ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Tuesday 12 December 2000
(*Morning*)

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ENTERPRISE AND LIFELONG LEARNING COMMITTEE
31st Meeting 2000, Session 1

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Miss Annabel Goldie (West of Scotland) (Con)

COMMITTEE MEMBERS

*Bill Butler (Glasgow Anniesland) (Lab)
Mr Duncan Hamilton (Highlands and Islands) (SNP)
*Nick Johnston (Mid Scotland and Fife) (Con)
*Marilyn Livingstone (Kirkcaldy) (Lab)
*George Lyon (Argyll and Bute) (LD)
*Ms Margo MacDonald (Lothians) (SNP)
*Mr Duncan McNeil (Greenock and Inverclyde) (Lab)
*Dr Elaine Murray (Dumfries) (Lab)
*Elaine Thomson (Aberdeen North) (Lab)

*attended

WITNESSES

Lucy Hunter (Scottish Executive Enterprise and Lifelong Learning Department)
Jim Logie (Office of the Solicitor to the Scottish Executive)
Nicol Stephen (Deputy Minister for Education, Europe and External Affairs)
Gillian Thompson (Scottish Executive Enterprise and Lifelong Learning Department)

CLERK TO THE COMMITTEE

Simon Watkins

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Linda Orton

LOCATION

Committee Room 1

Scottish Parliament

Enterprise and Lifelong Learning Committee

Tuesday 12 December 2000

(*Morning*)

[THE CONVENER *opened the meeting at 10:03*]

The Convener (Alex Neil): Good morning and welcome to the 31st meeting this year of the Enterprise and Lifelong Learning Committee. Before we start, I should say that we have apologies from George Lyon and Margo MacDonald, who will join us later. I welcome to the committee Bill Butler, who is the new member of the Scottish Parliament and the new member of this committee.

Bill Butler (Glasgow Anniesland) (Lab): Thank you, convener.

The Convener: Unfortunately, this will be the last meeting for two members—Duncan McNeil and Elaine Murray. On behalf of the committee, I thank you both for the sterling work that you have done over the past 18 months; it is much appreciated.

Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill: Stage 1

The Convener: The first item on the agenda is evidence on the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill. We welcome the Deputy Minister for Education, Europe and External Affairs who, with Wendy Alexander and Alasdair Morrison, is a co-sponsor of the bill. Minister, it would be useful if you introduced your officials and gave a short introductory statement, after which I will open up the meeting to questions.

The Deputy Minister for Education, Europe and External Affairs (Nicol Stephen): Beside me I have Lucy Hunter, the head of higher education, science and student support in the enterprise and lifelong learning department. To my left is Gillian Thompson, the head of student support in the department, and next to her is Jim Logie from the office of the solicitor to the Scottish Executive.

I thank the committee for this opportunity to provide further information on the Education (Graduate Endowment and Student Support) (Scotland) Bill or, as we now have it, the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill. I am pleased to confirm that a revised bill was introduced on Thursday 7 December, after clearance by the Presiding Officer. I thank the Presiding Officer and his staff for processing the bill and issuing the formal approval ahead of the allocated time limit. If they had not done so, it would have caused difficulties for this morning's evidence. However, we now have the new bill and I hope that, over the weekend and at the start of this week, members had the opportunity to consider it and the changes that have been made, which I will talk the committee through in a moment.

By providing this revised bill, we have given a clearer statement of our policy intentions, in line with the general principles of the bill as set out in the policy memorandum. In particular, the revised bill provides for funding raised by the graduate endowment to go towards the funding of student support for future generations of students. That is the most important change to the bill.

At the previous committee meeting that I attended, I said that I would provide members with more information on certain points. I understand that officials wrote to the committee clerk with additional information—members should have that letter. Today, I sent a further letter to the convener, containing a table of the comparable impact on young students at different parental income levels. That is available for members to study. Obviously, it will be of more interest in relation to stage 2, but it is available and can be circulated as you feel appropriate, convener.

I am happy to take questions on the revised bill, but first I will talk through the key changes. We have tried to introduce into the bill more of the policy intention in the consultation document "Scotland the Learning Nation: Helping Students". The main change is the new section 2. It provides that funding raised through the graduate endowment is to be used for student support. I read out some of that section at a previous meeting and there have been no changes to it since then. However, no doubt members will want to ask questions on its impact.

The bill now contains a definition of "publicly-funded institution" that encompasses the Scottish Agricultural College. It also now contains a definition of "graduate"; previously, that was defined in regulations. Finally, section 1(8) is a new subsection, which allows for the first set of regulations to be subject to approval by the Parliament by affirmative resolution rather than through the negative procedure that was initially proposed.

Although those changes may not be agreed unanimously by the committee, I hope that they move in the direction that all committee members support.

The Convener: Thank you, minister. It is worth reiterating the fact that, despite the delay, the timetable for passing the bill should not be adversely affected. The clerk has had discussions with the Minister for Parliament's office to ensure that the timetable allows for royal assent to be granted in March or April.

