

Student Loan Repayment for Sustainable Higher Education

Joint Repayment Strategy, February 2016



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Executive Summary

1. The Government is committed to maintaining the UK's world class education system while living within its means. Although there are different systems of higher education within the administrations of the UK, the loan repayment process, with collection through Her Majesty's Revenue and Customs (HMRC) and the Student Loans Company (SLC), is shared. We all have a duty to collect loan repayments in order to protect the taxpayer. In 2014-15 SLC and HMRC collected £1.9 billion in repayments, the majority of which were collected through the tax system.
2. Higher education continues to be an excellent investment, with graduates earning considerably more on average than those with lower levels of qualification. To keep higher education on a sustainable footing we ask graduates who earn above the repayment threshold to contribute to the costs of their studies. At the end of the financial year 2014-15 the loan book for England held loan balances of over £64 billion and the balance for the UK as a whole was around £73.5 billion. Just 2% of the loan balance is held overseas, and the vast majority of this by UK citizens living abroad. As more loans are issued to new students, each year, it is vital that the repayment process is robust, enabling borrowers to repay easily and conveniently and working efficiently, ensuring that repayments are made as intended.
3. This joint repayment strategy sets out how the Department for Business, Innovation and Skills (BIS), SLC, HMRC and the Devolved Administrations (DAs) will work together to drive continuous improvements in the services offered to borrowers and the collection of repayments as and when they are due.
4. The National Audit Office (NAO), the Public Accounts Committee (PAC) and the BIS Committee (BISCOM) have all reviewed the student loan repayment process and made recommendations for improvements. We have acted on these recommendations, completing some and continuing work on others. We intend to do even more to continue to improve borrower compliance and to maximise loan repayment collection.
5. For the vast majority of borrowers repayments are processed through the UK tax system, using either or both PAYE or Self-Assessment processes. The NAO has indicated that this system brings clear benefits for efficient collection from borrowers working and paying tax in the UK. HMRC and SLC work together continuously to improve the rate at which borrower data is matched, especially when there are problems in linking them. For borrowers who move overseas, SLC has to collect repayments directly from the borrower. This makes the overseas recovery process more complex to manage and provides opportunities for borrowers to seek to avoid repayment.

6. SLC has carried out a fundamental review of the way in which the repayment process operates and is monitored. Similarly, HMRC has also reviewed its operations and identified areas for improvement within the framework of the broader UK tax system. We have refreshed our vision for the student loan repayment system in light of the work that has been carried out to date.

Our vision is to ensure the operation of a fair, robust and efficient loan repayment system;

- **We will support borrowers who seek to meet their loan repayments.**
- **We will take stronger action to trace borrowers and act to recover loans where it is clear that they are seeking to avoid repayment.**

Improving repayment rates is fair to taxpayers underwriting the loan system and the students and graduates who comply with the rules. This strategy concentrates on the 11.3% of the loan balance where the status for the borrower is ‘unverified’, not repaying when repayment is due, or in arrears.

7. Three areas of activity underpin our strategy to strengthen the student loan repayment system;
- **Pursuit** of outstanding debt and the tracing of borrowers who fail to keep in contact with SLC.
 - **Enhanced performance management** through improved forecasting, target setting and monitoring.
 - **Efficiency and service** to drive operational costs down, repayment collection up and provide a high quality service to borrowers who meet their obligations to repay.
8. This document sets out what has been done over 2015 and our jointly agreed strategy to ensure that the repayment system meets these objectives over coming years. This is the first strategy document explaining our approach to strengthened repayment services. We plan to provide updates annually.

A. Why a Joint Repayment Strategy?

The scale of the operation

1. Student loans are an important part of higher education funding in each of the four Administrations of England, Wales, Scotland and Northern Ireland, although there are differences between each Administration's loan schemes. The repayment process, with collection through HMRC and SLC, is common to all Administrations.
2. At the end of the financial year 2014-15 the loan book for England held loan balances of over £64 billion and the balance for the UK as a whole was around £73.5 billion. As the amount being lent grows – with new and bigger annual 'cohorts' of students entering higher education each year – it is important that the repayment collection system is convenient for borrowers, efficient to administer and robust.
3. The scale of SLC's operation is already comparable to a small retail bank on a number of measures, including the number of student 'customers', the size of the loan book and the number of employees required to administer the funding system.

Table 1: Loan book key facts for April 2014 to March 2015 (All domiciles)

Loan book at 31 March 2015			
Total		Of which overseas	
Loan book balance	£73.5bn	Overseas balance	£1.5bn
Number of borrowers	5.5m	Overseas borrowers	123,000
88.7% repaying or not required to repay		Borrowers across 177 countries	
Repayments collected during year			
Total repayments collected	£1.9bn	Of which SLC direct collections	£295m

4. There are key differences between student loan administration and retail banking, however, and these crucially shape the way in which the repayment system operates. While banks can accept or decline borrowing on the basis of recovery risk, the student loan offer is 'universal'. If a borrower meets the criteria set out in the Student Support Regulations then they are entitled to funding. This is important to ensure access to higher education remains open and widely available. The repayment rules are relatively complex, involving protection for borrowers with lower earnings, and these require more data sources and operational rules to administer than a conventional bank loan.

5. We are managing an ever growing student borrower population, and an annually increasing loan book, representing a broad cross-section of society. With a population of more than 5.5 million borrowers, growing by around 400,000 each year, the scale of the operation and the value of the asset are significant.
6. As the number of borrowers and size of the loan book grows, improvements in the efficiency of collections will have an increasing impact. Given the current size of the loan book small improvements to the effectiveness of keeping borrowers in repayment and collecting money due will result in many millions of pounds of additional future repayments - recovery of an additional 0.1% of outstanding borrowing will bring in around £74 million. Maximising recovery of money in this way provides value to the taxpayer as it reduces the amount of public money written off at the end of loans terms and contributes to longer-term sustainability of the student support system.

