

# STATES OF JERSEY

## Education and Home Affairs Scrutiny Panel Student Financing

**MONDAY, 19th DECEMBER 2016**

**Panel:**

Deputy J.M. Maçon of St. Saviour (Chairman)

Deputy S.Y. Mézec of St. Helier

Deputy T.A. Vallois of St. John

Adviser to Panel

**Witnesses:**

The Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Director, Financial Planning and Performance

Director, Education, Sport and Culture

[10:01]

**Deputy J.M. Maçon of St. Saviour (Chairman):**

Welcome to this hearing of the Education and Home Affairs Scrutiny Panel. Just a bit of housekeeping. Good morning everyone. Deputy Jeremy Maçon, lead member for this review into student financing. Just a few housekeeping reminders. Please make sure that your mobile telephones are switched off and I would ask that the Minister's team can assure that they have read the scrutiny statement in front of them and they understand what it is saying. I believe we have got a timeslot of an hour so, as always, we appreciate concise answers. Thank you. For the tape, I will ask everyone to introduce themselves. I am Deputy Jeremy Maçon of St. Saviour, District Petite Longueville.

**Deputy S.Y. Mézec of St. Helier:**

Deputy Sam Mézec of St. Helier No. 2.

**Deputy T.A. Vallois of St. John:**

Deputy Tracey Vallois of St. John.

**Scrutiny Officer:**

I am Mick Robbins, the Scrutiny Officer.

**Adviser to Panel:**

10:02:55 (inaudible), adviser to the committee.

**Deputy J.M. Maçon:**

Minister, if you can introduce your team, please?

**The Minister for Treasury and Resources:**

Senator Alan Maclean, Minister for Treasury and Resources.

**Assistant Minister for Treasury and Resources:**

Assistant Minister for Treasury and Resources, Constable John Refault.

**Director, Financial Planning and Performance:**

Alison Rogers, Director for Financial Planning and Performance.

**Director, Education, Sport and Culture:**

Justin Donovan, Chief Education Officer.

**Deputy J.M. Maçon:**

It is wonderful to see members of the public and media here and season's greetings to you all. If we can start. Thank you very much, Minister, and your team for being here today. Can I ask: what is the purpose of a higher education allowance under the tax system?

**The Minister for Treasury and Resources:**

To ensure that as many people as possible have the opportunity to gain access to higher education.

**Deputy J.M. Maçon:**

Thank you for that. Can you please tell us how much the allowance is worth?

**The Minister for Treasury and Resources:**

For standard rate taxpayers it is £6,000 and for marginal rate it is £9,000.

**Deputy J.M. Maçon:**

I wonder if you could tell us how much more monies would the Treasury receive if the revenue of this allowance was removed?

**The Minister for Treasury and Resources:**

Across the 2 it is £3.5 million. I think from memory that is about £735,000 for the standard rate taxpayer and the balance for the marginal rate, but in total £3.5 million.

**Deputy J.M. Maçon:**

Thank you. Can you just confirm that that applies to all taxpayers regardless of income?

**The Minister for Treasury and Resources:**

Yes, it does.

**Deputy J.M. Maçon:**

Thank you. For example, if the allowance was removed, how many individuals would that affect?

**The Minister for Treasury and Resources:**

The total number is just over 1,700, I think in the various bands obviously that go up to the top.

**Deputy J.M. Maçon:**

Given that context, can I ask what does this policy allow to ensure that the Government delivers its aims?

**The Minister for Treasury and Resources:**

As I have said before, it gives more access, to those most in need, to higher education by giving them the support. I think if you looked at the breakdown of those that benefit, there are a disproportionately high number, not surprisingly, in the lower income bands. So if you were to take it away it is very likely that there would be, certainly in the shorter term where people have planned for this, some degree of distress, I would suspect.

**Deputy J.M. Maçon:**

Thank you. Has the Minister considered perhaps tapering a capping of this allowance?

**The Minister for Treasury and Resources:**

Not specifically, no.

