INDEPENDENT HIGHER EDUCATION

IHE submission to the Treasury Committee inquiry into student loans and taxation of graduates

April 2026

Introduction

Independent Higher Education (IHE) is the UK's representative body for independent providers of higher education, professional training and pathways. Our 90+ members deliver professionally focused education across a range of specialist subjects, designed for all stages of the education journey. Offering courses from Level 2/3 technical education through to degrees, CPD and professional doctorate programmes, IHE Members pivot around their industries and specialisms, which sets them apart from traditional universities and colleges.

IHE welcomes this inquiry and the Committee's focus on fairness. We note that the inquiry states it will not look at university funding directly, but we believe the two questions are inseparable. How students pay for higher education and what they are paying for are fundamentally connected. The fairness of repayment terms cannot be fully assessed without also examining whether students had genuine choices about what and how they studied, and therefore how much they needed to borrow.

Our members demonstrate that alternatives to the traditional three-year on-campus degree already exist and are working. The student loan system was designed around a single dominant model of higher education. We urge the Committee to recognise that the question of fairness must include whether students have meaningful choices about the type, duration and intensity of their learning, and therefore over the size of the debt they take on.

This submission draws on IHE's recent submission to the Department for Education (DfE) on Higher Education (HE) Reform, Six policies to make higher education the engine of growth (April 2025), and on our Manifesto for Higher Education (June 2024). Where relevant we illustrate our arguments with examples from our membership.

The central question: graduate contribution scheme or repayable loan?

The higher education sector and Government need to collectively decide whether they want to fund higher education through a progressive graduate contribution scheme that operates in effect as a graduate tax, or whether they want a genuinely repayable loan. The current system's problems stem largely from its refusal to be honest about which of these it is.

The original Plan 2 system was designed to function more like the former. Repayments were income-contingent, higher earners incurred much higher interest rates, balances were written off after 30 years, and most borrowers were never expected to repay in full. But this model has always had significant structural loopholes, most obviously that students from high income backgrounds or their families can simply opt out entirely by paying fees upfront. A system in which those who can afford to do so avoid the contribution altogether is fundamentally incompatible with a progressive model.

Subsequent changes have made the system increasingly less like a graduate contribution scheme. Plan 5 in particular, with its lower repayment threshold and 40-year repayment period, pushes significantly closer to full repayment for more graduates. The direction of travel - in policy terms, in media coverage, and apparently in how students and graduates themselves feel about it - is that Plan 2 and Plan 5 loans are loans. Graduates really do want to repay them and to escape the debt and its continuing impact on their disposable income.

The Committee should recognise this reality and press Government to choose. Either recommit honestly to a progressive graduate contribution model with proper progressive features, no opt-out for students from high income backgrounds, and a genuine social contract between graduates and the state; or accept that these are loans and deal with the consequences of that, which we set out in the sections that follow.

The worst outcome for fairness is to continue operating a system that has the repayment burden of a loan but none of the consumer protections, the fiscal exposure of a contribution scheme but none of the progressive features, and the complexity of both while delivering the clarity of neither.

If this is a loan, terms must not change once agreed

If the system is to function as a genuine loan, then loan terms must be fixed at the point of agreement. Retrospective changes, whether to repayment thresholds, interest rates, or repayment periods, undermine trust in the system and deter participation.

The repeated freezing and unfreezing of thresholds across Plans 1, 2, and 5 has created a system where 17-year-olds are asked to sign up to terms that can be altered at will by successive governments. This is not a loan in any meaningful consumer sense. No other form of regulated consumer credit permits the lender to change the repayment terms unilaterally and retrospectively after the borrower has signed.

There is an important nuance here. There are some changes that borrowers would welcome, such as increases to the repayment threshold. The principle should therefore be that terms

cannot be changed to the detriment of existing borrowers. Government should ensure that the repayment threshold is able to rise to match wages at the time the agreement was made.

If Government wishes to change the overall balance of cost-sharing between graduates and the state, it should do so prospectively for new cohorts, not retrospectively for existing borrowers. The current practice of using threshold freezes and interest rate adjustments to extract additional revenue from graduates who signed up under different terms is, as the Committee's own chair has suggested, a case of moving the goalposts.

If this is a loan, students need genuine choices to reduce their borrowing

If graduates are expected eventually to repay their loans, then Government and the sector have a moral responsibility to give them the widest possible range of choices about how they study, including more affordable options that meaningfully reduce the debt they incur.

Much of the current debate focuses on adjusting the terms of repayment. IHE urges the Committee also to ask whether the product being purchased is itself good value. The three-year, full-time, on-campus undergraduate degree is not the right answer for many students. It is expensive for the student, expensive for the state, and in many cases delivers more learning than the student needs or less practical preparation than employers want. Yet it remains the dominant model around which both funding and regulation have been built.