The repayment process

7. Borrowers become eligible to start repaying their loans (tuition and costs of living) in the April of the year after they leave their studies, whether they graduated or withdrew early. This date is termed the “Statutory Repayment Due Date” (SRDD). Figure 1, below, sets out the process for repayment processing. The cycle on the left, in green, indicates the ‘normal’ process for borrowers in the UK, and those who move overseas after notifying SLC. The cycle on the right shows the process for re-establishing contact should there be a problem in matching SLC borrower and HMRC records, or where a borrower moves without informing SLC and making arrangements for repayment to continue.

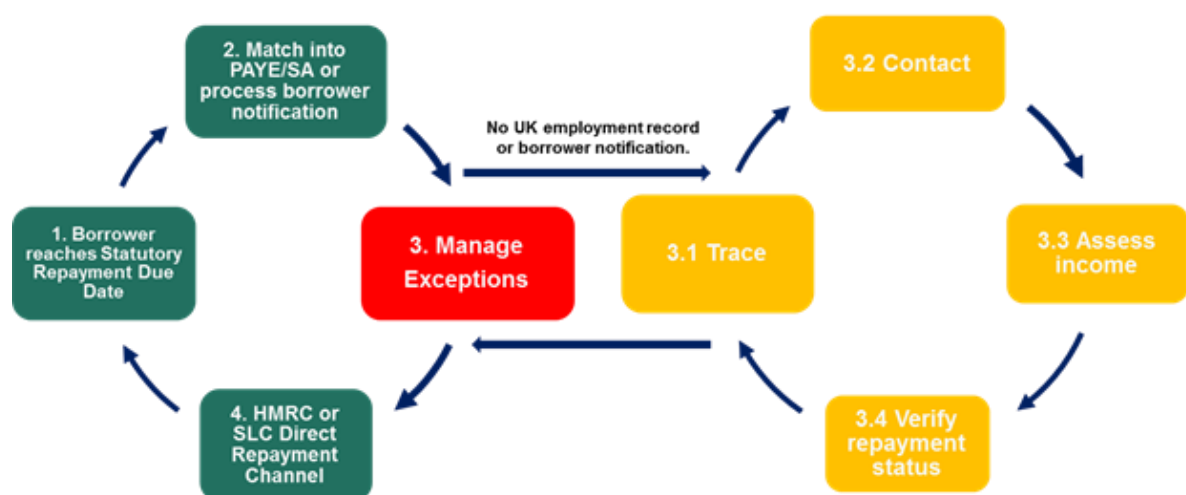


Figure 1: Simplified Income Contingent Repayment Model

8. By far the majority of borrowers fall into the normal repayment cycle; 88.7% of the loan book balance relates to loans that are being repaid when the borrower earns above the earnings threshold or does not have to repay as their earnings are known to be below the threshold (see paragraph 14 and figure 2). Borrowers working in the UK make repayment through the UK tax system, with deductions being made alongside other tax deductions. Around 98% of all loan balance is held by borrowers thought to be in the UK, representing £72 billion of outstanding loans. When borrowers move overseas the UK tax system cannot be used and SLC uses a direct repayment process. Only 2% of the loan balance is held by customers thought to be overseas, and the majority of these are UK nationals living abroad. The total loan balance of borrowers living overseas is £1.5 billion (£1.3 billion held by UK borrowers and £208 million by EU borrowers).
9. SLC uses an exception management process where information on a borrower is missing and their repayment status is therefore unclear, if they are overseas and not repaying and where they have received grant or loan overpayment that requires reimbursement. This process is currently being used for around 11.3% of the loan book (for both UK and EU borrowers, whether in the UK or overseas). The process involves a range of actions, depending on the nature of the reason for non-repayment. These activities include work to match HMRC and SLC records, using other data sources to confirm a borrower's whereabouts and use of Debt Collection Agencies to seek and establish contact where all other routes have proven unproductive. Our objective is to ensure that the proportion of borrowers who need to be subject to this exceptions process is reduced.

External review

10. The National Audit Office (NAO), Public Accounts Committee (PAC) and BIS Committee (BISCOM) each published a review of the student loan repayment system over 2013 and 2014. The NAO noted that SLC, BIS and HMRC work together well, that their processes are joined up, and that they have invested in improving their processes. All three reviews nonetheless identified key areas for improvement, including:
 - Effective forecasting and monitoring of repayment collection.
 - Further improving efficiency of debt recovery.
 - Greater data sharing to prioritise and target borrowers who are not repaying, especially borrowers who move overseas.
 - Provision of on-line customer services.
 - Ensuring that any future loan book sales represent value for money for the taxpayer.
11. This strategy sets out work to address all of these issues and our approach to deliver further improvements to the loan repayment system. We aim to ensure that we collect all payments when they are due; supporting those borrowers who meet their obligations to repay and being tougher on those who do not.

