

**EVIDENCE TO THE EDUCATION AND CULTURE COMMITTEE  
SUMMARY OF POINTS HIGHLIGHTED (paragraphs as in body of text)**

Portability of Student Support

4. Student support is generally not portable outwith the UK.
5. These restrictions do not apply to periods abroad as part of a UK-based course, including under the ERASMUS programme.
10. In anticipating that if an independent Scotland continued with free tuition, there would inevitably be a large growth in cross-border numbers, it seems to be widely taken for granted that all four jurisdictions would continue with the current practice of complete portability of student support within the boundaries of the current UK. It is important to recognise, however, that that might not be the case, particularly in relation to fee support.
12. The decision about what fees an independent Scotland might be able to charge to students from England, Wales and Northern Ireland is therefore only part of the picture. What other jurisdictions decided to do about the portability of student support would play an equally important role in determining what pressures and challenges would be faced by the universities and government in an independent Scotland.
15. The White Paper does not set out how much priority the Scottish Government believes an independent Scotland would be able to give to finding the funding needed to deal with any funding gap arising from an inability to pursue its preferred option of differential fees backed by fee loans provided by governments in England, Wales and Northern Ireland. Given the implications for university funding and, in some scenarios, access to university places for Scottish students, it would be useful to explore what priority the Scottish Government would give this, compared to other areas of new spending discussed in the White Paper.
16. If the living cost support of English, Welsh and Northern Irish students did not remain portable, it would become significantly harder to argue for the inevitability of a large increase in cross-border students.
21. It is not clear from the White Paper how much detailed analysis and research has already been undertaken by the Scottish Government of the sensitivity of cross-border flows to factors other than fee differences, whether it has identified any relevant factors other than fee levels which it could influence and how robust its evidence base is for an unavoidable and damagingly large increase in cross-border applications (and entrants), if tuition remained free. It would be useful to know more about these points, in assessing the implications of constitutional change for the higher education in Scotland.

## Residence Requirements

28. It would assist understanding of the potential effects of constitutional change on young people who are mobile around the UK in their later years of schooling, if Committee were to explore what the Scottish Government's thinking is on the future use of residency tests, not least its reading of the Turcan Connell advice in this particular respect. Would it, for example, rule out moving to residency tests for student support based on a period of several years' residence within Scotland, even in the event that other approaches to protecting free tuition proved unsuccessful?

## Student Loans

31. The White Paper does not discuss what is expected to happen to the loan regime if Scotland becomes independent. Given how much the current system of student support in Scotland relies on the use of loans, and how essential adequate living cost support is to supporting participation which does not depend on the availability of access to family funds, it would be useful for the inquiry to explore this point further.

35. It would be useful to know whether the Scottish Government can confirm that the transfer of payments to SAAS is expected to go ahead, removing any risk that the SLC might for any reason cease to be able to issue loans to Scottish students and possibly at a time not entirely under the Scottish Government's control.

36. It would be valuable to explore what modelling the Scottish Government has done of the sensitivity of the loans system to changes in government borrowing costs.

37. It would be useful to have more information on the proportion of student loan amounts which are collected over the border from Scottish-domiciled students and therefore how exposed the Scottish system is in that respect.

40. By 2015-16 loans will make a more substantial contribution to the meeting the cost of the higher education system in Scotland than cross-border fees, international recruitment or income from the research councils, and therefore understanding the ways in which constitutional change could alter the cost of the loan scheme to government is an important element of any debate about the financial effects of independence on higher education.

## Student support arrangements in Scotland

45. In Scotland, uniquely in the UK, graduates who started from poorer backgrounds are now expected to leave university with a higher debt, and therefore face a higher de facto tax on their future earnings, than those who started from wealthier homes. This long-term regressive effect is at odds with promoting social justice or social mobility. Whatever happens in relation to Scotland's constitutional status, this aspect of the student support system requires reform.

# EVIDENCE TO THE EDUCATION AND CULTURE COMMITTEE INQUIRY INTO SCOTLAND'S EDUCATIONAL AND CULTURAL FUTURE MARCH 2014

*Submitted by Lucy Hunter Blackburn, Freelance policy analyst and former Head of Higher Education, Scottish Executive (2000-04)*

1. I am grateful for this opportunity to submit evidence to the Committee.

## **Scope of submission and summary of issues covered**

2. This submission deals with higher education. Its focus is student support, i.e. all the funding provided to or on behalf of individual students, in the form of bursaries/grants, loans for living costs and fee loans or grants. Student support is not discussed in any detail in *Scotland's Future*, which says simply that "this Government will protect free tuition fees for Scottish students and continue to provide appropriate support for living costs" and it therefore is not one of the themes covered in the Committee's questions. However, how living cost support is provided to students is as important as how fees are handled, in ensuring that higher education is accessible on fair terms to students regardless of background. In the context of potential constitutional change, student support raises a number of questions which are highly salient for individuals, for the funding of the higher education system and for the budget of a future Scottish government. These issues have not yet been subject to any significant public scrutiny and exploration of them by the Committee would make a substantial additional contribution to the debate.

## **Portability of Student Support**

### **Background**

3. Each of the devolved administrations has responsibility for student support policy and payment for students originating in their country. English-domiciled students are the responsibility of the UK government.

