

Arts Students' Union response to the Treasury Committee Inquiry: Student Loans and Taxation of Graduates

Respondent: Arts Students' Union

Response type: Organisational response representing over 22,000 students at University of the Arts London

Date: 14/4/26

Introduction

Arts Students' Union (Arts SU) represents over 22,000 students studying creative disciplines at University of the Arts London (UAL), one of the largest specialist art and design universities in Europe. Our members include students and recent graduates working across visual arts, performance, sound, design, film, fashion, and media.

Arts SU's long-term policy position is that higher education should be publicly funded and free at the point of access. However, while the current system of tuition fees and student loans remains in place, it is essential that it operates in a way that is fair, transparent, and workable for students and graduates.

This is particularly important for arts students and creative graduates, who are more likely to undertake paid work alongside their studies, enter portfolio or freelance careers, and often experience lower or less predictable earnings in early career stages.

The current student loan system does not adequately reflect these realities. This response therefore addresses the Committee's questions both from a principled standpoint and by proposing practical mitigations to improve fairness within the existing system.

Interest rates

1) Should a student loan incur interest?

Arts Students' Union does not consider it appropriate for student loans to incur real (above-inflation) interest.

Higher education is a public good, and student finance should not operate as a revenue-generating debt product. Charging interest above inflation means that graduates can repay significantly more in real terms than they originally borrowed, which is difficult to justify in a publicly supported system.

This is particularly important in the context of the creative industries. The UK's creative industries are a major driver of economic growth, contributing over £100 billion annually to the UK economy and growing at a faster rate than many other sectors. Graduates in creative disciplines play a central role in this ecosystem, supporting not only cultural

production but also innovation across sectors such as design, advertising, digital media, and technology.

Despite this, creative graduates often experience slower and less linear earnings growth, particularly in the early stages of their careers. Many enter freelance or portfolio-based work, take on multiple roles, or contribute to small and microbusinesses that underpin the creative economy. The value they generate is therefore not always immediately reflected in high salaries, but is nonetheless substantial in terms of long-term economic and cultural impact.

In this context, charging above-inflation interest effectively penalises graduates for entering socially and economically valuable but less immediately lucrative career pathways. It places a disproportionate burden on those contributing to sectors that are essential to the UK's cultural and economic life.

As a minimum, interest should be limited to inflation only, ensuring that graduates do not repay more in real terms than they borrowed.

I b) Should the interest on a student loan be dependent on income?

If interest remains, an income-linked approach is preferable to a flat rate. However, Arts SU's position is that this should only operate within an inflation-only framework.

While income-linked interest may appear progressive, it adds complexity and does not address the core issue that many graduates experience rising balances despite making repayments. This is particularly problematic for creative graduates with fluctuating incomes, for whom annual income-based calculations may feel arbitrary and opaque.

I c) Should the interest on a student loan be fixed to RPI, CPI, or another measure?

If interest is retained, CPI or another lower and more appropriate measure of inflation should be used in place of RPI.

The current use of RPI, combined with additional interest above inflation, results in higher effective borrowing costs and contributes to perceptions of unfairness. RPI has been widely criticised as an outdated and less accurate measure of inflation, and its continued use in student loan calculations is difficult to justify. A fairer system would eliminate real interest and ensure that balances do not grow in real terms over time. This is particularly important for graduates in sectors such as the creative industries, where earnings may take longer to stabilise.

For creative graduates, the accumulation of interest during periods of low or irregular income can lead to situations where loan balances increase despite consistent repayments. This undermines the principle of fairness and creates long-term financial insecurity.

Aligning interest with CPI (or ideally removing real interest entirely) would help ensure that the system reflects graduates' ability to pay while recognising the broader economic and cultural contributions they make.

2) Are interest rates above the rate of inflation on a student loan fair?

No.

Charging above-inflation interest is inconsistent with the principle of fair access to education. It increases the total repayment burden, particularly for those who are unable to repay early. This disproportionately affects arts graduates, who are more likely to experience slower earnings growth and longer repayment periods.

3) Was it fair for the Government to block the interest rate on student loans from going negative?

No.

If interest rates are linked to an index, that link should operate consistently in both directions. Preventing borrowers from benefiting when the index becomes negative reinforces perceptions that the system is weighted in favour of the lender and undermines trust.

4) Should student loans be branded as loans, or as something else?

The current system should not be described as a conventional loan.

Student loan repayments are income-contingent, collected through the tax system, and often not fully repaid before being written off. In practice, they function more like a time-limited graduate contribution.

Describing them as loans contributes to confusion and dissatisfaction, as students see large headline debt figures without understanding how repayments actually operate.

5) What proportion of a student's university education should be funded by the student versus the state?