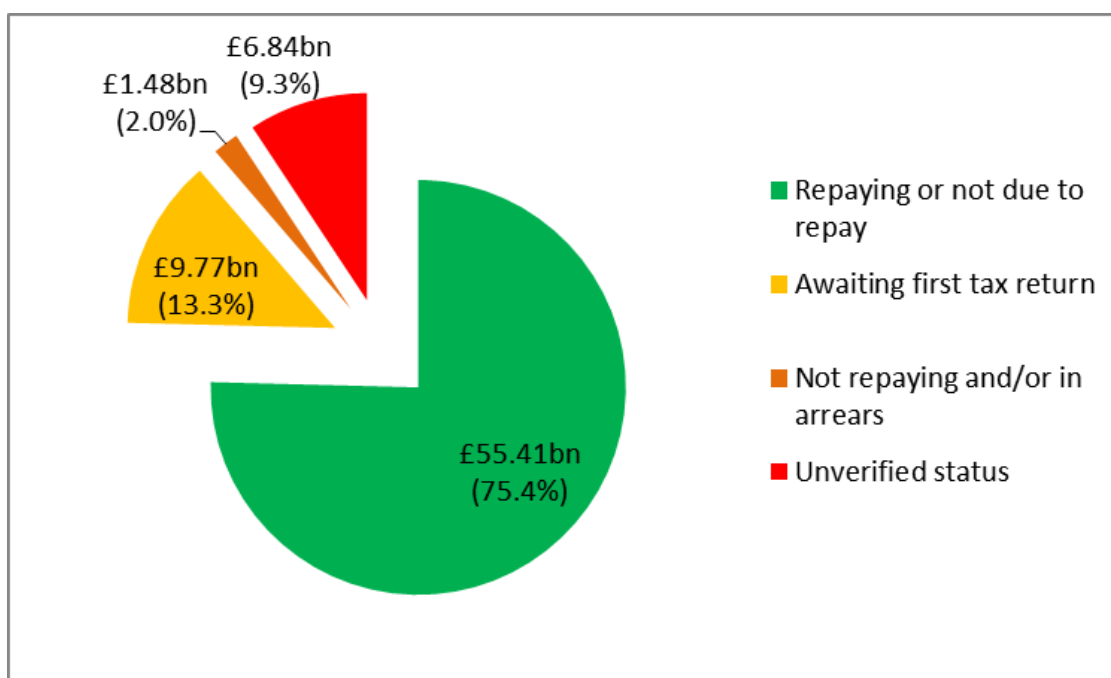
12. A guiding principle in the Government's approach to managing public money is Zero Tolerance for fraud and repayment avoidance. We adopt that principle in this strategy. This is fair to taxpayers who underwrite the student loans system, and fair to the students and graduates who are complying with SLC rules. There may be practical limits to our ability to stem every potential delay or loss, but our approach is to reduce losses wherever we can. Both SLC and HMRC have mapped their end-to-end processes in detail. During the first part of 2015, SLC undertook fundamental reviews of both repayment and counter-fraud operations, resulting in the restructuring of those operations to ensure that tougher action can be taken against those who fail to repay or evade their responsibilities. HMRC has strengthened its compliance activities, broadening its coverage of employers to ensure that they operate the system correctly. We want to do more to maximise recovery of money due, going further than we have in the past to challenge persistent loan repayment avoidance, and if necessary prosecute. We will ensure that appropriate safeguards are designed into the processes and that we remain balanced, ensuring value for money in any action taken.

13. We are focusing on three areas for further systemic improvement:

- **Pursuit** of outstanding debt and tracing of borrowers who fail to keep in contact with SLC.
- **Enhanced performance management** through forecasting, target setting and monitoring.
- **Efficiency and service** to drive operational costs down, repayment collection up and provide a high quality service to borrowers who meet their obligations to repay.

14. Figure 2, below, clearly illustrates the scale and nature of the challenge. For 88.7% of the loan book, borrowers are meeting their repayment obligations, 75.4% of the loan book relates to borrowers who are known to be either repaying or are below the threshold and do not need to repay. Another 13.3% of the loan book relates to borrowers who are expected to be in the system and repaying (or not yet required to), but SLC is awaiting their first annual tax record for confirmation.

Figure 2: Repayment Status – All UK and EU Loans



15. We are concentrating our efforts on the remaining 11.3%. Of this, 9.3% is described as ‘unverified’. Some of these borrowers will be unemployed, some will be outside the UK and some will have records with HMRC that SLC are unable to match. The final 2.0% of the loan book relates to borrowers who have been identified as either not repaying when they should be and/ or are in arrears. The following sections of this report set out the work to tackle these borrowers and ensure that loans are repaid according to their terms and conditions.

Ensuring value for money in loan administration

16. Using the tax system to recover loans is the most robust and efficient way to recover loan balances from borrowers in the UK. In 2014-15 SLC and HMRC repayments operations cost around £11.4 million, with recoveries of £1.9 billion. This reflects a Return on Investment in the region of £165 in repayment collection for every £1 spent on administration. Care is needed in interpreting changes to this figure, though. As repayments are income contingent SLC and HMRC have no control over what borrowers actually earn (see discussion in section B, below, on strengthening collections and performance monitoring).

17. We want to be better able to assess the cost-benefit balance of different elements of the repayments process on a routine basis. This will help drive maximum efficiency for the taxpayer by indicating where to concentrate our activities. We will consider this for the whole system and for individual recovery initiatives in order to have transparency throughout the operation. This will enable more sophisticated decision-making on resource allocation in the future.

Ensuring that the sale of the student loan book represents value for money for the taxpayer

18. Value for money is an explicit objective of the proposed sale of English pre-2012 income contingent student loans. Following any sale, loan administration and collection is planned to remain with SLC and HMRC. Publication of this repayment strategy is intended to provide further assurance to potential purchasers of our commitment to effective management of the student loan book and the maximisation of its value.

Conclusion

19. The Government provides a subsidised student finance system to enable participation in higher education. In return we expect borrowers to comply with their obligations to repay, ensuring that the system remains sustainable and that borrowers make a fair contribution to the cost of their education. We have refreshed our vision for the student loan repayment system in light of the work that has been carried out to date. To ensure the operation of a fair, robust and efficient loan repayment system;
- a. We will support borrowers who seek to meet their loan repayments.
 - b. We will take stronger action to trace borrowers and act to recover money owed where it is clear that they are seeking to avoid repayment.