4. Students from all parts of the UK currently have full access to living cost grants and loans wherever they study in the UK, and can apply to their home jurisdiction for a fee loan (and a fee grant, if from Wales) if needed. **Student support is generally not portable outwith the UK**, so that funds raised from the UK tax base are retained within the UK. The table below sets out the present position for first-time, full-time students in higher education.

5. **These restrictions do not apply to periods abroad as part of a UK-based course, including under the ERASMUS programme.**

Domicile	Place of study		
	UK	Republic of Ireland	Elsewhere outwith UK
<i>England</i>	Full access to grants and loans for living costs and loans for fees	Ineligible for student loans or grants, whether for fees or living costs	
<i>Northern Ireland</i>	Full access to grants and loans for living costs and loans for fees	Full access to grants and loans for living costs and loans for student contribution	Ineligible for student loans or grants, whether for fees or living costs
<i>Scotland</i>	Full access to grants and loans for living costs and loans for fees, if studying outside Scotland	As above (though rules appear to exclude some HEIs in Rol)	Generally ineligible for student loans or grants, for fees or living costs, but 2-year pilot scheme for entrants in 2014 and 2015 to 5 HEIs in mainland Europe
<i>Wales</i>	Full access to grants and loans for living costs and loans and grants for fees	Ineligible for student loans or grants, whether for fees or living costs	

6. As a potentially relevant comparator, for students domiciled in the Republic of Ireland:

- no support is available for fees outside the Republic of Ireland.
- maintenance grants are available for undergraduate courses of at least 2 years' duration in a publicly funded third-level institution in another EU member state, subject to fulfilling conditions as to residence, academic attainments and nationality. (*source: grantsonline.ie*)
- Irish students studying in the UK can apply to the SLC for a loan to cover their fees, where relevant.

7. The different treatment of living cost and fee support is particularly interesting as a model, as it allows the Irish Government to continue to invest in its own *people* wherever they study in the EU, while keeping all its *institutional investment* within its own borders.

## Discussion

8. If Scotland became independent, it would be in the gift of individual governments in all parts of the current UK whether to follow current **practice** and continue to provide fully portable support over the Scottish border or whether to follow current **policy**, and impose complete or partial restrictions on the portability of support.

9. Among the factors likely to be influential here are:

- **A desire to avoid a substantial reduction in the opportunities for citizens**, compared to now. This seems likeliest to influence decisions in Scotland and Northern Ireland, which both already allow some portability to the Republic of Ireland, and where crossing the Scottish border substantially increases the number of courses to which their students have access.
- **A desire to draw on capacity in another state.** This seems most likely to affect Northern Ireland, which has traditionally looked to other jurisdictions, not least Scotland, to absorb some of its domestic demand for higher education. Northern Ireland currently allows full portability to the Republic, although the numbers travelling there are limited.
- **Universities in England, Wales and (possibly) Northern Ireland identifying an opportunity to retain more government funding in-country.** A version of this debate is already underway in Wales, where universities are challenging the Welsh Assembly Government's unique policy of portable fee *grants* for Welsh students *within* the UK. In all parts of the UK the number of 18 year olds is falling and from 2015 English universities will have no restriction on the numbers they can recruit. Both of these considerations will increase the financial interest of universities in England, in particular, in lobbying against portability. Portability of the fee element, where some £100m of university income would be at stake for English universities, is likely to be a particular focus of attention.
- If the Scottish Government's "objective justification" argument succeeds, **popular pressure on politicians in other jurisdictions not to underwrite a system of targeted higher fees** for students from England, Wales and Northern Ireland by providing their students with the portable fee loans required to make the arrangements work.
- For fee loans only, **it might be argued that fee loans should be provided by the host state, not the state of domicile.** This is consistent with the position already taken by the Republic of Ireland, which looks to the UK to provide loans to any of its students studying in England, Wales or Northern Ireland. The UK, Welsh and Northern Irish Governments issue fee loans for existing nationals of other EU states, and the Scottish Government did so in the period where EU students were liable for the graduate endowment.

- **Desire to avoid setting any precedent** (an issue for England and Wales only) which might lead to legal challenge from domestic students wishing to study at English speaking universities on the continent, or in the Republic, for example.

**10. In anticipating that if an independent Scotland continued with free tuition, there would inevitably be a large growth in cross-border numbers, it seems to be widely taken for granted that all four jurisdictions would continue with the current practice of complete portability of student support within the boundaries of the current UK. It is important to recognise, however, that that might not be the case, particularly in relation to fee support.**

11. The table below maps different choices about portability which could be made in England, Wales and Northern Ireland onto the scenario for Scotland set out in the White Paper, ie free tuition, if (a) the Scottish Government's legal case to retain differential fees for students from England, Wales and Northern Ireland is successful and (b) if it is not, and how different combinations might then be expected to affect cross border flows into Scotland.

