 2049. Government's long-term estimate is that 55-60% of the loan value will be repaid. In 2013 the government decided to sell a portion of the student loans issued before 2012. At March 2017, the face value of all outstanding loans issued before 2012 was £43 billion. It plans to complete a programme of sales between 2017 and 2022, and to raise around £12 billion. In December 2017 the government completed its first sale of loans to private investors, consisting of most loans that entered repayment between 2002 and 2006.
3. HM Treasury's continued focus on PSND as a measure is something that has been criticised by the Treasury Committee and the Office for Budget Responsibility:
   - Treasury Committee, Student Loans, Seventh Report of Session 2017–19, HC 478, House of Commons, February 2018.
   - Office for Budget Responsibility, Economic and fiscal outlook, November 2017.
4. Press notices and reports are available from the date of publication on the NAO website. Hard copies can be obtained by using the relevant links on our website.
5. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 785 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services. Our work led to audited savings of £741 million in 2017.

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