B. Strengthening Collection Processes

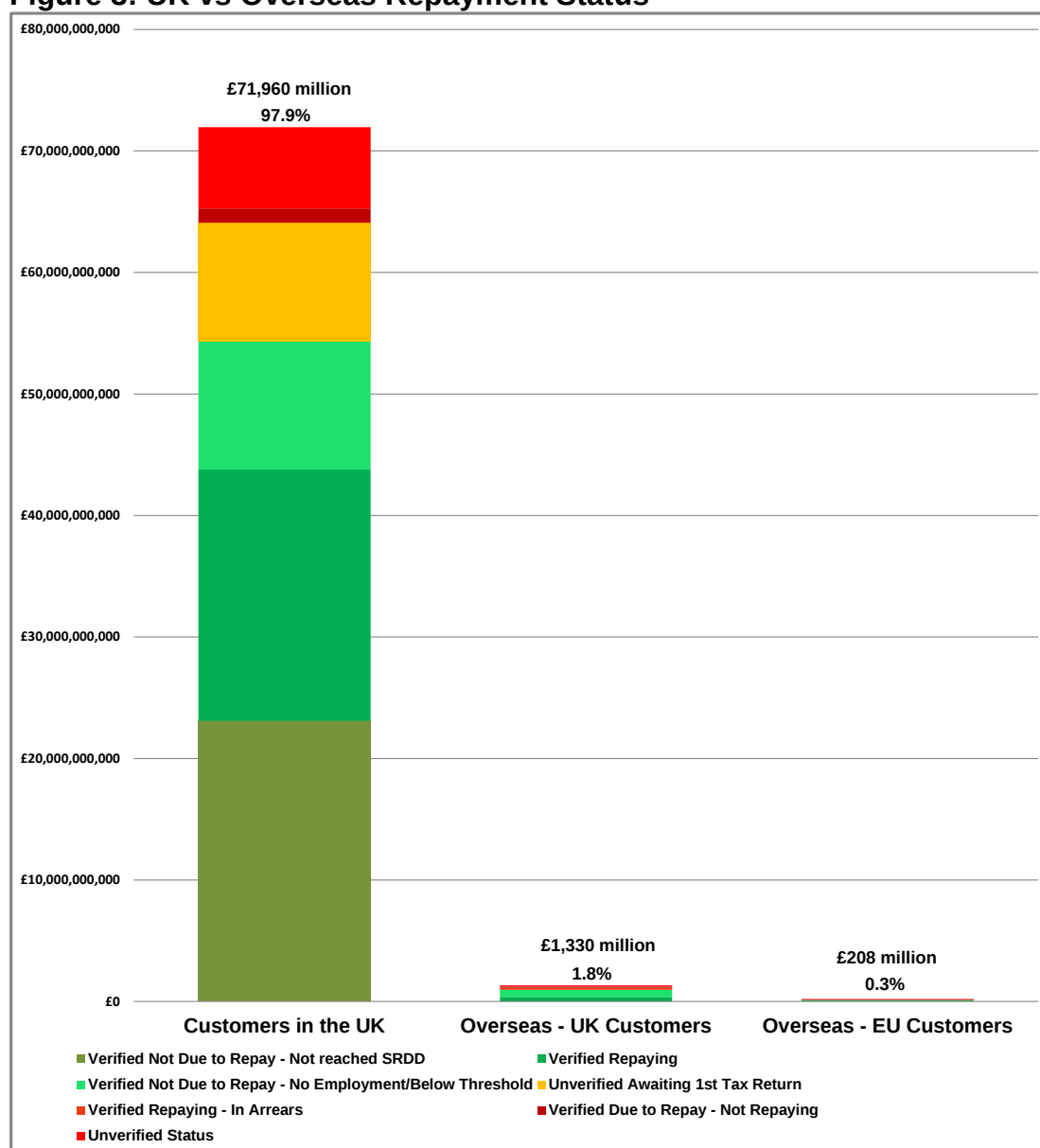
Understanding customers and the loan book characteristics

20. Key challenges from the NAO and PAC related to the effectiveness of performance monitoring, target setting, understanding borrower circumstances and forecasting of anticipated financial collection. In response to these challenges we are focusing on a reduction of the proportion of the loan book (11.3%) that is in arrears or where borrower details are unconfirmed. Around £8.3 billion of loan balance is held by these non-paying or unverified borrowers, of which around £457 million relates to those living overseas. Not all unverified borrowers will owe money. While some do, others may not be working, may be in receipt of benefits, not earning enough to repay or may be between jobs.
21. This section describes the work to address this challenge. SLC is restructuring its repayments operation to reflect the priorities set out in this strategy. In particular, it will take a more systematic and risk based approach to loan book management, using analytics and market segmentation to better characterise customers and to target and prioritise resources for maximal impact. This will enable us to move from a generic approach of loan recovery to one in which a range of specialised approaches can be used depending on borrower circumstances and need.
22. The HMRC Student Finance team administers the collection of student loans through the tax system. In pursuit of the objectives of this strategy, HMRC has already mapped customer journeys and identified opportunities to streamline operations, improving the service to customers, maximising repayments and ensuring that resources are directed accordingly. For example, in April 2014 HMRC introduced a new business process to improve the accuracy of loan repayment data-sharing with SLC, allowing quicker identification and correction of errors.
23. The current cost-benefit of the overall operation is described at paragraph 16 above; £1.9 billion was recovered in 2014-15 for an operational cost of around £11.4 million. However, given the relative efficiency of using the tax system in the UK, the costs of overseas collections are higher per borrower. SLC already assesses its counter-fraud operation on a “Return-on-Investment” basis and is moving to be able to monitor direct (overseas and voluntary) repayments in the same way. This will enable us to focus further change in areas where greater value for money can be achieved.
24. Figure 3, below, illustrates the status of borrowers and the amounts of money reflected. Because UK and overseas collections systems are managed separately, they have been further broken down to enable better understanding, targeting and prioritisation of borrower categories. For UK collections, solutions involve close co-

operation between SLC and HMRC on data cleansing. For overseas collections SLC recovery efforts are increasingly focused on trace and in-country debt collection.

25. It can be seen that nearly 98% of the balance of the loan book relates to borrowers who are in the UK, but those people who are living overseas still represent a significant amount of loan balance to be repaid, with just over £1.5 billion in loans. The second and third columns in figure 3 indicate the status of UK borrowers and EU borrowers who are now living overseas.
26. The majority of the 'non-repaying, in arrears or unverified' overseas borrowers are from the UK rather than EU students who come to the UK to study (with loan balances of around £367.5 million of £1.3 billion total, compared with £89 million from £208 million total). While the absolute amount of 'missing' repayments from EU borrowers is smaller, it represents a larger proportion of their total balances. SLC is working hard to trace these borrowers (see paragraphs 39 and 59).

Figure 3: UK vs Overseas Repayment Status



27. The goal of this strategy is to reduce the proportion of all ‘non-paying and unverified’ borrowers, and in doing so ensure that loan repayment is maximised. There is currently no historical data series using these categories against which to plot trends and change. One of the first changes to current practice is to enhance use of management information to enable routine operational performance monitoring and reporting. Better use of information analytics is being established to enable segmentation of customers. This will allow more effective targeting of resources and activity appropriate to borrower circumstances.

