

Fresh warning over student loan repayment 'time bomb'

Chuka Umunna, the shadow business secretary, says that new student loan repayment forecasts represent a financial "time bomb" that may prove may prove damaging for the Lib Dems



The number of student loans being written off will be far higher than original Government estimates. Photo: GETTY

By Graeme Paton, Education Editor

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Taxpayers are sitting on a financial “time bomb” because of significant miscalculations over the new student loans system, according to Labour.

Controversial reforms to tuition fees introduced in 2012 may blow a large hole in the public purse that could prove “catastrophic” for the Liberal Democrat vote, it was claimed.

The comments – by Chuka Umunna, the shadow business secretary – were made after the government estimated that the equivalent of almost half of student loans taken out under the new system will not be repaid.

It could end up costing more than the old fees regime despite claims when it was introduced that it would put higher education funding on a more “sustainable” footing and help reduce the public debt.

Two years ago, the Coalition almost tripled the cap on annual student tuition fees in England to a maximum of £9,000.

Students can get an upfront loan from the Government to cover the charge and do not have to start repaying until they earn at least £21,000 a year. Debts are written off after 30 years.

Ministers originally estimated that around 28 per cent of loans taken out under the new system would never be repaid.

But this forecast has now been upgraded to 45 per cent.

Economists have warned that if the sum rises to 48.6 per cent, the Government will begin to lose more money than it gains under the new system – effectively cancelling out the financial benefit of a sharp hike in tuition fees. Around £10 billion in student loan payments are currently made each year.

Nick Clegg, the Lib Dem Deputy Prime Minister, famously apologised for pledging to abolish tuition fees before increasing them to £9,000 as part of the Coalition Government.

Speaking on BBC One's Andrew Marr Show, Mr Umunna said: "I think this is actually catastrophic, for the Liberal Democrats in particular, because having trebled tuition fees in the name of reducing the deficit and saving the exchequer money, you are at best seeing it raise little money at all; at worst actually costing more.

"What this is, is a student loan time bomb that is actually already exploding under the Government."

The change in the forecast is believed to reflect an overall increase in the number of students going to university and a drop in relative graduate pay – making the system more expensive for the taxpayer.

Danny Alexander, the Chief Secretary to the Treasury, and a Lib Dem, said the latest estimate was based on projections of graduate incomes in 35 years' time, adding: "These numbers do move around a lot".

He said: "The figure that we are most pleased with is that we are seeing more people from disadvantaged backgrounds going into higher education than ever before."

A spokeswoman for the Department for Business, Innovation and Skills said estimates about repayments "can and will continue to change", adding: "The principal aim of our reforms was to put higher education on a sustainable footing for the long-term. Our universities are now well-funded and this is driving up the quality of the student experience and helping to stimulate economic

growth.

“We are also protecting those on lower incomes and those from poorer backgrounds are applying in record numbers.”

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