	<b>Scotland: Free tuition maintained, objective justification argued</b>	
<b>E/W/Ni</b>	<b>Argument fails: free tuition for E/W/Ni</b>	<b>Argument succeeds: £9000 fee for E/W/Ni</b>
Full portability, as now	Probable rise in E/W/Ni numbers, creating (a) pressure on places for Scottish-domiciled students and (b) loss of cross-border income stream, creating pressure on Scottish government to provide additional funds.	Numbers and income generated roughly as now, unless other factors (subjective perceptions or specific changes, eg currency differences) affect student decision making.
Partial portability on RoI model, living cost ie support but not fee loans/grants	As above.	Large fall in cross-border recruitment to Scottish universities, limited to those able to pay fees entirely upfront from private resources, without use of student loans. 87% of English-domiciled students take out a fee loan. Implications for income and social mix of universities. <u>OR</u> As above, if Scottish Government offers fee loans to E/W/Ni students to stabilise numbers. Scope for off-setting savings, if Scots going south borrow from UK govt in quid pro quo. In that case, likely net cost of £30-40m. Legal and technical obstacles, but probably not insuperable. Alternatively, SG might agree to compensate other jurisdictions for the cost of fee loans they issue direct to their students.
No portability	Very unpredictable effects. 50% of English students can currently claim grant and 87% take out a living cost loan. The pool from which Scotland could draw would therefore probably shrink substantially compared to now, to those able to support their living costs with no state aid for 4 years. Numbers could still rise, but not as sharply as above, or they could stay much the same, or even possibly drop. Pressure on funded places unpredictable. Implications for income and social mix of universities.	As above, with likely larger fall, as Scotland would only be an option for students able to be entirely self-financing for fees and living costs, ie around £16,000 a year, or £64,000 over 4 years. Implications for income and social mix of universities. <u>OR</u> If SG covers the cost of fee loans as above, then recruitment restricted to those willing to come to Scotland, despite total debt for course fees being the same or higher as in England, but no living cost help. Some fall in numbers/income likely.

**12. The decision about what fees an independent Scotland might be able to charge to students from England, Wales and Northern Ireland is therefore only part of the picture. What other jurisdictions decided to do about the portability of student support would play an equally important role in determining what pressures and challenges would be faced by the universities and government in an independent Scotland.**

13. Only one of the six scenarios above would appear likely to secure current levels of university income from cross-border students, at no additional cost to the Scottish government. This relies on meeting two challenging criteria: success in (a) the objective justification argument and (b) persuading other jurisdictions in the former UK to provide out-of-state portable fee loans, to underwrite differential fees for their citizens.

14. In the other five scenarios, universities would lose most or all of their current income from cross-border fees, unless the Scottish Government stepped in with additional funding. In at least two of the scenarios where the case for charging differential fees fails, if the Scottish Government did not step in, then the ratio of applicants to funded places would also be expected to rise considerably, with likely consequences for opportunities for Scottish-domiciled applicants. Under all of these five other scenarios, there would be a financial challenge of some form whether numbers rose, fell or stayed the same.

**15. The White Paper does not set out how much priority the Scottish Government believes an independent Scotland would be able to give to finding the funding needed to deal with any funding gap arising from an inability to pursue its preferred option of differential fees backed by fee loans provided by governments in England, Wales and Northern Ireland. Given the implications for university funding and, in at least two of the scenarios, access to university places for Scottish students, it would be useful to explore what priority the Scottish Government would give this, compared to other areas of new spending discussed in the White Paper.**

Relationship to the “objective justification” argument for differential fees and requirements of evidence

16. The “objective justification” argument as explained in the White Paper rests on the assumption that without differential fees, the Scottish system would come under such significant extra pressure from cross-border applicants that it would be at risk. However, **if the living cost support of English, Welsh and Northern Irish students did not remain portable, it would become significantly harder to argue for the inevitability of a large increase in cross-border students.** In these circumstances, a case taken to Europe on the basis of an anticipated increase, without the evidence of at least one year’s intake, looks particularly vulnerable, not least given the material in the Turcan Connell advice for Universities Scotland. For example:



*[TC quoting the judgement in Bressol]* “Admittedly, it cannot be excluded from the outset that the prevention of a risk to the existence of a national education system and to its homogeneity may justify a difference in treatment between some students ... it is for the competent national authorities to show that such risks actually exist. The reasons invoked by a Member State by way of justification must thus be accompanied by an analysis of the appropriateness and proportionality of the measure adopted by that State and by specific evidence substantiating its arguments ... Such an objective, detailed analysis, supported by figures, must be capable of demonstrating, with solid and consistent data, that there are genuine risks to public health.” *[Note: the Bressol case related to cross-border applications for medical education.]*

“In general objective justification on grounds of cost alone has not found favour with the Court but a “costs plus” argument of the sort that suggests that the very existence of the service provided is imperilled (rather than it just having an unacceptable cost ) has in other cases been found to meet the objective justification test. Whether it would be possible to advance an argument that was focused on the potential cultural impact in the severe reduction in opportunity for Scots-domiciled learners if RUK students were entitled to 'free' HE in Scotland could only be established after careful analysis and research of the sort that would meet the scrutiny of the European Court and which Belgium failed to present in Bressol.”

17. A further factor here is that the objective justification argument rests in part on the large difference between a fee of £9000 and £0. This only applies to English-domiciled students. Welsh and Northern Irish students studying in their own jurisdictions only face fees of £3575 (£3685 in 2014-15). So the Scottish Government argument for discriminating against Northern Irish and Welsh students would be weaker. This is particularly important for Northern Irish students, who are disproportionately represented among cross-border students in Scotland.