Targeting borrowers whose repayment status is unclear

28. As part of their work to ensure that the ‘non-repaying and unverified’ borrowers are traced and followed up, SLC is working to better understand and track the reasons why borrowers may not be repaying. Table 2, below, sets out the key issues identified by SLC for customers thought to be in the UK and in this category.

Table 2: Analysis of UK borrowers who are unverified or not repaying

Issue	Percent of loan balance
No employer return to HMRC	15
Temporary non-repayment – including moving between jobs	33
Borrower status suggests no need to repay	28
System issues preventing repayment	2
Borrowers need to be traced	22

29. Some of these individuals will not in fact be due to repay; for example, those in receipt of benefits are unlikely to be earning enough to meet the loan repayment income threshold. There will always be people moving between jobs and there is inevitably a slight delay in the application of deductions for loan repayments while new employers are notified of the need to make those deductions.
30. SLC and HMRC have been working together to investigate borrowers whose records do not match, or where employment data is unavailable. In some cases additional data has been found and wherever possible borrowers are brought into the repayment system. The NAO and PAC reports recommended the development of a strategy to increase data sharing with other government departments to support better use of government data. We have been exploring the possibility of working with other government departments to check the possibility of comparing administrative data to establish the whereabouts of unverified borrowers and we are considering government wide approaches to facilitating data exchange to enable the recovery of public money while respecting data protection legislation.
31. As an example of this work, a data exchange pilot project has been initiated with DWP to establish whether around 100,000 unverified borrowers were in receipt of benefits. Results confirmed the status of around 25% of these borrowers as being on benefits, and therefore not earning enough to repay. We will now prioritise further activity to trace and clarify the circumstances of the outstanding borrowers. We plan to make a “benefits” check a routine activity for new customers who are unmatched with HMRC employment data and more resource is being allocated to this area.

Improved modelling and transparent forecasting of annual repayments

32. The model used by BIS to forecast the “lifetime” repayment of loans, and the amount estimated not to be repaid through the Income Contingent Repayment system (termed the “Resource Accounting and Budgeting” or RAB charge in England) is the “Stochastic Earnings Path” (StEP) model. This model has been updated using an improved wage equation to generate better future earnings paths for borrowers. The new model uses several years of actual graduate earnings histories and data from the Student Loans Company to improve the accuracy of forecasts. The estimates produced are shared with the Office for Budget Responsibility (OBR) and used in management of the BIS accounts, and are robust and quality assured. The model has also been shared with the Devolved Administrations. This modelling enables us to understand the balance of borrower and public contribution to the costs of higher education, thus ensuring value for taxpayers.

Table 3: Annual Loan Repayment forecast and actual collection – English domicile students and EU students studying in England

Tax Year	Forecast Date	£ millions	Out-turn Date	£ millions	% variance
2012-13	31/03/2014	1,450	30/04/2014	1,430	-1.4
2013-14	31/03/2014	1,630	30/04/2015	1,590	-2.5
2014-15	31/03/2014	1,870	30/04/2016		
2015-16	31/03/2015	2,140	30/04/2017		

33. Table 3, above, shows how annual forecasts of repayment collection compare with the ‘out-turn’, or actual repayments collected by HMRC and SLC. Since the system reports some repayments later than the year in which they are technically due, during 2013-14 an additional £20 million repayments for 2012-13 was reported by HMRC, making the current variance against the original 2012-13 forecast zero.
34. For 2013-14, the most recent year for which data on repayments have been fully returned, the out-turn shows that around £40 million less is reported to have been collected than was forecast to be. If the same proportion of additional late repayments is reported, then we would receive in the region of a further £22 million, making the full repayments received around £1,612 million. This would still leave a small shortfall on the forecast (-1.1% variance). This apparent shortfall does not necessarily imply a reduction in SLC and HMRC’s recovery performance as some variation will be due to factors such as model design and wider macro-economic factors such as change in anticipated earnings growth.

Performance targets

35. Performance metrics and targets are agreed between BIS, SLC and HMRC and set out in an annual joint Memorandum of Understanding (MoU)¹. The metrics have been designed to help us assess the efficiency of determining borrower repayment status and the recovery process. Performance is regularly reported and targets have been set on the basis of incremental improvement, reflecting growth in borrower numbers and accounts being managed. The precise definitions of the targets have changed slightly between 2006 and the current date, so direct comparison is not possible, but they have been revised annually to reflect an increase over the previous years' actual performance. The 2015-16 metrics and targets for SLC are shown in table 4 and for HMRC in table 5, below.

Table 4: SLC performance metrics

Repayment Performance Measure	Target 2014-15	2014-15 Actual	Target 2015-16
Percentage of correctly identified 'new' borrowers who will repay (depending upon earnings) after April 2015	96.5%	97.6%	96.5%
Percentage of existing UK borrowers who are correctly identified and continue to repay (depending upon earnings) after April 2015	90.1%	90.1%	89.6%
Percentage of UK citizens resident overseas due to repay after April 2015 that are correctly identified	72.5%	73.1%	73.0%
Percentage of EU citizens resident overseas due to repay after April 2015 that are correctly identified	54.5%	57.6%	56.5%

36. In advance of the systematic review of performance monitoring and reporting, set out in section C, we have responded to NAO and PAC recommendations for more accountable performance reporting by introducing a new measure in 2015-16 that shows the recovery 'gap' relating to borrowers whose status is not known.

¹ For the purpose of this agreement, BIS acts on behalf of the Scottish Government, the Department for Employment and Learning in Northern Ireland (DELNI) and the Welsh Government.

