

STATES OF JERSEY

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STUDENT LOANS FOR HIGHER EDUCATION: INTRODUCTION

**Lodged au Greffe on 17th April 2007
by the Minister for Education, Sport and Culture**

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to agree that with effect from 1st September 2007 a new student loans facility should be introduced by the Minister for Education, Sport and Culture in consultation with the Minister for Treasury and Resources and that the loan facility should be available to all students who meet the residential and academic criteria for student grants and who are following programmes of higher education in institutions which have determined to increase their fees through the additional variable fee charges (“top-up fees”).

MINISTER FOR EDUCATION, SPORT AND CULTURE

REPORT

Note: The details of the Minister for Education, Sport and Culture's proposals for a revised scheme of student support, together with the outcomes of the public consultation were set out in R.98/2006, entitled 'Financial Support for Students in Higher Education: proposals', which was presented to the States on 20th December 2006 by the Minister for Education, Sport and Culture.

On 27th March 2007, the Chairman of the Education and Home Affairs Scrutiny Panel issued a statement which confirmed that the Panel will not be reviewing the general principle of the introduction of Student Loans. The full text of the statements is attached at the Appendix to this report.

Background

In June 2006 the Minister for Education, Sport and Culture, faced with £10 million expenditure against a £8.9 million budget for student grants, undertook a public consultation on the future of student financial support. A report published to inform that process documented the pressures on the States student grant budget arising from increased participation in higher education by local students, increased tuition fees, and the decision by the UK Government to allow UK institutions of higher education to charge additional fees (top-up fees). It suggested that, without a change to the current system of grant aid, the costs of supporting young people through higher education would continue to rise for both the States and for parents. The report offered four broad options for addressing the problem –

1. Maintaining the present system by increased States investment;
2. Containing the States investment at current levels and passing on increased costs to parents;
3. Reducing student numbers through either setting a higher academic entry requirement or by restricting the types of courses which would attract financial support;
4. Sharing the burden of cost by introducing a third contributing partner (the student, the ultimate beneficiary of higher education, through a student loans facility).

A survey of public opinion on this matter was also undertaken by the Universities Funding Action Group. This independent group was formed by Dr. N. Minihane to coordinate parental and other responses to the consultation undertaken by the Minister for Education, Sport and Culture.

From the consultation process it became evident that, whilst there was a clear wish from the public to increase States expenditure to maintain access to higher education without adding to the financial burden of students or their families, there was also significant understanding of the broader medium and longer-term issues. In the written consultation, 79% accepted that a new scheme, possibly including a 'student loan element' may be unavoidable to meet the current additional financial pressure and to ensure that, in the longer term, a facility exists to support students at a time when the costs of higher education may be beyond the means of the States and parents to pay.

In light of the consultation process the Minister published a further report in December 2006 (R.98/2006) outlining his proposals for the development of a new scheme of student support to be implemented with effect from September 2007. The proposal, modified to take account of comments received –

seeks to maintain the current level States investment in higher education;

continues to provide assistance to low income families ensuring that all who can benefit from higher education have the opportunity to participate in it regardless of the cost of the chosen subject;

offers additional support to families making the greatest financial contribution over the longest period of time by containing the clinical years costs for medicine and veterinary courses at the non-clinical years

rates.

To achieve these objectives, it is proposed that a student loans facility should be developed which will enable students, on graduation, to contribute to the additional costs of higher education imposed on Jersey by the introduction of university top-up fees in the UK.

It is with regard to this loans facility that the States are asked give 'in principle' approval.

The proposed scheme

In late 2005, the Island Authorities were informed by the UK Department for Education and Skills that it would not support the involvement of the UK-based Student Loans Company in the administration of a scheme of loans for Island students.

In light of this, discussions were initiated with the Jersey Bankers Association to develop a partnership scheme with local clearing banks as follows.

A STUDENT LOANS FACILITY

(Based on typical three years of study in higher education)

These results have been generated using a complex model which includes a range of demographic characteristics. Each time the model is run results differ. The results included in the table represent the average of a number of runs (together with a "worst case" from those runs where stated).