18. The European Commission might also look as a guide at Ireland, which has found a mechanism for protecting charge-free higher education for most of its students without introducing differential fees for UK students. A recent paper by Susan Whittaker (*Working Paper 2: Student cross-border mobility within the UK: A summary of research findings*, Centre for Research in Education Inclusion and Diversity, University of Edinburgh, February 2014 available at <http://www.ed.ac.uk/schools-departments/education/rke/centres-groups/creid/projects/he-in-scotland/he-in-scotland-wp>) includes interesting material on cross-border flows between Northern Ireland and the Republic and the variety of factors which have affected these. Changes in fee differentials over time are only one part of a more complicated picture, which includes, for example, that the Republic is not part of

UCAS. The Commission may look for evidence that the Scottish Government has fully explored alternatives to differential fees.

19. More generally, the evidence on what affects cross-border flows is not straightforward. Susan Whittaker's paper provides a very helpful summary of existing research on cross-border movement and brings out the complexity of the factors affecting it.

20. The Commission may also note that similar, and in some cases the same, factors as those cited as particular to this case could in future also be argued to apply in other areas of policy, i.e.

"the unique and exceptional position of Scotland in relation to other parts of the UK, on the relative size of the rest of the UK, on the fee differential, on our shared land border and common language, on the qualification structure, on the quality of our university sector and on the high demand for places" (*Scotland's Future*),

Analogous arguments could be put by the jurisdictions on either side of the Scottish border in other contexts at some future point. So the Commission may be particularly inclined to set a high bar for evidence of need, to encourage both states within the former UK to accept from the outset the right of the neighbouring jurisdiction to set its own internal policies, against a general background of unusually high (within Europe) linguistic, geographic, economic and social integration, and to discourage too ready a resort to arguments for discriminatory treatment. In particular, if the Scottish Government maintains its present position that it would prefer the government at Westminster to change its domestic policy in this area, without first building up evidence of its actual effect on an independent Scotland, the Scottish Government could be vulnerable to a charge of seeking to interfere in the internal policy-making of another state. The Commission would presumably be sensitive to any suggestion of that.

**21. It is not clear from the White Paper how much detailed analysis and research has already been undertaken by the Scottish Government of the sensitivity of cross-border flows to factors other than fee differences, whether it has identified any relevant factors other than fee levels which it could influence and how robust its evidence base is for an unavoidable and damagingly large increase in cross-border applications (and entrants), if tuition remained free. It would be useful to know more about these points, in assessing the practical implications of constitutional change for the higher education in Scotland.**

### **Residence Requirements**

22. At present, a student is eligible for support from SAAS (for fees and help with living costs) if they are ordinarily resident in the United Kingdom, the Channel Islands or the Isle of Man for the three years immediately before the first day of the first academic year of the course (the relevant date). For the majority of students who start their course in the autumn

term, the relevant date is 1 August. They must also be ordinarily resident in Scotland on the relevant date.

23. A residency test is generally regarded as essential in providing a safeguard for public funds. The White Paper does not discuss whether the residence test would continue to be based on 3 years' residence in the UK or only in Scotland. If it became Scotland only, excluded from support for the first time would be young people whose families moved to Scotland from another part of the current UK in their later years of schooling. There would be a mirror image problem for those moving out of Scotland, if the residence test south of border was adjusted in the same way. In that case, there would be significant practical implications for many parents of school-aged children considering taking a permanent or temporary job on the other side of the border. The numbers might be relatively small, but the sense of injustice, and financial implications, for anyone excluded from all forms of support, for living or tuition costs, would be acute.

24. The Scottish Government would presumably want to prevent any reduction in eligibility, in which case the questions would be legal (see the paragraph below, in particular) and (b) financial, if the status quo was for some reason not possible and the alternative was to loosen the test (for example, to a period spent anywhere in the EU).

25. On the legal point, the Turcan Connell advice for Universities Scotland focussed particularly on the potential role residency tests might play in managing the impact of free tuition on cross-border flows. It noted:

“On more thorough reflection and consideration that might suggest that a switch from a policy centered on the capping of tuition fees to one where fees were applied equally to all students but grants made available on a residency basis might sit more easily within the EU legal framework.”

“RUK students will require to be treated no differently from other EU students in a post independent Scotland and if we are to be able to retain the ability to charge RUK students then the situation for EU students will require to change and, in effect, only those students satisfying the residency requirements would be able to benefit from the more beneficial terms offered to “Scottish Resident” students.”