Table 5: HMRC performance metrics

Tax system collection measure	Target 2014-15	2014-15 Actual	Target 2015-16
Minimise the average delay in starting repayments for new borrowers	1.4 months	1.16 months	<= 1.4 months
For current borrowers, minimise the average delay in starting repayments when a borrower moves employment	1.3 months	1.12 months	<= 1.3 months
Maximise the percentage of employers making correct and accurate student loan deductions	98%	100%	>= 98%
Percentage of Student Loan PAYE End of Year (EOY) Returns passed to SLC by 30 Sept following the end of the tax year	88%	99.2%	>=90% (target date moved to 31 July)
Percentage of Self-Assessment tax returns for student loan borrowers passed to SLC by the March following the SA Return period	80%	87%	>= 80%

37. The relatively small changes to target levels in 2015-16 reflect the increases in system performance that SLC and HMRC have agreed in consultation to be realistic but stretching given the increased size of loan balances, the greater numbers of borrowers entering repayment each year and the increasing system complexity. These measures and targets have been developed over time to reflect attainable improvements in key measures of borrower identification, and we recognise the challenge to set and report more meaningful process targets. The current measures reflect the established practice of focusing on the numbers of borrowers in a 'repayment channel', that is, whose repayment status was known. However, a new approach is required that reflects a better understanding of the performance of the repayment system and characteristics of borrowers.
38. SLC is currently developing new operational performance metrics and analytics. BIS will work with SLC and HMRC to agree a revised and improved approach to performance monitoring that reflects key aspects of borrower processing, and incorporates a greater focus on the amount collected. These will be agreed and specified by April 2016 for use in the 2016-17 Memorandum of Understanding.

Targeting overseas borrowers who are behind in their repayments

39. There is a legal obligation on borrowers to remain in contact with SLC, providing updates on their location, circumstances and income. SLC is currently looking to strengthen processes to reduce dependence on voluntary compliance. Most developed countries have systems where financial data such as credit records can

be accessed and analysed to develop propensity scores (propensity to repay debt), taking a risk based approach to prioritise trace and contact activity where required.

40. SLC introduced an improved capacity to contact overseas borrowers in September 2014 so as to make re-establishing communications with those who did not enter a repayment arrangement faster and easier. The work has resulted in making contact with more overseas borrowers and while most of them entered repayment arrangements, a number paid the balance of their loans completely.
41. BIS and SLC have run a successful data sharing pilot project with the Netherlands and Sweden. Each country has shared with the others details of around 200 'unverified' borrowers believed to be in each other's countries. This has enabled the three countries to help each other locate 'unverified' borrowers who may be in arrears. We have identified around 80% of the sample of these countries' unverified borrowers. While one partner identified just over 50% of unverified UK borrowers (using only public databases), the other located over 90% of our non-responding borrowers (using public and government data sources). Results show that around 20% of these borrowers fully repaid or started to make repayments after receiving a single letter. Now that contact details have been confirmed for these borrowers they have been added to SLC's normal collections process. Further contact will be attempted before referral to a Debt Collection Agency is required.
42. Although the full repayment recovery rates are not yet known, these positive initial results mean that we will extend the project to identify more unverified borrowers. A number of other European countries have expressed an interest in joining the exchange and the UK has coordinated further discussions to facilitate a wider European approach to data sharing. Further work will involve increasing the number of unverified borrowers whose details are shared and doing more to re-establish communication with those who have not responded to our initial contact. Some European countries have started to share information to assist each other trace unverified borrowers.
43. We have also been talking to non-EU countries which have loan systems, to explore opportunities to learn and potentially to provide support in the future. We are currently establishing a data sharing exercise with Australia. This is the most popular international destination for UK borrowers, with correspondingly the largest total debt outstanding from those living overseas.

C. Future development

44. We are undertaking a programme of work that will prioritise action to address the areas that lead to the largest losses. Collection of repayments through the tax system from UK residents gives the best possible operational efficiency. However, SLC will aim to use private sector practice or services to drive further efficiency and effectiveness in overseas and direct recovery operations. The changes set out in the previous section have already started to be implemented and many of those set out in the following discussion will be made this year or over the next few years. Progress will be reported annually through updates to this strategy.
45. BIS, the Devolved Administrations (of Wales, Scotland and Northern Ireland), HMRC and SLC will continue to develop the end-to-end process for loan repayments incorporating the three strategic objectives driving this strategy;
- a. **Pursuit** of outstanding debt and the tracing of borrowers who fail to keep in contact with SLC.
 - b. **Enhanced performance management** through improved forecasting, monitoring and target setting.
 - c. **Efficiency and service** to drive operational costs down, repayment collection up and provide a high quality service to borrowers who meet their obligations to repay.

Improved pursuit of debt and tracing of borrowers who fail to keep in contact with SLC

46. We will focus improvements on the recovery of maintenance overpayments following withdrawal from a course or income reassessment, and tracing borrowers who move overseas without notifying SLC of their contact details and expected income information. This will help us to develop a stronger and more coherent approach to loan recovery, balancing the ability to streamline operations with the need to focus additional resources in the right places.
47. Work to improve the pursuit of debt will include use of the Debt Market Integrator (DMI)² and third party analytics to target borrowers who do not match HMRC tax

² The Debt Market Integrator is a company established to provide government debt management services, making the procurement of services from the private sector as easy and cost-effective as possible.

records, DWP benefit records, and for whom no employment history can be found. By considering the profile of the borrower and debt it is hoped to be able to identify those most likely to be overseas and those most likely to repay so that effort can be focused on maximal gains.

48. The DMI will improve cost-effectiveness of debt recovery across government through driving down the unit cost of recoveries made. SLC's previous approach to using Debt Collection Agencies (DCAs) was generic but the new approach will be focused and targeted, with services selected according to need and recovery specific expertise. For overseas debt much more extensive use of "in-country" DCAs will be used rather than relying on UK based companies for overseas recovery.
49. As part of the change process, radical options for efficiency gains will be considered, drawing on commercial good practice. These may include using a more risk based model for debt management, the sale of loans in arrears or increased use of 'hard' options such as referral to credit reference agencies and litigation for persistent evasion of repayment obligations. A number of initiatives have been identified for further assessment and possible development, and these are discussed in the following sections.

Applying a risk rating approach

50. SLC will increase its use of analytics and use a marketing approach to 'segment', or categorise, borrowers. This will enable the targeting of borrowers with outstanding debt based on an assessment of their propensity to repay. This approach will also support better understanding of the potential return on investment and options for resource prioritisation as part of whole loan book asset management.
51. SLC will use information from across all of its departments and processes more effectively. This will include drawing on information and intelligence from the loan assessment and counter-fraud teams, for example, to help ensure that potential repayment issues or possible warning indicators are identified early.