Nicol Stephen: Indeed, although obviously that is a matter for the Parliamentary Bureau and the Parliament.

The Convener: Yes, but it is worth putting on record in case there is any misunderstanding.

Nicol Stephen: That is helpful. It has always been the Executive's intention and hope to meet that timetable, but that requires the support of this committee and Parliament.

The Convener: I will kick off with questions on section 2, which is one of the major changes from the first bill. It provides for the hypothecation of the income from the graduate endowment for student support, such as additional loans and help with living costs. How can you guarantee that the income from the graduate endowment will filter back to investment in student support in Scotland?

Nicol Stephen: The constitutional position is such that the Scottish Executive cannot guarantee that that will happen, because it is for Parliament to set the annual budget by approving the annual budget bill. I am sure that that is how committee members would wish the process to continue.

It would be wrong to bind future Parliaments, but we wish to ensure that, under section 2, Scottish ministers

"shall, in making budget proposals to the Scottish Parliament, include provision that the income arising from the graduate endowment for the financial year to which the proposals relate be used for the purposes of student support."

There must be a proposal from Scottish ministers to allocate the moneys in that way; if ministers did not make such a proposal, they would be in breach of the statute. It is then for Parliament to approve or not approve the proposals.

The Convener: How will you know how much money is available through payment of the graduate endowment, because that payment is lumped in with the payment of the basic student loan? If I pay back, say, £900, that includes a payment for the original loan and a payment for the graduate endowment, so how will you estimate the proportion of the £900 that is graduate endowment payment? How will the Inland Revenue estimate that?

Nicol Stephen: You are right to suggest that, because the endowment is included in the loan system, we will have to agree a figure with the Inland Revenue. The Treasury will also be involved.

At the moment, when we spend money on loans, it scores against our accounts on a 50:50 basis. In other words, in rough figures, if we were to allocate £100 million of loans, the impact on the Scottish Executive budget would be £50 million of expenditure. With the graduate endowment, the situation is reversed, because the endowment represents income—in rough terms, a student paying a graduate endowment of £2,000 would generate an income for the Scottish Executive of £1,000.

The 50:50 figure could vary over time, depending on the recovery rates that the Inland Revenue achieves, but the rate will be published, so we will know how much income is to be generated. It is that income that will form part of the budget proposals and that, under section 2, will be required to be allocated to student support. As I said, that information will be made publicly available.

The Convener: The increased loan debt, which takes account of the graduate endowment, does not reflect the amount that is collected for the graduate endowment. It will therefore be impossible to distinguish between the portion of an annual repayment of £900 that is to pay off the maintenance loan debt and the portion that is to pay off the graduate endowment. How will you make that distinction? What formula will you use?

10:15

Nicol Stephen: As Lucy Hunter is itching to tell me something, I will ask her to answer that question.

The Convener: You see the importance of this issue. The income is supposed to be hypothecated, but it is not easy to determine how much income has been hypothecated.

Lucy Hunter (Scottish Executive Enterprise and Lifelong Learning Department): For the purpose of the bill, the income from the endowment will be the £2,000 payable by each graduate in the spring following the completion of their course. There are two aspects to that process. Graduates may wish to settle that amount through a cash lump sum—in which case the Scottish Executive will receive an income of £2,000 from that graduate—or through a loan, which means that there would still be an upfront income stream of £2,000 for the Executive. However, as the minister says, if the graduate chooses to make the payment through a loan, we have to take into account the fact that there is a cost to the Executive in providing that loan. Section 2 contains a simple provision whereby the amount that will be required to be included in budget proposals will be the £2,000 payment from each graduate who will be liable in that year.

The Convener: Does that mean that if the graduate is repaying the £2,000 through additional borrowing from the Student Loans Company, the Executive will be effectively credited with that amount by the Inland Revenue?

Lucy Hunter: The Inland Revenue is not involved. We will credit graduates with having paid us the £2,000 when they discharge their liability in the spring after completion of their courses. That is the income stream as far as the Executive is concerned.

The Convener: Will the Executive's budget proposals assume that the income has already come in for hypothecation, whether it has or not?

Lucy Hunter: We will have to estimate the number of graduates who will be liable to pay that year.

Gillian Thompson (Scottish Executive Enterprise and Lifelong Learning Department): We intend to set up administrative arrangements to record the number of graduates each year and to identify how they wish to make their repayment. That will provide information about the amount of income that we will be able to gather each year. If the student decides to use the income-contingent loans system to repay the £2,000, we will put that to one side by saying that, as that person has agreed to take out a loan, they have discharged their liability for the graduate endowment. The £2,000 will come back to the Executive through those administrative arrangements, which will be set out in the regulations that will follow.

The Convener: Will that income be available for hypothecation in that year?

Gillian Thompson: Exactly. The bill provides for that. The graduate is not paying the graduate endowment as such to discharge their liability; they are repaying a loan.

The Convener: Does that mean that, in effect, the graduate endowment is paid off as a lump sum in every case?

Gillian Thompson: Yes. That is our intention.