26. The overall conclusion to the advice is that:

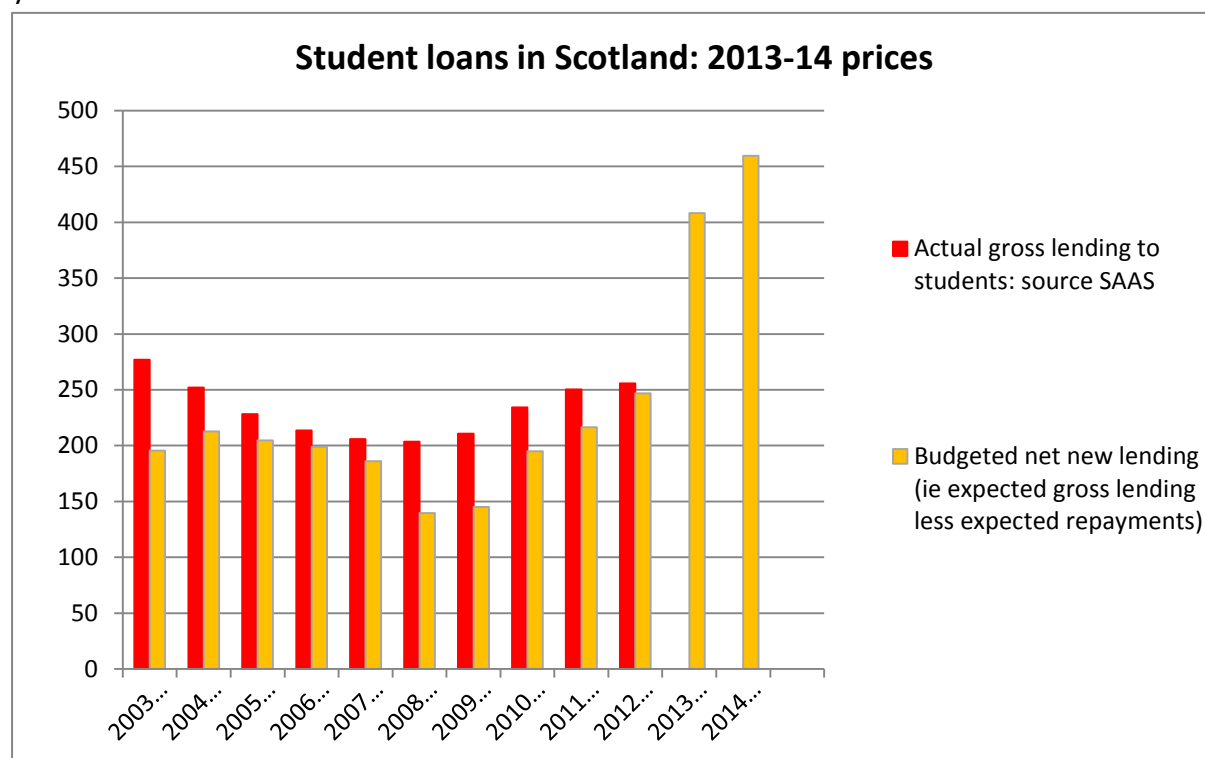
“As a matter of EU law it would appear that it *may* be possible to rely upon a residency requirement for access to preferential fees and grants regimes as long as that requirement is applied to all students regardless of their nationality and can be objectively justified. It will be for the government seeking to introduce such a regime to establish, on evidence, that there is a legitimate aim which can be objectively justified which would allow them to derogate from the overriding principles of freedom of movement and non discrimination.”

27. To a lay reader, the advice appears to be arguing that the safest basis on which students from England, Wales and Northern Ireland could be treated differently from Scottish-domiciled ones would be if all students were charged fees, but only those already resident in Scotland for a number of years were eligible for student support, including off-setting fee grants. In that case, the issues at paragraph 23 would come into play and, on the advice above, there would be further implications for the treatment of EU students more generally.

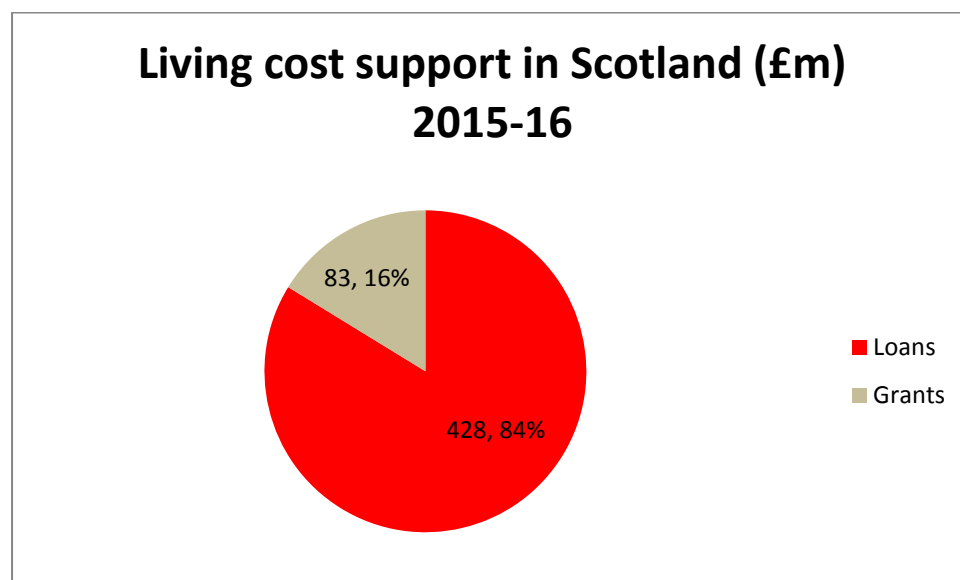
28. **It would assist understanding of the potential effects of constitutional change on young people who are mobile around the UK in their later years of schooling, if Committee were to explore what the Scottish Government's thinking is on the future use of residency tests, not least its reading of the Turcan Connell advice in this particular respect. Would it, for example, rule out moving to residency tests for student support based on a period of several years' residence within Scotland, even in the event that other approaches to protecting free tuition proved unsuccessful?**

### Student Loans

29. Student loans make a significant and growing contribution to the funding of higher education in Scotland. Loans worth over £450 million are due to be issued in 2015-16. The chart below shows the budgeted figures for "net loans advanced" over the past decade, plus the budget plans to 2015-16 and the actual borrowing recorded by SAAS over the past 10 years.