Strengthening sanctions

52. While every effort is made to re-establish contact with borrowers who 'lose touch', there are borrowers who actively evade repayment and this is not acceptable. We are working to strengthen, and make more apparent, the consequences of breaching the loan repayment terms. We are considering a range of sanctions, such as the levying of penalties, referral to credit reference agencies (affecting credit scores and the ability to borrow from other lenders) and the use of litigation when appropriate and cost-effective. None of these sanctions will be applied without a clear process for escalation and we will ensure that there are clear safeguards and burdens of proof required to protect the rights of borrowers, while seeking to manage public money appropriately.

Confirmation of Customer Details

53. SLC will improve the process for customers to inform SLC of any change of circumstances, the Confirmation of Customer Details (COCD) process. Currently, customers are required to update the information on their circumstances if they are not repaying through the tax system. There are not yet effective sanctions in place for any failure to comply with this process. We will ensure that we improve our systems to make it easy for borrowers to understand and meet their obligations under the terms of their contracts.
54. SLC will make the COCD process easier for those who comply and will work with BIS to ensure that there are consequences for those who fail to keep the information on their circumstances up to date. This could include increased use of penalties or litigation (see the “Strengthening sanctions” section above). SLC will also move to a digital system rather than continuing to use the current paper based process.

Borrower matching and enhancing use of data

55. HMRC continues to implement a programme of process enhancements, identifying opportunities to streamline operations, improving the service to customers and maximising repayments. Currently HMRC are carrying out analysis of all borrowers on SLC systems eligible to repay their loans, who are not identified on HMRC systems, to increase the number of borrowers making repayments.

Reducing over-repayments - information timeliness and Real Time Information

56. Providing accurate information to customers and reducing the opportunity for over-repayments are key areas to address. SLC and HMRC have already developed a process to identify borrowers who are likely to pay off their loans within two years assuming that they continue with their current rate of repayment. SLC contact such borrowers to offer them the opportunity to complete their repayment via Direct Debit rather than through the tax system, to reduce the chance of over-repayment. SLC is planning to increase its marketing and communication to encourage uptake of the Direct Debit service.
57. HMRC now receives information about income and deductions (including student loan repayments) from employers in “real time”, on a pay-day basis. We are keen to make greater use of this information in the efficient administration of loan accounts, enabling timely updating of account balances and helping to reduce the opportunity for over-repayment at the end of a loan term. This work is being scheduled for scoping in 2016-17 once current technological enhancements to SLC’s finance platforms have been completed. When complete this will allow more accurate and timely information on loan repayments and balances for borrowers.

58. HMRC are also working to make the best use of information they already hold by developing a process to intervene directly where employers fail to make repayment deductions that are expected, further increasing collection efficiency.

Overseas borrowers

59. SLC will devote additional resources to collection from those who have moved overseas, with additional emphasis on analytics, increasing debt collection options and increasingly robust effort to pursue unpaid repayments owed, including litigating where appropriate. SLC will improve its processes of engaging with borrowers who move overseas, so as to improve its ability to remain in contact with them and trace those who lose contact. In addition to the international data sharing exercises discussed, SLC is reviewing its approach to customer information checking, including data held by credit reference agencies, 'tracing' services and international debt collection services.

60. Actions to sanction borrowers who persistently refuse to engage with SLC, despite reasonable efforts to establish contact, such as serving a default notice to a borrower's credit history or considering foreclosure on the loan are being considered carefully. Any action taken will follow careful assessment of borrower circumstances to ensure proportionality, and may involve action by SLC's counter-fraud service. We know that some borrowers may forget to tell SLC when they move overseas, and many do repay once reminded. We are also working to communicate with borrowers while they are still studying to remind them of what happens after they have finished, to reduce uncertainty (See "Communications and service", below). The toughest action will be used only for those borrowers who actively evade repayment.

Country specific overseas repayment strategies

61. At present SLC has a standardised process for overseas collection, relying on the same approach regardless of location. SLC will develop a more targeted approach that better reflects its ability to trace, contact and potentially litigate in different jurisdictions. This will be supported by the increasing development of international data sharing arrangements with other governments that have a mutual interest in loan recovery.

Communications and service

62. We also aim to improve borrower communications and options, to make it as easy as possible for borrowers to comply with their repayment obligations. SLC is developing a communication strategy to provide timely supporting information, such as an institution exit pack and guidance on the consequences of non-repayment. This may also link to the development of new digital services and potentially increasing available repayment options. We want to make it easier for borrowers to be able to repay early, or make additional repayments, to ensure that there are no barriers to voluntary early settlement. At the same time we will ensure that the protection

afforded by the Income Contingent Repayment process remains for those who are not in a position to repay more quickly.

63. HMRC is also focusing on communications with borrowers and employers to ensure maximum efficiency of repayment collection through the tax system. They are currently;
- a. Reviewing all standard written correspondence to assess whether they can offer a better service to customers, for example by improving clarity to help customers focus on what they need to know to make accurate repayments on time.
 - b. Working closely with SLC to develop a social media strategy to enable more effective, immediate, communication with employers and borrowers repaying through the tax system.
 - c. Undertaking a wide programme of digital improvements which will lead to every individual and business in the UK having a digital tax account. HMRC's Student Finance team are working closely with HMRC digital colleagues and SLC's online loan statement developers to explore the possible benefits for student loan borrowers and employers.
64. We will engage in more proactive communications to help students understand the terms that they are entering when they apply for loans, and to remind them of their repayment obligations when they leave their institutions. For borrowers who go on to work in the UK the process should be straightforward, but customer services need to be excellent to rectify the situation when problems do arise. For borrowers who move overseas, we will do more to make it easy for them to stay in contact. Despite the legal mandate to remain in contact with SLC, this is currently at the discretion of the borrowers themselves. We are also considering ways to automate contact to make this as straightforward as if borrowers had stayed in the UK.