Nicol Stephen: Perhaps I should recap, as I think that I may have misled the committee earlier. Although the 50:50 cost that I mentioned must be taken on board in the accounts, that would be done separately. It would appear in the loans section of the accounts, as it constitutes the cost to the Executive of providing a £2,000 loan to the graduate. The graduate endowment section of the accounts would show the £2,000 that the Executive receives when the Student Loans Company makes the payment of the loan to the Executive, which means that, for the purposes of section 2(1), the £2,000 is the full income received by the Executive. As a result, we would make budget proposals on the strength of the full £2,000, which is a higher figure than I suggested earlier.

The Convener: Will that amount be transferred to the Scottish Executive's own accounts?

Nicol Stephen: Yes—and doing so will incur an offsetting cost, which is the cost borne by the Executive of issuing the loan. However, that will appear in a separate area of the accounts—my civil servants will correct me if I am wrong—which means that the amount that we would have to hypothecate under section 2(1) would be a larger figure, based on the full £2,000 income from the graduate endowment for the financial year to which our budgetary proposals relate.

Miss Annabel Goldie (West of Scotland) (Con): The package of measures will cost about £50 million of new money. Will that be a recurring feature in the enterprise and lifelong learning budget, or do you expect that contribution to diminish when the endowment—hopefully—starts paying out?

Nicol Stephen: The contribution will diminish over time as we receive the income from the endowment; we will provide more detailed costings of that at stage 2. As this is a new source of income for the Executive, we have yet to agree how it will be scored in the public accounts.

In time, the money raised from the graduate endowment will be used to support the reintroduction of bursaries and the additional £500 student loans for young students from lower income backgrounds. That has always been our intention. However, in order to introduce the new scheme in full next autumn, the Executive will bear significant additional costs for the first few years until the graduate endowment income becomes fully available, as you suggest.

Miss Goldie: Will the further information on costings include a timeframe?

Nicol Stephen: Absolutely.

Miss Goldie: At some point, I imagine that there will be a tapering-out to parity.

Nicol Stephen: We have already undertaken some preliminary costings through the period of the comprehensive spending review, although those costings still require to be checked. By 2003-04—the final year of the CSR—the scheme will still cost about £50 million. We now believe that full implementation of the scheme will cost more than that—around £53 million. Against that, we have to set the income from the introduction of the graduate endowment—whenever that will come in—but I do not think that we yet have any costings that will allow us to do so in any detail. However, the Scottish Executive has undertaken to cover those costs, so there is no question of the scheme not proceeding.

Miss Goldie: You said in earlier evidence that 99 per cent of young students would have less debt through the graduate endowment scheme. However, I presume that the phrase "young students" is not the same as "all students". What proportion of all students will have less debt?

Nicol Stephen: We cannot provide an accurate answer to that question, because we are devolving responsibility for the operation of the £10 million mature students bursary fund to individual colleges and universities. The bursaries available through that fund will be in addition to mature students' entitlement to loans. That is fundamentally different from the situation with young students, where taking up a bursary will displace the loan and therefore reduce debt. We think that it is more important for mature students to have such access to significant additional annual income. We do not know how, as a result of the new bursary fund, the mature student will react to loans; they might choose to reduce their loans or to take out their full loan entitlement along with the mature students bursary for which they will be eligible.

Miss Goldie: Notwithstanding that, do you agree that, for anyone to get a handle on this whole scheme, it is important to understand roughly what proportion of all students will benefit from the package? Is it possible for your civil servants to provide an estimated calculation to give us that figure?

Nicol Stephen: Yes. I should underscore that we are doing what I have described to ensure that mature students benefit. Indeed, I would argue that it is a significant benefit to be entitled to take out a full loan along with an additional mature students bursary payment, especially when there is no requirement to do so. However, mature students are more likely to be in a debt-neutral position, whereas 99 per cent of young students will have less debt.

I have received a note saying that a third of students are mature, which means that 99 per cent of 66 per cent—or about 65 per cent—of students will have less debt. The remaining third, who are mature students, will also benefit greatly, as I said. Indeed, it would disadvantage mature students if we changed the scheme to reduce their debt through the mature students bursary. Our scheme is better than what might be called a pure debt-reduction model.

Miss Goldie: Judging by the expressions on my colleagues' faces, I think that mental arithmetic is not our forte. Could those figures be written down in simple terms and given to the committee?

Nicol Stephen: They certainly could. In rough terms, there are 100,000 students, two thirds of whom are young students—99 per cent of those two thirds will have less debt. The remaining third are mature students, who have access to the mature students bursary on top of their full loan entitlement. That means that their debt position will be neutral, although some of them might choose to take out a smaller loan as a result of the mature students bursary. However, we will write to the committee, explaining the situation more accurately.

Miss Goldie: That would be helpful.

I find the mechanics of repayment about as perplexing as the rest of the scheme. Am I correct in saying that no student should pay more a month under the new proposals than under the existing arrangements because the total amount could not exceed the set percentage of income over £10,000?

