The Case for Changing the profile of Student Loan Company (SLC) payments to Higher Education Institutions (HEIs)

Summary of request

To effectively migrate the current SLC payment profiles to assist with the issue of institutional liquidity, by aligning payments to the reality of expenditure – moving initially through potentially a model of 25:25:25:25 for the current year to a halfway house 33:33:33 and then ultimately 40:40:20. By taking this shared approach to the change pathway, there is a corresponding smoothing of the change identified and recognition of the one off impact on Government financial years.

Background

Following the recent OfS report on the financial stability of the sector - one of the key findings was the low levels of liquidity facing institutions particularly at certain points in the annual cycle. This is particularly important as universities have several requirements placed upon them related to maintaining a minimum liquidity level both related to conditions of registration and funding from lenders primarily as covenants, alongside the hard stop elements of financial sustainability and related going concern issues.

Considerations

There is a potential to reduce the number of institutions facing the challenges of low liquidity by smoothing out the cash receipts profile for those with significant students in receipt of SLC funding. Historically, for a number of institutions, the imbalance of cash utilisation and cash receipts has been subsidised by the use of other cash receipts, borrowing and cross subsidising such as from international student fees (now significantly reduced) with the result of a not insignificant balance of payment profile for the sector.

The basic model of delivery in most institutions is based on a 3 term / semester model of delivery, with for many, the first two being teaching heavy and cost intensive; and the final more related to assessment and for the remaining with multiple intakes; a flatline of delivery costs across the year. The underlying issue is that over time the basic model of university delivery has continued to evolve since the initial construct of the SLC payment profile as institutions have flexed to accommodate new Government policy initiatives and looked to drive efficiencies in operations throughout the year round operations leading to a position where there are increasing calls on cash until the eventual SLC payments owed are received. In essence, the students funded through the SLC pay for their tuition not only in arrears but disproportionally in arrears through the current SLC payment profile compared to the other major forms of funding as indicated below.

For most of the non-SLC funded student body, universities either charge up front the full fee for the education to be provided; or in instalments in advance of the provision. In fact, other forms of government funded education such as apprenticeships tend to pay monthly for active learners enabling institutions to match expenditure payments with income received and of course many research funding streams also much more closely align payment to expenditure incurred. These approaches obviously allow a university to meet all its demands and outlays at the point it performs the delivery of its service – which includes having to pay in advance for large elements of annual fees to regulators and other organisations required to remain compliant with being a university, many of which are related to Government (OfS, HESA etc) and general operating costs, like meeting increased pension payments.

The current funding profile of the SLC of 25:25:50 means that in the first two cost intensive terms/semesters institutions are picking up significant costs whilst then being required to wait significantly longer than the 30 days payment requirement placed upon institutions by government policy and basic contract terms, meaning they are funding the gap using other funds.

It is appreciated that in the first year of implementation a move to 33:33:33 or more accurately 40:40:20 funding profile would mean a cost neutral impact in total commitment but a one-off impact in payment profiling across government financial years from then on would be cost neutral. However, the change of timing would improve the sectors position and ensure a more equitable funding model for UK students utilising the SLC route compared to others; and allow universities to use the specific student income to meet the needs of those students. Even if the move was phased first to 33:33:33 and then to 40:40:20 it would have an immediate impact on the current situation which has been adversely impacted by the previous administration's approach to international student recruitment though restrictive visa policies.

A lot of this can be evidenced by the cost profiles of many institutions which are now mostly upfront or flat across the academic year whilst the SLC payment profile is the complete opposite.

Proposals that universities could use short-term borrowing to overcome the profile issue is based on them using student fees in a less-than-ideal cost effective manner to deliver the necessary outcomes at a time they are being asked to improve efficiencies and cost effectiveness. It is also important to remember that although universities are autonomous, they are also educational charities, and it is the responsibility of the Trustees to ensure fees are used for the benefit of the students and the charity and not to subsidise other financial institutions.

When one looks at the typical cash holding levels of the majority of institutions in the UK they dip in the lowest point in the two months before each of the SLC payments taking place. Therefore, potentially as an exceptional solution this year – the payment profile could be changed to make the second 25% payment in early December, a third payment of 25% in February and the final 25% payment in April or May enabling a new phased payment profile to be correctly budgeted for in future years. Obviously, this would minimise the initial change in financial years for the Government this year. Additionally, this would also have a potential impact of helping with the additional NI payments needed this year before the fee increase takes place and in recognition that not all institutions can apply the fee increase for all years of study due to their student contracts.

This phased approach still allows for any adjustments necessary to address levels of non-continuation and in-year adjustments.

Since the introduction of the SLC process, there have been a number of government policies and priorities introduced to enable further widening participation and flexibility in delivery and alignment to meet the needs of employers and individuals. In response to this many universities now have multiple intakes in year (with a number having significant January and May intakes) particularly in the areas of Allied Health and Teacher Training. With the introduction of the LLE and other forms of learning models coming down the line it is imperative that the funding model is able to be as agile and flexible as possible and any lag in payments to the provider for training and education delivered eliminated.