Maximum loan amount per annum	£1,500
Interest rate	Base rate (currently 6.5%) + 1%
Outstanding loan on graduation (after 3 years)	£5,000 (see Note 1)
Grace period	One year
Outstanding loan at date of first repayment	£5,330
Repayment period	5 years
Monthly repayments	£104
Total amount repaid	£6,240
Maximum amount outstanding as potential liability of the States (at 2007 prices)	
– by 2010	£4.6 million
– by 2020	£8.5 million
– by 2030	£8.8 million
– peak	£8.9 million
Likely annual cost of defaults to States of Jersey	£275,000
Worst case annual cost of defaults to States of Jersey	£320,000

Assumptions:

Students entering Higher Education per annum	480
% of students taking up loans	70%
% of students dropping out of Higher Education	7%
% of graduates entering arrears on repayment	20% (see Note 2)
% of graduates entering arrears who default on loans	40% (see Note 2)
% of loans guaranteed by States of Jersey	100% (see Note 3)
% of graduates prepaying (i.e. pay off loan in full on graduation)	5%
Starting salary for Jersey graduates in 2007	£23,250

Note 1: The above tables are based on a student typically undertaking 3 years of study in higher education. Ir

some cases however, the facility will need to cater for students following 4, 5 or 6-year courses. In such instances it is envisaged that the facility for annual loans up to £1,500 per year will be extended to cover the duration of the course.

Note 2: These percentages are regarded as prudent estimates, i.e. they are likely to be lower, reducing the annual cost to the States.

Note 3: Guaranteeing 100% of loans has significant advantages in terms of reduced administration for both the States and the banks. It does not materially increase risk to the States and it enables the Minister to reaffirm that no student will be denied access to higher education because of financial difficulties.

Within the terms of the Finance Law the proposed guarantee of loan facilities to students described above is considered to be States 'borrowing'. In view of this, in the event that States Members support the proposition to give 'in principle' approval for the introduction of a student loans facility, it will be necessary for the Minister for Treasury and Resources to bring to the States a proposition to undertake such borrowing.

Financial and manpower implications

The potential financial cost to the States is in the region of £275,000 per annum and will be met from the Education, Sport and Culture Department's cash limit. There are no additional manpower implications arising from this report.

STATEMENT ON A MATTER OF OFFICIAL RESPONSIBILITY MADE IN THE STATES ASSEMBLY ON
27TH MARCH 2007

CHAIRMAN OF THE EDUCATION AND HOME AFFAIRS SCRUTINY PANEL

Higher Education Funding

In December 2006, in response to the publication of the Minister for Education, Sport and Culture's proposals for financial support for students in Higher Education, the Education and Home Affairs Scrutiny Panel decided to examine this topic to ascertain if there was scope for a review. The Panel reviewed available documentation, including *inter alia* the initial green paper and the results of consultation. From the outset it was noted that there was an extremely tight timescale as it would be necessary for whatever funding measures were adopted to be in place in good time to assist students starting university in Autumn 2007 with the payment of Top-Up fees.

Further clarification was requested from the Minister concerning other possible options for funding and requesting details of why these options had been rejected. The Minister was also invited to discuss this matter when he attended a regular Panel briefing on February 5, 2007.

As a result of this process, the panel has decided that there would be very little benefit in the Panel undertaking a general review of the Minister's proposals at this time, for the following reasons:

- The optimum time for a general review to be undertaken would have been at the time of issue of the green paper. Unfortunately, at that time the Panel (in its earlier guise of the Social Affairs Scrutiny Panel, which had a remit covering 5 Departments) already had a full work programme and did not have the capacity to undertake such a review.
- In view of the urgency of implementing a robust scheme in time to benefit the next student intake, there is not realistically enough time for a meaningful review of the proposed introduction of Student Loans to take place.
- Public consultation had been carried out and there is some evidence that results have been incorporated in the background papers supporting the Minister's proposals. However the Panel is concerned that a number of questions raised during the consultation process remain to be addressed.

Discussions with the Minister on several specific areas which concerned the Panel have revealed that these areas are also still under consideration by the Department. These areas are:

- Local business bursary schemes
- Tax incentives
- Defining the family in relation to parental contributions

It has been agreed with the Minister that the Panel should be kept informed of work done in these areas and it is noted that the input of Scrutiny to this on-going work would be welcomed.

The Panel therefore considers that the important area of further education funding should be kept under general consideration. The Panel will not be reviewing the general principle of the introduction of Student Loans but notes the possibility of a formal Review being undertaken into one or more of the detailed aspects of general funding still under consideration. The Panel will also keep a watching brief on the Student Loan scheme itself as it develops and will monitor the affect its implementation has on the students, their families and the numbers of students entering further education over the next one to two academic years.