Nicol Stephen: That is absolutely correct. I have spent considerable time explaining that situation to the committee, students organisations and others. The fixed monthly repayment is 9 per cent of income over £10,000.

Miss Goldie: Does that mean that some students will be paying off their loan over a longer period?

Nicol Stephen: No. We have given a guarantee that, even including the payment of the graduate endowment, no student will have increased debt. That is the point of our guarantee that 99 per cent of young students will have less debt and that mature students will have the same amount of debt or be in a broadly debt-neutral position. No student will have additional debt, which means that they will neither pay higher monthly payments nor have to pay off the debt over a longer period.

Marilyn Livingstone (Kirkcaldy) (Lab): Annabel Goldie has already asked my first question and I welcome the minister's answer.

In the light of the evidence that we have received from the minister and others, the committee has concerns about widening access. In that respect, I welcome the fact that the bill amends the word "attending" in the Education (Scotland) Act 1980 to "undertaking", which will mean that many more students are included.

At the previous session, we asked about students doing higher national certificates or higher national diplomas at colleges of further and higher education. If such students go on to study for a degree or a postgraduate qualification, will their repayments be based on the one year that they study for a degree or the two years that they study for a postgraduate qualification? There is nothing in the guidelines about HNC and HND students progressing to degree level.

10:30

The Convener: While the minister is thinking about that, I should mention that the letter that is being distributed is the letter to which the minister referred in his opening remarks.

Nicol Stephen: A technical advisory group is considering the issue that Marilyn Livingstone raises. It is complicated, because students can progress from an HNC to an HND via a mixture of full-time and part-time study.

We have made it absolutely clear that, if someone obtains a degree in only one year after completing their HNC or HND, they will not be expected to pay the full graduate endowment of £2,000 for that additional year of study. We have referred the issue of students who require longer than one year to the technical advisory group and asked it to make recommendations for two-year and three-year study. There is little doubt in my mind that those who study for three years should pay the graduate endowment. The main focus will be on those people who study for two years. We are waiting for advice on that and on the other issues that arise from people mixing part-time and full-time study.

If members would like to know who is on the advisory group, I am sure that Lucy Hunter or Gillian Thompson can assist. We anticipate that the group will provide us with advice in time for us to adjust the draft regulations, which the committee has already seen, at stage 2. The aim is to enter stage 2 with a set of regulations that set out the Executive's proposals in relation to HNC and HND students.

Marilyn Livingstone: Special provision for HNC and HND might act as an incentive for the many young people involved in further education to move on to higher education. That would fit in with our aim of widening access.

The second issue that I would like to raise is child care. In your letter of 6 December, you said that you were considering the issue of travel-associated child care costs. Two child care pilot schemes are under way. How do you see those fitting into the overall child care package?

Nicol Stephen: Are you referring to the child care pilot schemes for the individual learning accounts?

Marilyn Livingstone: Yes. When we talked to you before, you said that widening access would not be tackled purely through the package of measures contained in the bill. I know that the pilot schemes that I mentioned relate to individual learning accounts, but I would like to know what point those have reached.

Nicol Stephen: Child care has been neglected as an issue. We recognise the need to do more to assist parents who would benefit from child care to study. The proposals that we have made in relation to individual learning accounts are being taken forward, although they are separate from this bill.

The Executive is seeking to challenge the compartmentalisation of learning. We believe that we should take a consistent approach to child care that would apply to those who are studying informally and part time, making use of individual learning accounts, to those who are studying in further education and to those who are studying in higher education. We have introduced the pilots to which Marilyn Livingstone refers for individual learning accounts and we have made available significant additional funding for child care in further education. The proposals that we announced as part of this funding package relate in the main to further education, although universities will be able to access some of the funding.

I would like us to continue to make progress in this area. We are spending an extra £3 million this year and next year. The bulk of that funding will go to FE colleges, with the aim of improving their child care provision. Most of it is being devolved down to colleges, so that they can spend it in ways that they regard as most appropriate to help students with children. Higher education institutions can access an element of that money, but that is the next stage. We need to examine ways of improving the child care package for universities as well as for colleges, but that is not part of the current proposals.

Marilyn Livingstone: Previously we talked about ensuring a greater alignment between higher and further education funding packages and about modernisation of the higher education funding package in particular. What point have we reached on that?

Nicol Stephen: The member raises an important issue. We have not made detailed announcements in this area, but we have said that, of the £50 million that is included in the funding package, £7 million will be allocated to aligning FE and HE funding. In general, further education has been poorly treated. We are considering alignment of the parental contribution thresholds and the relative amounts that FE and HE students receive in loans and bursaries.

For the sake of completeness, I should say that the mature students bursary fund is intended to include an element for child care. That will assist mature students in higher education who have children.

Nick Johnston (Mid Scotland and Fife) (Con): The minister will be pleased to know that I intend to move away from the subject of child care. I ask him to be gentle with me, because I do not understand my question. If he does not either, we will be on a level playing field.