More flexible delivery models would address the value-for-money concern directly. Modular learning, blended and online provision, accelerated degrees, and credit-bearing short courses allow students to learn what they need, when they need it, and to borrow less as a result. These models already exist and are being delivered successfully by IHE Members and others.

The National Motorsport Academy (NMA) provides a compelling example. All NMA students work in the motorsport industry while studying on a modular basis. Their curriculum is designed with the industry, blending study into work. Students join the NMA race team on race days for additional in-person, practical learning. This is, in effect, an apprenticeship that is not an apprenticeship. Students do not borrow as much because they continue earning throughout their studies. They stay up to date with the latest industry knowledge and technology while they work, and they graduate with both a qualification and current, relevant professional experience. NMA demonstrates that truly flexible delivery, where the course wraps around the student's career rather than requiring the student to put their career on hold, can reduce borrowing while producing highly employable graduates.

But Government must remove the funding and regulatory barriers that currently prevent these models from scaling. All online learning is currently classified as part-time for the purposes of both teaching grant funding and student finance, which unfairly penalises online learners and strongly disincentivises take-up. Blended models face similar penalties. Credit transfer between providers barely functions. These are solvable problems, and IHE has set out practical policy proposals to address them in our recent submission to DfE on HE Reform, including reformed funding rules for online and blended learning, a reimagined Lifelong Learning Entitlement (LLE) framework, and a digital credit transfer mechanism across tertiary education.

If the Committee is serious about proportionality, it should recommend that Government remove the barriers that currently prevent more efficient, targeted, and affordable models of higher education from reaching the students who need them most.

If this is a loan, students should also be able to borrow more

This may seem counterintuitive alongside an argument for reducing unnecessary borrowing, but the two positions are complementary. IHE is arguing for students to have more agency over their own education. Part of that agency must be that students who choose to study intensively can do so without being forced to work long hours alongside their studies simply to cover basic living costs.

Flexibility cannot just mean low-intensity study to allow parallel employment. For some students, the most valuable and efficient route is full-time, immersive study, and they should be properly supported to pursue it. If the system genuinely expects graduates to repay, it should also trust them with the agency to borrow what they need in order to succeed.

Maintenance loans in particular should be significantly uprated to catch up with actual living costs. Research by the Higher Education Policy Institute (HEPI) has shown that maintenance loans in England typically cover only around half the cost of living, and even less for students in London. This means many students are forced into extensive paid work not by choice but by necessity, undermining the quality of their education, extending their time in the system, and in many cases leading to poorer outcomes and lower graduate earnings, which in turn makes the loan less likely to be repaid in full.

The argument for flexibility in how students learn must be matched by an argument for genuine choice in how they fund their living costs while they learn.

A loan cannot be the only way to pay

Even within a predominantly loan-based model, the student loan should not be the only mechanism for paying for higher education. Graduates contribute to productivity, innovation and tax receipts across the economy, but they are not the only beneficiaries of their education. Employers benefit enormously from a skilled workforce, and the wider economy benefits from higher productivity and growth. The funding model should reflect this.

IHE's submission to DfE on HE Reform proposes incentivising more employer investment in the professional development of their staff through a corporation tax super-deduction on payments into employees' Lifelong Learning Accounts. This would create a practical, scalable mechanism for employers to co-invest in the education and training of their staff, reducing the burden on the loan book while ensuring that those who benefit from higher skills contribute to their cost.

Employer co-investment is not a theoretical aspiration. It is already happening in the independent sector. NMITE, the New Model Institute for Technology and Engineering, operates a model in which employer contracts directly fund student education. This demonstrates that when the right mechanisms exist, employers are willing to invest, but Government needs to create the frameworks and incentives that enable this to happen at scale.

Tax-efficient salary sacrifice schemes for employees, and equivalent schemes for sole traders and the self-employed, would further allow professionals to invest in their own upskilling and lifelong learning without adding to the loan book. These contributions could fund modular learning identified through the LLE framework, supporting career progression and productivity gains for the individual, the employer, and the economy.

The current model places the entire repayment burden on individual graduates. The Committee should consider what mechanisms could ensure that employers and the state share more fairly in a return they also benefit from, and should recommend that Government develop practical co-investment frameworks as part of any reform of the student finance system.

Student number controls restrict access and squeeze out flexible provision

Student number controls, whether through caps linked to Office for Students (OfS) quality measures, Teaching Excellence Framework (TEF) ratings, or broader recruitment limits, restrict participation from the very students this inquiry is concerned about: those from disadvantaged backgrounds, mature learners, career changers, and those in cold-spot regions.