30. This chart shows the contribution loans will make to funding support for the living costs of Scottish students in higher education in 2015-16, on current plans (the loan figure is lower than in the earlier chart, to allow for an element of loans being used for fees, mainly elsewhere in the UK).



31. The arrangements for student loans are currently highly integrated across the UK, both for issuing and collection. **The White Paper does not discuss what is expected to happen to the loan regime if Scotland becomes independent. Given how much the current system of student support in Scotland relies on the use of loans, and how essential adequate living cost support is to supporting participation which does not depend on the availability of access to family funds, it would be useful for the inquiry to explore this point further.**

#### The Student Loans Company (SLC)

32. The SLC is a limited company with its head office in central Glasgow and further offices in Hillington, Darlington and Llandudno Junction, with total staff of around 2000. The UK Government owns 85 per cent of the shares, with the remaining 15 per cent divided equally amongst Scottish Ministers, the Welsh Assembly Government and the Department for Employment and Learning Northern Ireland. Work for the Scottish Government is a relatively small part of the SLC's turnover (representing less than 5% of new payments, for example), not only because of Scotland's relative size but also because the SLC also administers grants on behalf of the other three jurisdictions, playing a similar role to SAAS. The SLC is therefore in effect a large not-for-profit financial services operation, based in Scotland, but principally serving students from other parts of the UK.

### Student loan functions: issuing

33. The money the SLC pays out in loans is provided to it by the UK Government on behalf of all the UK jurisdictions, who then reimburse it. Expenditure on loans scores as Annually Managed Expenditure (AME). Scottish-domiciled students apply through SAAS for their loan. At present, SAAS processes applications and then passes them to the Student Loans Company, which pays out the loan. However, the SLC reported in its most recent annual report that it is in discussion with SAAS about transferring responsibility for loan payment to them in time for the 2014/15 academic year.

34. If the issuing of loans moves to SAAS, constitutional change should have no effect on the administration on the loan scheme from the perspective of students at the point they receive loans. If this transfer does not take place, then there would potentially be more scope for practical issues to arise (eg how would the SLC be affected by any need to divide its work between two currencies, should that become necessary at any point, for example?).

35. **It would be useful to know whether the Scottish Government can confirm that the transfer of payments to SAAS is expected to go ahead, removing any risk that the SLC might for any reason cease to be able to issue loans to Scottish students and possibly at a time not entirely under the Scottish Government's control.**

36. Presumably in the event of independence, the Scottish Government would be borrowing separately to provide the upfront funding for loans. The cost of that borrowing would influence how much loan could be funded and what scale of subsidies (in terms of repayment thresholds, interest rates and write-off periods) were affordable. Given the scale of its reliance on student loans **it would be valuable to explore what modelling the Scottish Government has done of the sensitivity of the loans system to changes in government borrowing costs.**

### Student loan functions: collection

37. The SLC reports that even if payments transfer to SAAS, it will continue to manage the repayment process. In practice, repayments are largely collected by HMRC, principally through PAYE. As there is considerable cross-border movement in graduates, there would presumably need to be some form of cross-border collection agreement. **It would be useful to have more information on the proportion of student loan amounts which are collected over the border from Scottish-domiciled students and therefore how exposed the Scottish system is in that respect.** As the annual volume of loans issued is rising, the figure will rise substantially over the next few years.

38. Employers tend to be resistant to operating additional tax codes, so a reliance on PAYE/HMRC to collect from former Scottish students outwith Scotland would be likely to constrain (as it does now) how far an independent Scotland could redesign the repayment terms (particularly the threshold and the percentage of income collected over the