I would like to elicit some information on the position of European students. As I understand it, the Treaty of Rome demands equality between EU and UK students. An EU student from a low-income family would face no tuition fees if they studied in England and Wales, but if they studied in Scotland they would face the graduate tax of £2,000. A UK student from outwith Scotland would have their tuition fees paid, as would a EU student, but only the EU student would be liable to pay the tax.

EU students will have no access to bursaries, allowances or student loans. The bill is predicated on benefit to students. What benefit are EU students deemed to receive from it? Has the minister considered that their liability for the graduate tax could be challenged as discriminatory and in breach of European law? What mechanism is being put in place to collect the graduate tax from low-income EU students?

Nicol Stephen: There are many questions in that.

The Convener: I take it that you understand the question, minister.

Nicol Stephen: I will start from the top, although the member may have to prompt me through this.

EU students are treated in the same way as Scottish students studying in Scotland. They will be part of the system, they will have their tuition fees paid and they will have access to the support arrangements that are outlined in the bill.

Gillian Thompson *indicated disagreement.*

Nicol Stephen: Is that not right?

Gillian Thompson: No.

Nicol Stephen: I should say that they will have access to higher education benefits, except for the student support arrangements. Section 1(5) of the bill defines

"'higher education benefits' in relation to a graduate".

EU students will receive the financial support provided by the Scottish Executive

"by way of grant, loan or other payment such as is mentioned in the definition of 'publicly-funded institution' below".

That refers to payments made through the Scottish Higher Education Funding Council. Because the support arrangements are made through the relevant EU nation, EU students will not receive loans or bursaries.

Gillian Thompson: That is correct. Under the Treaty of Rome, we are expected to provide support for EU nationals in relation to tuition. There is no requirement on us to provide living-cost support for EU nationals.

Nick Johnston: I asked two other questions that you have not yet answered, but I will pursue this issue for the moment. Are you saying that the only benefit that EU students would receive from the bill as it stands is the public funding of institutions? The difference between tuition fees and a liability for the public funding of colleges and universities might be viewed as a semantic one. A low-income European student could challenge that liability on the basis that he is not getting any benefit.

Nicol Stephen: The difference is not semantic. Tuition fees are not the same thing as the payments referred to in the bill, which are the overall payments that the Scottish Executive makes, through SHEFC, to publicly funded institutions. We are talking about all payments for all aspects of the higher education infrastructure in Scotland, not just tuition.

Nick Johnston: Am I correct in saying that a low-income European student studying at Newcastle University would not be liable for a graduate endowment and would not pay tuition fees, whereas a low-income European student at Edinburgh University would not be liable for tuition fees but would be liable for the graduate tax? Do you not feel that that could be considered discriminatory?

Nicol Stephen: I do not believe that it would be discriminatory. Consideration has been given to whether our legislative proposals comply with EU regulations; the view is that they meet the requirements of EU legislation. Jim Logie from the office of the solicitor may want to comment on this issue.

Jim Logie (Office of the Solicitor to the Scottish Executive): We have considered the question of discrimination and we feel that we can answer it satisfactorily. If there is discrimination in the example that the member has just given, it is not discrimination against an EU national by the Scottish Executive. The Scottish Executive treats its nationals and EU nationals in the same way. No case could be made against the Scottish Executive on the ground that someone studying under another jurisdiction will not have to pay the graduate endowment.

Nick Johnston: I would like to move on to the mechanisms that are being set up to collect the graduate tax from EU students. Can you give us an indication of the likely cost of those mechanisms?

Nicol Stephen: We have some information on that. I ask Gillian Thompson to respond.

Gillian Thompson: We will work with the Student Loans Company, which currently collects repayments from overseas residents who have income-contingent loans. The information that we have received so far is along the lines of that provided by the minister when he previously appeared before the committee. The Student Loans Company has indicated that there will be a cost to setting up the additional mechanisms for collecting repayments from EU nationals. However, the details of that are not yet firm. We are still in discussions with the company. We will be able to provide that information at a later date, hopefully in the not-too-distant future.

Nicol Stephen: It is worth pointing out that this question does not apply only to EU students, as many Scottish and UK students will go overseas to work. In addition, a significant number of the EU students who come here to study remain here to work, so they will come within the income-contingent scheme. There is a mix; there is movement in both directions. However, clearly the arrangements for collecting the graduate endowment will not be as efficient where a graduate who is liable for it moves overseas. That must be factored into calculations.

Nick Johnston: You mean that some people might skip off without paying.

10:45

Nicol Stephen: No, I am not saying that. There are mechanisms to ensure that people who move overseas will continue to make payments for the graduate endowment, just as they do in relation to student loans. At the moment, the same issue arises in relation to student loans. The income-contingent scheme that is operated through the Inland Revenue is an efficient method of ensuring that the loans are repaid in the appropriate way, on time and in full, as soon as possible. If individuals move overseas, the system is less efficient. However, there are mechanisms in place to ensure that the money is collected.

Nick Johnston: When will you be able to give us an indication of the costs of collection from such students?