Controls designed to manage the loan book's fiscal exposure end up rationing access to education. This is the wrong end of the problem. The answer is not fewer students borrowing, but a more diverse and efficient system in which each student borrows less because they have access to models of learning that are better designed for their needs.

Student choice is critical in higher education. Students learn in different ways and want genuine choice over how, where and when they study. This is all the more important given that under the current system they are contributing far more to the cost of their education than the taxpayer. Student number controls restrict that choice, and they have a particular chilling effect on flexible provision, which also generates less fee income per student for the provider.

When providers have fewer places to allocate, they will rationally favour the longer-term, higher-cost model that generates more revenue per student. Student number controls are therefore directly linked with the long-term decline in part-time and flexible delivery, which is precisely the kind of provision this submission argues would improve both value for money and fairness for graduates.

Norland College provides an instructive example. Norland graduates achieve 100% employment outcomes through the college's own employment agency. Student number controls would limit what smaller specialist providers like Norland can offer, restricting places on courses that deliver outstanding results. It is difficult to see the logic in capping recruitment to a programme where every single graduate enters employment.

Where the OfS has identified genuine quality concerns, where there is evidence that students are not getting a high-quality course, the regulator already has the power to impose specific conditions on that provider's recruitment. IHE supports the more frequent and more decisive use of these targeted, evidence-based interventions. The right response to a quality problem is a quality intervention at the provider or course level, not a blanket cap on student numbers across the system.

TEF is not a suitable basis for student number controls. The TEF system was designed for large providers with the volume of data required to generate meaningful metrics. It operates at an institutional level only, not at a course level, and is therefore too blunt an instrument to determine whether individual students are receiving value for money from a particular programme. Its unsuitability for smaller providers is already acknowledged by the rule that TEF participation is voluntary for providers with fewer than 500 students.

Using TEF ratings to determine which providers can recruit and how many students they can admit would be to repurpose a system well beyond its design and would discriminate against the smaller, specialist providers whose flexible and professionally focused models are exactly the kind of provision the Committee should want to see expanded, not constrained.

Independent providers often serve exactly the students who are most price-sensitive and most affected by loan terms. Restricting their ability to recruit would only compound rather than address the unfairness the Committee is investigating.

Transparency and informed consent

Students are currently asked to make one of the most significant financial decisions of their lives at 17-years-old, on the basis of information that is incomplete, inconsistent, and not designed for genuine informed consent.

IHE supports significantly enhanced transparency across the student finance system. This should include clear presentation of the total expected cost of borrowing under different earnings scenarios, honest language about whether repayments function as a graduate contribution or a repayable debt, and better information about alternatives to the traditional three-year degree.

The BBC reported that the Government compared student loan repayments to a £30-a-month phone contract in presentations delivered to teenagers, and that presenters were asked not to use the word "debt." The system cannot claim to have treated graduates fairly if the information they were given at the point of decision was designed to minimise rather than illuminate the financial commitment they were making.

Students also need far better information about different types of provision. The current information and advice landscape is heavily oriented towards the traditional university route. Students should be helped to understand not just which university to attend, but whether a three-year degree is the right route at all for their particular goals, and whether modular, blended, accelerated, or employer-sponsored learning might deliver better outcomes and lower borrowing. If the system expects students to behave as informed consumers of a financial product, it must give them the information to do so.

Summary of recommendations

IHE recommends that the Committee consider the following in its conclusions:

1. Government must decide whether the student finance system is a progressive graduate contribution scheme or a repayable loan. The current ambiguity is the root cause of the

unfairness this inquiry is examining.

2. If it is a loan, terms must be fixed at the point of agreement and not changed retrospectively to the detriment of borrowers. A guaranteed floor on the repayment threshold, which rises as salaries rise, should be built into the original terms.

3. If it is a loan that graduates are expected to repay, Government and the sector have a moral responsibility to offer the widest possible range of choices, including more affordable and flexible models of delivery that meaningfully reduce the amount students need to borrow.

4. Maintenance loans should be significantly uprated to reflect actual living costs so that students have genuine agency over how they study. Flexibility must not just mean low-intensity study alongside employment.

5. Government should create practical mechanisms for employers to co-invest in education, including through the Lifelong Learning Entitlement (LLE) platform, corporation tax super-deductions, and salary sacrifice schemes.

6. Student number controls should not be used as a fiscal management tool. They restrict access for the students most affected by unfair loan terms, squeeze out the flexible provision that would reduce borrowing, and should not be linked to TEF, which is unsuitable for this purpose.

7. Transparency and information for prospective students must be radically improved so that borrowing decisions are genuinely informed, including better information about alternatives to the traditional three-year degree.

Contact IHE

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