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Mr. Andrew Evans
Public Expenditure Classification Branch
HM Treasury
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Dear Mr. Evans,

Notification of the treatment of student loans

In April 2018, ONS announced a review of the treatment of student loans within the UK National Accounts and public sector finance statistics.

ONS has assessed student loans in the context of the internationally-agreed rules laid out in the European System of Accounts 2010 and the accompanying Manual on Government Deficit and Debt 2016. However, due to the income contingent nature of student loan repayments, a feature not well covered by the existing statistical guidance, it has been necessary to consult the wider international statistical community on the most appropriate treatment of UK student loans. As such, we have engaged with Eurostat, the International Monetary Fund and other national statistical institutes on this topic.

The ONS review has concluded that the current treatment of student loans, as conventional loans, insufficiently captures the economic substance inherent in the design and operation of the lending scheme. Of particular note is that the current treatment:

- records accrued interest as government revenue, even where that accrued interest is highly unlikely to ever be paid;
- does not record any government expenditure until the loans are cancelled, despite it being clear that there will be significant debt cancellations decades in the future as a result of current student loan policy decisions.

In light of the above issues with the current treatment, ONS has decided that the portion of student loan outlay which is expected to be repaid should be treated as a conventional loan, and the remaining portion of the student loan outlay should be treated as a capital transfer. In effect, the government is seen to be cancelling a portion of the loan outlay at the point of issuing the loan.

This conclusion has been approved by the Director General of Economic Statistics (Jonathan Athow) to whom the National Statistician has delegated decision-making on classifications, and is supported by Eurostat.

Today we are publishing documents that explain our decision, and the basis of that decision, in more detail. These documents also highlight those areas where further deliberation and work is still required, most notably with regard to how the new student loan treatment will reflect, after issuance, information about:

- i. actual repayments;

- ii. updates to economic forecasts; and
- iii. policy changes.

We also need to consider whether the current recording of student loan sales will remain appropriate under the new treatment.

These further deliberations will take place over the coming months with a provisional date of implementation of the new treatment of student loans of September 2019.

I trust this provides sufficient explanation of the assessment. Please do get in touch if you have any questions or comments.

Yours sincerely,

David Bailey

Deputy Director, Public Sector Division, Economic Statistics Group

cc.

Steve Davies, Welsh Government

Pamela Galloway, Northern Ireland Executive

Scott Mackay, Scottish Government