Nicol Stephen: We are dependent on the Student Loans Company to provide that information. I am sure that the Student Loans Company will base its estimates on the current collection of income from students who have moved overseas. We will try to ensure that we have such information before stage 2, although it will be an estimate, based on historical experience. We are introducing the system for the first time, so we will have to monitor the situation as the system is rolled out.

The Convener: If possible, could you also furnish us with historical information on the bad debt ratio for both Scottish and overseas students?

Gillian Thompson: Do you mean in relation to income-contingent loans?

The Convener: Yes.

Gillian Thompson: One of the difficulties is that the income-contingent loan system was introduced in 1998, which means that the number of borrowers in the repayment system is small in comparison to the number of people who have borrowed. Many assumptions have to be made about the information that you are seeking. We would not be able to give answers with any great accuracy.

The Convener: Perhaps you could provide us with the assumptions on the bad debt ratio for Scottish and foreign students.

Gillian Thompson: Yes.

Ms Margo MacDonald (Lothians) (SNP): At what point will you decide that the gap in efficiency in collection makes it not worth your while to pursue six students called Hans, Fritz and so on? The notion is bizarre. We continue to refer to this as an endowment, but it is possible that the authorities in Europe might consider it to be a tax on students in Europe. Although I would not want to challenge the legal expertise of your officials, I wonder whether there might be challenges under European discrimination legislation. We call it an endowment, but they might call it a tax. If they call it a tax, we could be in shtook.

One of my colleagues has pointed out to me that the tables in the letter that you sent us suggest that students with an income of £10,000 or less will have their debts reduced by £4,000, whereas students backed by an income of £45,000 will have their debts reduced by £6,180. I know that this might sound old-fashioned, but I thought that we took more tax from those folk who can afford to pay more. Is that a mistake in the tables?

Nicol Stephen: No, it is not a mistake. I do not think that students who are backed by an income of £45,000 will be celebrating the figure of £6,180, because that arises from an increase in the parental contribution and the fact that their minimum loan entitlement has been reduced to £750. The Cubie committee proposed reducing that £750 minimum loan to zero—to remove the entitlement to a minimum loan altogether. The Executive retained the minimum loan at £750. As a consequence, the balance is expected to be made up by parents. If the balance is made up by parents, who make a grant or payment rather than giving their child a loan, the total debt over four years is reduced. In the maximum income range that debt is reduced by £6,180. This year, the minimum loan entitlement is £2,725. So it is almost £2,000 per year—

Ms MacDonald: That their parents will be better off?

Nicol Stephen: No. Their parents will be worse off.

Ms MacDonald: I was wrong then. I apologise, I realise that you have been really nice to them.

The Convener: The minister is redistributing all the time.

Ms MacDonald: That is what I am thinking. I will look at the figures, because I still think that there is something wrong.

The Convener: Those students who use the facility of an additional loan to pay the graduate endowment will borrow money from the Student Loans Company. Am I correct in saying that they then pay interest on that additional loan?

Nicol Stephen: Technically, what they pay is not interest but an annual uprating in line with the retail prices index.

The Convener: If a student took a loan from the Student Loans Company they would repay the capital and an additional sum.

Nicol Stephen: Yes. The additional sum is calculated according to the retail prices index—the amount is supposed to be static in real terms.

The Convener: That is not the point. If I pay the graduate endowment as a lump sum, I will pay £2,000. If I use the additional loan facility to pay off the graduate endowment, I borrow £2,000 and I pay a sum on top of that for the pleasure of borrowing the money.

Nicol Stephen: You say for the "pleasure of borrowing", but the borrowing costs the Executive a considerable sum of money. The loan is effectively a soft one—it is not at a commercial rate.

The Convener: That may be the reason for doing it, but the point is that, if I am a poor graduate and cannot afford the £2,000 lump sum payment in the spring after I graduate, I will borrow that £2,000 from the Student Loans Company and will pay interest on it. Is that correct?

Nicol Stephen: The £2,000 can increase over time.

The Convener: That is interest by another name.

Nicol Stephen: Technically it is not interest.

The Convener: In reality it is interest.

Mr Duncan McNeil (Greenock and Inverclyde) (Lab): What is the difference between that arrangement and what one would pay to a bank?

The Convener: The cost.

Mr McNeil: Aye.

Nicol Stephen: We are not talking about interest in any sense that the banks would recognise; we are talking about a repayment that is linked to the retail prices index, which is meant to ensure that the amount remains static in real terms. That is why the loans are so expensive. It costs the Executive £500 to provide a loan of £1,000. If a bank lends £1,000 with interest, it will expect to get back the full £1,000, as well as administration costs and an element of profit. What we are doing is very different from commercial interest. It is not called interest; in terms of statute, it is an uprating in line with the retail prices index. You may want to compare it with interest, convener, and I understand the comparison. Technically, however, it is a different thing.

The Convener: Fine. Let me rephrase the question.

Nicol Stephen: There will be an increase. We can agree on that.