Arts SU's long-term position is that higher education should be publicly funded and free at the point of access.

In the current system, the balance has shifted too far towards individual students. This is particularly problematic for arts education, where graduates often enter valuable but less

financially secure career pathways. A greater proportion of funding should be provided by the state.

A greater proportion of funding should therefore be provided by the state. Public investment in higher education (particularly in the arts) should be seen not as a cost, but as an investment in economic growth, cultural capital, and social wellbeing.

A shift towards greater public funding would also support access and participation, ensuring that individuals are not deterred from pursuing creative education due to financial barriers.

Terms of loans and government changes

6) Should the terms of a student loan be able to be changed after it has been taken out?

No, except where changes clearly and unambiguously benefit borrowers.

Students make decisions about higher education based on the terms presented to them at the point they apply, accept an offer, and enrol. Those decisions are made at a young age, often before students have any substantial experience of long-term financial contracts, and in a context where there is no meaningful ability to negotiate the terms offered. In practical terms, students cannot shop around for a different student loan product, nor can they access higher education on comparable terms without engaging with the state-backed finance system. That creates a much stronger obligation on government to ensure that the terms presented at the outset are stable and reliable.

Retrospective changes therefore raise a fundamental issue of fairness. They change the basis on which people made life-shaping decisions after those decisions have already been taken. This is not simply a technical matter of public finance. It goes to the core of whether students can make informed choices in a system that asks them to take on large liabilities before they begin their working lives.

This issue is particularly significant for arts students and creative graduates. Students entering creative disciplines often do so knowing that they may not move immediately into high or stable earnings after graduation. Creative careers are frequently characterised by portfolio working, self-employment, part-time work, and multiple income streams rather than a straightforward salaried path. Graduate outcomes data shows that creative arts graduates are less likely than average to enter full-time employment 15 months after graduation, and are more likely to be in customer service roles, self-employment, or mixed working patterns.

Where graduates already face uncertainty in the labour market, government should not add a second layer of uncertainty by altering the repayment terms after the fact. Retrospective change effectively transfers risk from the state to the borrower, even though the borrower had no real bargaining power in the first place.

A fair system should therefore operate on the principle that the terms of student finance should be fixed when the loan is taken out, except where subsequent changes improve outcomes for borrowers.

7) Does the process provide enough information in a clear and fair form?

No.

Although information about student finance is available, that is not the same thing as saying that it is clear, comprehensible, or fair in practice. The current process places too much responsibility on prospective students to navigate a complex financial product with significant long-term consequences, often at the age of 17 or 18.

The information environment around student loans is fragmented and difficult to interpret. Many students do not fully understand the significance of interest rates, repayment thresholds, write-off periods, or the difference between a conventional commercial debt and an income-contingent repayment model. This is made worse by the fact that the system is often presented in highly technical terms, without sufficient explanation of what repayments will actually feel like in real life at different income levels.

This matters because student finance is often the first major financial commitment a young person encounters. Under the standards applied in other areas of consumer finance, a product of that scale and duration would require especially careful communication. The FCA's Consumer Duty requires communications to support customer understanding and to be clear, fair and not misleading. While student loans are not identical to commercial financial products, the underlying principle should still apply.

From an Arts SU perspective, this lack of clarity is especially problematic because arts students are already making high-stakes choices in a context of wider economic uncertainty. HEPI's 2025 Student Academic Experience Survey found that 68% of students now undertake paid work during term time, and only 37% say their course represents good value for money. This suggests a student population under considerable financial pressure, not one that can easily absorb opaque or poorly explained liabilities.

8) Should Student Loans Company loans comply with FCA rules and Consumer Duty?

Yes, or an equivalent standard should apply.

If student finance continues to be structured and branded as a loan product, then students should receive protections that are at least comparable in spirit to those that apply in other

areas of consumer finance. The principles underpinning the FCA's Consumer Duty are highly relevant here: products should deliver good outcomes, communications should support consumer understanding, and firms should act in ways that are clear, fair and not misleading.

At present, student borrowers are in an unusual and vulnerable position. They are asked to take on very large liabilities, often before they have begun earning, but without the full range of protections or expectations that would ordinarily attach to a major financial product. Yet the practical consequences of that product can extend over decades.

Arts SU is not arguing that the student finance system should simply be treated as a normal commercial lending market. It is different in important ways. However, those differences should not become an excuse for weaker protections. If anything, the case for high standards of fairness and clarity is stronger because students are generally younger and less financially experienced, participation in the system is effectively necessary in order to access higher education, the product has long-term implications for life choices and economic security, and the state is both lender and rule-setter.

9) Does changing loan terms erode trust in Government?

Yes.