Enhanced performance monitoring

65. BIS will work with SLC, HMRC, and the Devolved Administrations to develop a new and broader set of performance metrics that reflects all stages of the recovery process to enable timely assessment of system performance and diagnostics. This will be developed for use in 2016-17 and will provide greater transparency and efficiency in operational performance – using improved feedback from management information and analytics to support recovery of debt and ensure that the value of the loan book is maximised.
66. In addition to providing a systematic and rigorous approach, treating repayment activity as integral to good public asset management, this will enable enhanced operational oversight and underpin assessment and evaluation of the delivery of this strategy.

Policy and regulation

67. BIS and the Devolved Administrations will continue to work closely with SLC and HMRC. In addition to ongoing review and amendment of the policy and regulations enabling efficient loan repayment collection, BIS will work with other government departments to consider data sharing agreements to help SLC confirm the status of 'unverified' borrowers through reference to other forms of public record.
68. The Department is considering potential legislative changes to enable data sharing and recovery powers to be enhanced – maintaining individual protections and rights, but enabling proportionate action to be taken where borrowers seek to evade their responsibility to repay the money loaned to them.

D. Governance and Accountability

69. The strategy is driven by the commitment of BIS, the Devolved Administrations, SLC and HMRC to work closely together to ensure that spending on yield improvements realises the performance enhancements anticipated and that the payment and repayment processes appear seamless from a borrower's perspective. The cost of planned activity to improve repayment efficiency will be factored into each Partner's annual finance and resourcing plans.

Timing

70. This strategy serves to set out our intentions and direction for improvement. In order to ensure implementation of strategic goals a delivery plan will be agreed and performance against its implementation and impacts will be overseen by a Repayment Board and Student Funding Partnership Group (SFPG) (see paragraphs 72 to 75, below).

71. This Strategy will be kept under review and progress will be reported on annually to ensure transparency and public accountability of the investments made in student loan repayment.

Activity planning and coordination

72. The Repayment Board provides national co-ordination of policy oversight for student loan repayment and implementation of the strategy through the delivery plan. The Board will meet at least quarterly and includes representatives from BIS, SLC, HMRC and the Devolved Administrations. It will ensure effective management and delivery of the strategy, escalating issues to the SFPG as necessary.

73. The SLC Executive Director for Repayment and Counter-Fraud will report SLC performance to Board meetings to enable performance to be discussed and action taken to respond to issues as they arise. Where issues relate specifically to a Devolved Administration, the repayment lead for that country will be accountable. The Chair of the Repayment Board will routinely provide progress updates to the SFPG.

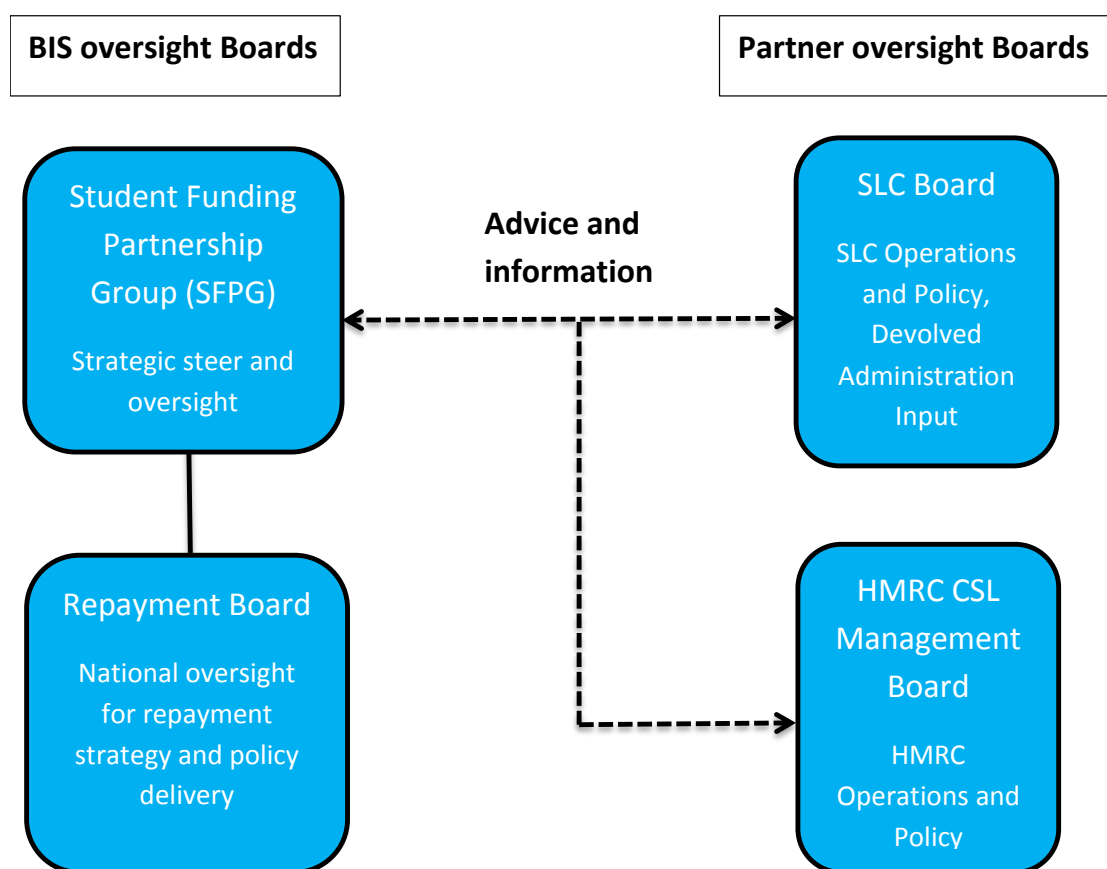
Direction and oversight

74. A clear oversight structure is in place to ensure strong direction to strategic development (see figure 4, next page). The Student Funding Partnership Group (SFPG) has representatives of all relevant stakeholders to the student funding process. It provides oversight on policy and operational performance, clarifying

priorities for action. This group will provide overall strategic leadership, agreeing direction and priorities for delivery of the repayment strategy.

75. The Repayment Board will report progress on delivering the Joint Repayment Strategy to SFPG. BIS will maintain a lead role, engaging all stakeholders as appropriate, to ensure that the system of legally specified and agreed (or contracted) repayment activities is delivering the expected performance standards.

Figure 4: Governance Arrangements





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