The Convener: By how much will it increase? Suppose that I am a graduate in 2005 and that I cannot afford to pay off the £2,000 in a lump sum. I go to the Student Loans Company and borrow that £2,000 so that I can pay it back to the Scottish Executive. In 2006, 2007, 2008 and the next 10 years that I will be repaying my debt, how much will I pay on top of the £2,000?

Nicol Stephen: The figure will rise each year in line with the retail prices index.

The Convener: If the Chancellor of the Exchequer achieved his objective of keeping inflation at 3 per cent, how much extra would the student pay? Is it not the case that poor graduates who cannot afford to pay the lump sum and therefore have to borrow more money will have to pay additional sums, which will amount to a fair chunk over 13 years?

Nicol Stephen: At a rate of 3 per cent, the figure would increase by £60 from one year to the next—if my mental arithmetic is correct. At the moment, that is what happens with student loans, which are treated no differently. The aim is to ensure that the amount remains static in real terms.

The Convener: Let us go back to the principles, taken from Cubie, that are outlined in your policy memorandum. You are telling me that, if I were a poor graduate who could not afford to pay the lump sum and had to take out an additional loan from the Student Loans Company, I would, over 13 years, pay back not £2,000, but something like £2,800—assuming that inflation is 3 per cent.

Nicol Stephen: We have to consider the real-terms value of money. The uprated amount above £2,000 is likely to be in line with what the graduate endowment will be for students who are graduating at that time. The intention is that the sum will remain static in real terms. That is one reason why we did not offer a discount to those who pay their graduate endowment up front. In a sense, everybody is paying the graduate endowment up front. As we discussed at the outset, that is what will score in the Scottish Executive's income line.

The Convener: Do you accept that, in cash terms, if a student borrows the money to pay the graduate endowment, they will not pay back £2,000, but will pay back something in the order of £2,800?

Nicol Stephen: Yes, but at no point will that be out of line with the amount that a young graduate is paying at that time—2010 or whenever. The cash amount should never get out of line with the amount that is paid by a young graduate earning whatever the repayment threshold will be in 2010. I hope that that threshold will be significantly uprated to keep pace with starting salary levels, but the real-terms picture should not change. A graduate who graduates next year but does not start repaying until 2010 should not have to pay an amount that is out of line with the amount that a new graduate in 2010 would have to pay.

The Convener: You are assuming that the poor graduate's income rises by more than the rate of inflation.

Nicol Stephen: We are assuming that the graduate endowment rises in line with inflation.

The Convener: No. If the poor graduate's income rises by less than the rate of inflation and they are paying back the additional amount based on inflation, they are bound to be worse off.

Nicol Stephen: That is assuming that the poor graduate has enough income to repay the graduate endowment at all—that they have a starting salary that is sufficient to begin to repay the graduate endowment in 2010. In 2010, that threshold will not be £10,000.

The Convener: It will be £10,000 plus inflation.

Nicol Stephen: Exactly, or whatever the Government of the time may choose.

The Convener: You mentioned that the gross cost of the scheme has increased from £50 million to £53 million. When the scheme was going to cost £50 million, the net cost when the scheme was fully operational was estimated to be £33 million. Given the new figure for the gross cost, which represents a 6 per cent increase, what changes will there be to the net cost?

11:00

Nicol Stephen: The net cost will rise by £3 million. The income that we estimate will be generated by the graduate endowment scheme is still about £17 million. Therefore, the rise in gross cost from £50 million to £53 million will mean a rise in the net cost from £33 million to £36 million. The main reason for that increase is the guarantee that there will be no increased debt. The remodelled figures that have been circulated show that there will be no increase in debt for either three-year or four-year degrees. We have had to remodel some of the bursary entitlements, which has cost additional money, but I am pleased to say that we are still able to give that guarantee on debt.

The Convener: I will ask two quick questions on policy issues. First, Cubie's view, which has been widely supported by those who have given evidence to us, was that there were advantages in putting the hypothecated income into an identifiable fund rather than simply accounting for it as a contra entry in Scottish Executive accounts. The alleged benefit of having a separate fund is that it could be used to lever in sponsorship from industry and possibly European funding. Has the Executive considered that option and, if so, why has it decided against it?

Nicol Stephen: As we interpreted the Cubie report at the time, we did not think that it suggested a separate fund for the graduate endowment income, although we recognised that it proposed a separate fund to try to lever in money from other sources. We broadly support that idea, but we assumed that the recommendation was that such a fund should be encouraged through SHEFC and the institutions. As you know, institutions have established funds, which they use to lever in money from other sources—some institutions are very successful at doing that.

We would be happy to facilitate a separate fund, but we never envisaged that such a fund would be integrated into the main one and be driven, managed and controlled by the Executive. We would rather that proposals for a fund emerged from the universities and SHEFC. We are prepared to examine and support those proposals, without giving a commitment to kick-starting the fund. We did not think that the hypothecated fund to which you refer would significantly help to achieve the aims that Cubie sets out. We have no doubt that, regardless of whether the graduate endowment money is in a separate fund, it will be a high-profile line in the Scottish Executive's budget, which will be scrutinised closely each year. We think that that is appropriate. We felt that it was better for the Executive to make a commitment in the bill to ensuring that the funding is identifiable and is spent on student support.