Retrospective changes to student loan terms erode trust in government because they signal that long-term commitments made by the state may not be stable or reliable. That is especially serious in student finance, where borrowers entered the system on the basis of representations made to them at the time.

This is not a theoretical concern. Retrospective changes to thresholds and repayment conditions have already been highly contentious, and have been criticised by policy commentators and consumer advocates as changing the deal after students had already signed up. HEPI has described the freezing of repayment thresholds as a retrospective change with significant consequences for borrowers, while MoneySavingExpert argued that freezing the threshold after it had been promised to rise with earnings effectively changed the terms after the agreement had been entered into.

Trust matters not only because it affects perceptions of fairness, but because higher education decisions are long-term and high-stakes. Students must believe that the state will honour the commitments it makes, especially where those commitments shape life decisions about whether to attend university, which subject to study, and what level of future debt or repayment they are willing to accept.

For arts students, the trust issue is even sharper. Creative degrees are often subject to public narratives questioning their value, despite the substantial economic and cultural contribution of the creative industries. Official statistics show that DCMS sectors generated £220.3 billion of GVA in 2023, with £150.2 billion coming from the creative industries,

culture, sport and gambling grouping included in that release. Separate official and parliamentary briefings also point to creative industries output of around £124 billion in 2023. Students entering these disciplines therefore already face heightened scrutiny about the “value” of their choices. If the finance terms attached to those choices can also shift unpredictably, that compounds the sense that the system is stacked against them.

I 0) Might changing loan terms affect future take-up of student finance?

Yes.

If prospective students believe that terms may change unpredictably, this creates uncertainty and may deter participation in higher education, particularly for those who are already financially risk-averse.

I 1) Are there comparable examples of such changes elsewhere?

While there may be examples in other areas of policy, this does not justify retrospective changes in student finance.

Students are uniquely vulnerable, as they take on these obligations at a young age with limited bargaining power. Stability and fairness should therefore be prioritised.

I 2) Should higher-earning graduates subsidise lower-earning graduates?

Arts SU supports the principle that those with greater financial capacity should contribute more than those with lower incomes. A progressive model is fairer than one that places the same burden on all graduates regardless of earnings. However, redistribution is better achieved through a transparent tax system or a clearly defined graduate contribution model than through a complex and opaque loan structure.

The problem with the current system is that it attempts to combine several logics at once: personal debt, graduate contribution, and redistribution. The result is a structure that many students do not understand and many graduates experience as unfair. Higher earners may repay more in cash terms, but the language and mechanics of debt still shape how the system is perceived. Meanwhile, middle earners can spend decades repaying 9% above the threshold without ever clearing the balance, while the very highest earners or those with family wealth may be able to repay faster and avoid some of the long-term effects of interest accumulation. IFS explains that Plan 2 borrowers repay 9% above the threshold and that many balances are never fully repaid before write-off, which is why the system often behaves less like a normal loan than a time-limited earnings-based charge.

For arts graduates, the case for progressive redistribution is strong, but so is the case for changing the mechanism. Creative careers generate substantial public and economic value,

but often do not produce high or stable earnings in the short term. A redistribution model that depends on a large nominal debt balance and decades of repayment is poorly matched to that reality. A more transparent system would make clear that contributions are based on ability to pay, while avoiding the distortion and anxiety created by the language of debt.

Arts SU's preferred long-term answer is publicly funded free education. But within the current landscape, if government wishes higher earners to support lower earners, it should do so openly and progressively through taxation or a clearly designed graduate contribution, rather than through an opaque loan system that obscures the true nature of the policy choice.

Fiscal Policy

I3) How does the student loan system interact with taxation?

Graduates repay 9% of their income above the repayment threshold through the tax system, alongside income tax and National Insurance contributions. This means that, in practical terms, student loan repayments function as a marginal deduction from earnings rather than as repayments on a conventional debt.

The cumulative effect of these deductions can be significant. At key income thresholds, graduates may face effective marginal deduction rates exceeding 40% to 50% once income tax, National Insurance, and student loan repayments are combined. This is particularly impactful in early and middle career stages, when graduates are establishing financial independence, saving for housing, or managing other cost-of-living pressures.

This interaction is especially important for arts graduates and those entering the creative industries. Creative careers are often characterised by variable or irregular income streams, part-time or portfolio working, periods of self-employment or freelance work, and slower progression into higher earnings.

As a result, graduates may experience student loan repayments not as a manageable contribution linked to stable earnings, but as an additional financial pressure layered onto already uncertain income. The 9% repayment rate applies regardless of job security or income volatility, meaning that even modest increases in earnings can result in disproportionately high marginal deductions.