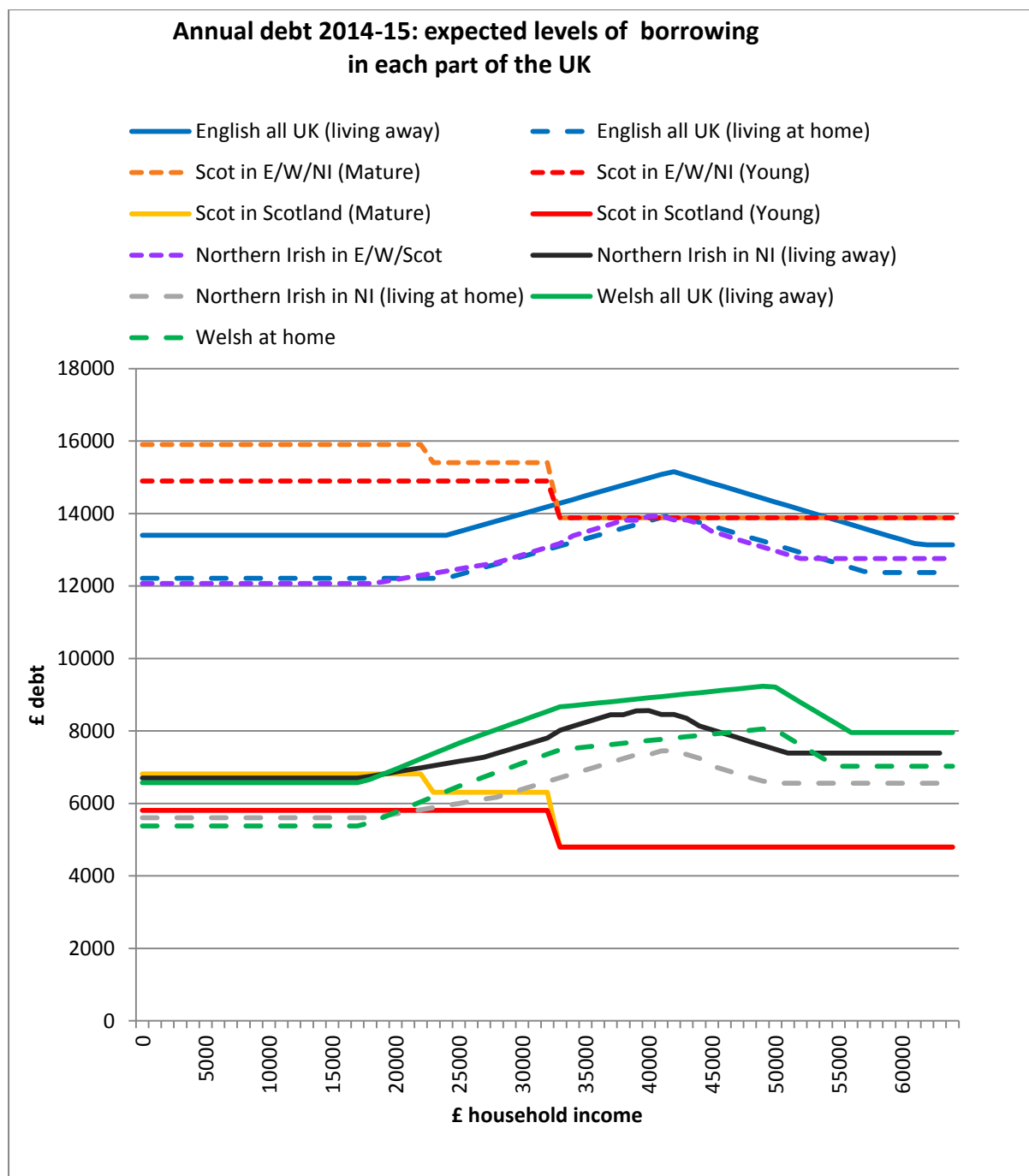
threshold). Similar considerations would of course apply in reverse for England, Wales and Northern Ireland, although their percentage exposure to students resident in Scotland is likely to be lower.

39. Currency decisions could be relevant here. As long as student loans have their repayment terms set in sterling, these can be translated straightforwardly into tax codes which can be used to calculate income deductions in all parts of the UK. If Scottish loans were issued on the basis of any other currency, then some sort of special arrangements would need to be made for their collection from graduates taxed in England, Wales and Northern Ireland, for example an agreed sterling conversion written into their terms or collection outwith HMRC/PAYE. Practical solutions would clearly be possible. The main issue is that collection through HMRC is relatively efficient. Any move to a less efficient model would be likely to affect the level of repayments collected, which in turn would increase the cost of the loan scheme to the government, if the amount it paid out to students were to remain the same.

40. The issues around student loans may seem too technical and detailed to be considered at this stage. However, **by 2015-16 loans will make a more substantial contribution to the meeting the cost of the higher education system in Scotland than cross-border fees, international recruitment or income from the research councils, and therefore understanding the ways in which constitutional change could alter the cost of the loan scheme to government is an important element of any debate about the financial effects of independence on higher education.** It might also be useful to seek a view from the Student Loans Company on the practical issues.

#### **An issue to pursue under independence or devolution: student support arrangements in Scotland**

41. The arrangements for student support in Scotland put in place in 2013-14 assign the higher amount of student loan to students from low income backgrounds. Scotland is unique in the UK in doing this. The graph below compares annual debt levels expected in Scotland with those in other student support systems (these figures include borrowing for fees).