The Convener: The final policy question is on the threshold. In light of the evidence that the committee has received, is there any possibility of the Executive changing its mind on the threshold? I know that you said that only five of the Executive's respondents raised that issue, but I think that all our witnesses did so.

Nicol Stephen: The important point is that when the income-contingent loan scheme was introduced, which was the first time that the arrangement to pay 9 per cent of income above a threshold of £10,000 was used, it was broadly welcomed. The shift from the mortgage-style scheme to the income-contingent scheme was the breakthrough for which the National Union of Students and others had campaigned. Even though the £10,000 threshold was hidden away in the income-contingent scheme, nobody protested against it at the time. The protests have arisen as we have sought to bring the graduate endowment repayment into that loan scheme.

I fully accept that controversy surrounds the use of the loans system for the repayment of the graduate endowment, but there will be an integrated system and no additional payment. The maximum payment is 9 per cent of income above £10,000, which is the payment that a graduate would have to make anyway if they have taken out a student loan. That rate has not changed since it was introduced in 1998. Discussion is continuing with various interested bodies, but obviously UK Government departments are involved in that. No change has been announced.

The Convener: Could a change be announced in the next three months?

Nicol Stephen: I indicated my hope that there would be a review. It is appropriate that that figure should be uprated. We will continue to make representations, but ultimately the decision on the operation of that scheme rests with UK ministers rather than with the Scottish Executive.

Dr Elaine Murray (Dumfries) (Lab): On the convener's point about the index-linked loan, I was reflecting on the fact that the more one earns the quicker one pays off one's loan and the less one has to pay. If one earned £21,000 a year, one would pay £900 a year, but if one earned £31,000 one would pay £1,800 a year and one's loan would go down faster. There is not much that the Executive can do about that in this bill, but it is a consequence of the income-contingent loan system.

I am interested in loans to part-time students. The explanatory notes refer to a

"£500 income contingent loan for students whose financial resources do not exceed £13,000"

and says that the maximum amount increases for married students and for students with children. Do we know how much that increase is likely to be?

Gillian Thompson: The increase is not in the amount of loan. The increase is £2,000 of income that is added to the £13,000, so that a student who was married could receive a loan only if their financial resources did not exceed £15,000. In addition, there is an increase if the student has children. I will send you the details of how that works; they are outlined in the guide on loans for part-time students, of which members should have received a copy. I will arrange for you to receive a copy.

Dr Murray: Is it likely that those loans will be index linked? We have mentioned the possibility of the endowment and threshold being index linked, although discussion on the threshold will have to take place elsewhere.

Gillian Thompson: Loans will be repaid under the income-contingent loan scheme.

Dr Murray: Will the amount that a student can borrow be index linked, or will it remain at £500?

Gillian Thompson: It is £500 for the 2000-01 scheme, but thereafter the amount of the loan is a matter for ministers to decide on.

Nicol Stephen: Generally, such figures are uprated over time. However, as the threshold figure, which we have often debated, shows, that is not always the case. We intend that all the entitlements to bursaries and loans will be uprated over time to take inflation into account.

Dr Murray: Is the £10,000 threshold for repayment, which arises here because the repayment of the endowment is lumped in with that for the loan, an issue south of the border, too?

Nicol Stephen: I understand that it was not an issue initially. There was no significant outcry or protest when the income-contingent scheme was introduced—it was accepted as a good alternative to the mortgage-style scheme.

At the previous meeting, I gave the example that someone earning around £19,000 would have to pay three times as much, if not more, under the mortgage-style scheme than under the income-contingent scheme. Although people did not start to repay under the mortgage-style scheme until their salary was significantly higher than £10,000, the payment that they had to make when they reached the salary threshold was steep.

The new scheme was welcomed, as it was felt that a repayment of 9 per cent of income above £10,000 was significantly better than the mortgage-style repayment levels.

The £10,000 threshold has started to be an issue in the rest of the UK as a consequence of this issue being raised in Scotland. Pressure from other sources strengthens our argument that there should be a review of the threshold figure, which would affect the whole of the UK.

The Convener: We may hear an announcement before the first Thursday in May.

In the letter that you gave us in the lead-up to the meeting, you asked for comments on the disbursement of the mature students bursary in particular. After this agenda item, we will consider the draft of our report. I am sure that we will want to respond to your request.

Nicol Stephen: That will be helpful. The real issue is how much money we devolve to the universities and colleges. We could opt for extreme devolution, so that the universities and colleges could exercise a large degree of discretion, or we could have tight central control and regulations. It will be helpful to know the committee's views of where on that spectrum the best solution lies.

The Convener: We will comment on that in our stage 1 report.

I thank the minister and his officials. This session has been enlightening and much appreciated.

11:12

Meeting continued in private until 12:25.

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