Furthermore, because repayments are calculated on annual income, they do not always reflect the lived experience of fluctuating monthly or project-based earnings common in the creative sector. This can create cash flow challenges, particularly for self-employed graduates who may not benefit from PAYE smoothing.

The system therefore operates less like a conventional loan and more like a time-limited graduate tax, but without the transparency, simplicity, or perceived fairness that a clearly defined tax would provide. Unlike taxation, it is also accompanied by a large nominal debt

balance and an interest mechanism that can obscure the relationship between contributions and outcomes.

From a fiscal policy perspective, it is important that the system is assessed holistically. Graduates do not experience student loan repayments in isolation, but as part of their overall tax burden. Any evaluation of fairness or sustainability should therefore consider combined marginal deduction rates, the impact on disposable income and financial stability, and the behavioural effects on work, progression, and career choice.

For arts graduates, this interaction is particularly significant. A system that imposes relatively high marginal deductions early in a career risks discouraging participation in these sectors or pushing graduates towards more immediately lucrative but less socially or culturally valuable roles.

Arts SU therefore recommends that the Government:

- explicitly recognise student loan repayments as part of the effective tax burden on graduates
- consider reforms that reduce marginal deduction rates at key income thresholds
- ensure that repayment structures are compatible with irregular and freelance income patterns

Ultimately, if the system is to function as a form of graduate contribution, it should be designed transparently and fairly as such, rather than operating as a hybrid between taxation and debt.

Fairness

I 4) Do student loans deliver equitable outcomes between generations?

No.

The current student loan system does not deliver equitable outcomes between generations. Recent cohorts of students in England have faced significantly higher tuition fees, larger nominal debt balances, and greater policy instability than previous generations, while also entering labour markets that are more uncertain and, in many cases, less financially secure.

This represents a shift in the balance of responsibility for funding higher education. Where previous generations benefited from lower fees or publicly funded education, current students are expected to take on substantial individual financial risk in order to access higher education. This raises fundamental questions about intergenerational fairness and the appropriate distribution of costs between individuals and the state.

For arts students and creative graduates, these issues are particularly acute. The creative industries are a vital part of the UK economy and cultural identity, yet they are characterised by high levels of self-employment and freelance work, a prevalence of small

and microbusinesses, lower and more variable early-career earnings, and longer pathways to financial stability.

Graduates entering these sectors may therefore carry high levels of student debt while earning relatively modest incomes for extended periods. This creates a mismatch between the cost of education and the financial realities of the careers that education enables.

At the same time, the value generated by creative graduates is not always captured in individual earnings. Creative work contributes to economic growth and innovation across multiple sectors, the UK's global cultural influence and soft power, local economies through cultural institutions, events, and creative clusters, and wider social and cultural wellbeing.

A system that evaluates fairness primarily through the lens of individual earnings risks undervaluing these broader contributions.

There is also a distributional dimension within generations. Students from wealthier backgrounds may be better able to absorb the costs of higher education, make early repayments, or rely on financial support during lower-earning periods. By contrast, students without such support are more likely to rely fully on student loans, remain in repayment for longer, and experience the cumulative effects of interest and prolonged deductions.

This can result in a system where those with the least financial security face the longest and most uncertain repayment journeys.

Policy instability further exacerbates these issues. Retrospective changes to repayment terms, thresholds, and conditions create uncertainty and undermine trust. They also make it more difficult for students to make informed decisions about whether and how to participate in higher education.

Taken together, these factors mean that the current system does not distribute burdens and benefits equitably between generations (due to shifting funding models and rising costs), within generations (due to differences in income, wealth, and career pathways), and across disciplines (due to varying earnings trajectories and labour market structures).

Arts SU therefore reiterates its long-term position that higher education should be publicly funded and free at the point of access.

In the shorter term, the Government should take steps to improve fairness within the existing system, including:

- reducing or eliminating real interest
- improving stability and preventing retrospective changes
- ensuring repayment structures reflect diverse career pathways
- recognising the broader economic and social value of different disciplines, including the arts

A fair student finance system must not only be fiscally sustainable, but also socially equitable and aligned with the realities of the labour market. For arts students and creative graduates, the current system falls short on all three counts.

Conclusion

Arts Students' Union's long-term position is that tuition fees and student loans should be abolished in favour of a system of free education.

However, while the current system remains in place, urgent reforms are needed to improve fairness, transparency, and trust. These include:

- removing real interest
- preventing retrospective changes to loan terms
- improving clarity and consumer protections
- recognising the interaction between student loan repayments and taxation

These reforms are particularly important for arts students and creative graduates, whose careers are shaped by portfolio working, income variability, and structural precarity.

A fair student finance system must reflect these realities and ensure that access to education and creative careers is not determined by financial background.

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