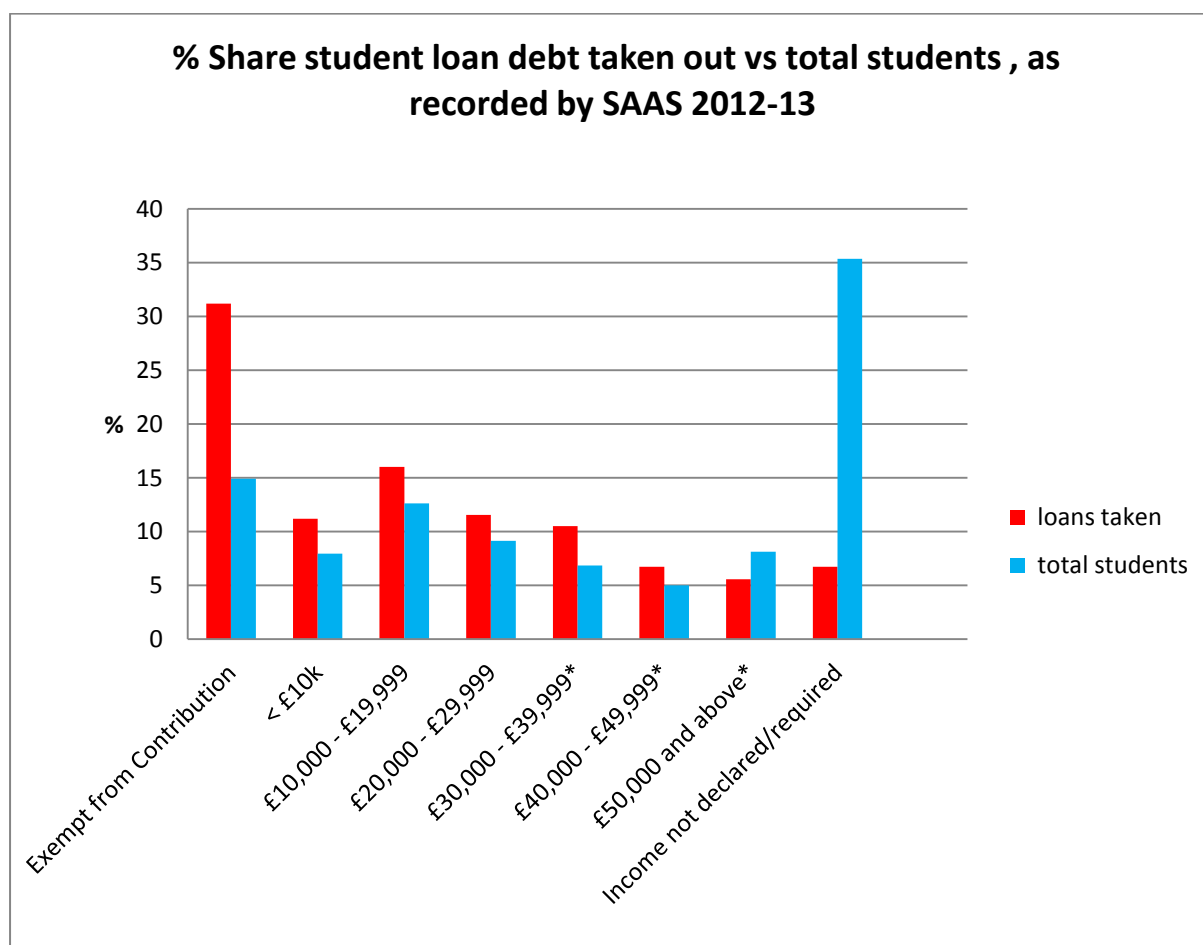
Note: Scotland makes no distinction between those living at home or away, but does treat young and mature students differently. Figures take into account higher interest rates applying in England and Wales.

42. The expectation of highest debt at lowest incomes is a function of the diminishing use of student grants in Scotland. Scotland is the part of the UK which now makes the least use of these. Mature students in Scotland from the lowest income backgrounds are now expected to take out over £26,000 in student loans for living costs over 4 years and young students over £22,000.

43. The graph below shows how borrowing was already weighted more towards students from lower income homes, prior to this year. It compares the percentage share of



borrowing to the percentage share of the Scottish-domiciled student population in 2012-13, on the best available information about income.



Note: The “exempt” group are those SAAS deems in effect to have no access to private contributions: the income categories over £30,000 are likely to be substantially incomplete, as they include only those higher-income students who chose to apply for means tested loans; the “not declared category” will include many higher-income students, who applied only for fee support and/or the minimum, non-means tested loan.

44. The average annual loan taken out by the group assessed as “exempt from contribution”- those in effect deemed to have no access to any family contribution - was £4900 in 2012-13, before the reduction in the value of student grants took effect this year. By contrast, figures from SAAS indicate that many of those from wealthier backgrounds, whose families can afford to fully subsidise their living costs, are emerging from university in Scotland with no debt.

45. As a result, **in Scotland, uniquely in the UK, graduates who started from poorer backgrounds are now expected to leave university with a higher debt, and therefore face a higher de facto tax on their future earnings, than those who started from wealthier homes. This long-term regressive effect is at odds with promoting social justice or social mobility. Whatever happens in relation to Scotland’s constitutional status, this aspect of the student support system requires reform.**

46. A fuller analysis of these issues is included in *Working Paper 3: The Fairest of Them All? The Support for Scottish Students in Full-time Higher Education in 2014-15* (Centre for Research in Education Inclusion and Diversity, University of Edinburgh, February 2014), available at <http://www.ed.ac.uk/schools-departments/education/rke/centres-groups/creid/projects/he-in-scotland/he-in-scotland-wp>.

### Conclusion

47. In the context of potential constitutional change, student support raises a number of questions which are highly salient for individuals, for the funding of the higher education system and for the budget of a future Scottish government. These issues have not yet been subject to any significant scrutiny and exploration of them by the Committee would make a substantial additional contribution to the debate.

48. More generally, the question of how students should be supported through their studies requires more attention, regardless of how Scotland is constituted in future.

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