**Deputy J.M. Maçon:**

As you said, while many do benefit perhaps on smaller incomes, as we know it applies across the board and given that presumably the system is to try and target ... am I correct in saying that we want that targeted so the less advantaged are able to access higher education?

**The Minister for Treasury and Resources:**

Yes, absolutely but, as I was alluding to a moment ago, if you look at the distribution you will see that although there are some in the standard rate tax bracket, the higher earners if you like, the majority is not in that category. It is much further down and in fact if you look at it the bulk are between income bandings from £26,000 to £90,000.

**Deputy J.M. Maçon:**

Thank you. Can I just ask then, how many individuals of the higher tax band that you have referred to does the policy currently hit?

**The Minister for Treasury and Resources:**

In total cost of the £3.5 million, it is £735,000. In terms of the numbers ... I am not sure if I have got the figure directly to hand. Hold on. Of course it would depend on ... that would be the band over £90,000, so it looks, at a quick cursory glance, that it would be somewhere in the region of 150 perhaps, but I am happy to come back with more precise figures. We have got the data here. I just have not added up all the various component parts but it is something of that order.

**Deputy J.M. Maçon:**

If we have not had that data, would you mind sharing that with the Scrutiny Panel, please?

**The Minister for Treasury and Resources:**

If you have not, you are more than welcome to it.

**Deputy J.M. Maçon:**

Thank you.

**Deputy S.Y. Mézec:**

The higher education allowance, what impact do you think that has on the tax system in terms of making it progressive?

**The Minister for Treasury and Resources:**

Well, effectively it is designed to give support to those with less income, so the more you get the less you get. I would have thought on that basis it could be properly described as a progressive arrangement.

**Deputy S.Y. Mézec:**

If you are thinking about somebody who is on a relatively low income but still just about a taxpayer, do you accept that the proportionate benefit they receive from the higher education allowance is not that great when you look at how much tax they would be paying? I am thinking of somebody who is receiving £3,000 allowance for the child that then becomes £9,000 when that child starts their higher education, but if they are only just a taxpayer, paying maybe 1 or 2 per cent effective rate, the proportionate benefit they receive when that allowance goes up to £9,000 is not as great as somebody who is on an income that is much higher.

**The Minister for Treasury and Resources:**

Yes. That would be a fair comment.

**Adviser to Panel:**

It is difficult to describe it as progressive, is it not, for that reason and it is the case that the more you are earning the greater the benefit you are going to get? I cannot see the benefit to the state of providing that allowance to those higher taxpayers. Is there any thought to just making it not available to the top taxpayers?

**The Minister for Treasury and Resources:**

The point is to assess where that cut-off might be, which is obviously important. I think I mentioned earlier on that the numbers are very small to those that do benefit. In terms of savings, it would not be a huge amount of money but in terms of fairness and equity the point is fairly made.

**Deputy J.M. Maçon:**

Although as I understand with the extra £2 million, which we will go on to talk about, I believe that is estimated to assist about 600 students across the board, if I correctly remember the press release.

**Director, Education, Sport and Culture:**

Between now and 2019, yes.

**Deputy J.M. Maçon:**

So if the figure is £735,000, which is the bulk, that would still assist a significant number of students who are disproportionately more needy, would it not?

**The Minister for Treasury and Resources:**

I think it depends, as I said a second ago, where you put the cap. If you look at the charts that we have got, which we are happy to supply you if you have not already had them, you do see some households with significant earnings that are getting benefit and I accept that that is hard to justify. The numbers, I suspect, are very small in the overall figure that we have just talked about though. So I do not think it is a big financial gain but there is a matter here of fairness and equity. To be fair, I am surprised, albeit a very small number, that there are some who are claiming it.

**Adviser to Panel:**

This is a question of political balance, I suppose, but if fairness and equity is a dominant consideration, what would be wrong with just stopping the allowance and using it more directly to provide more allowances, more loans and grants to those who need it the most?

**The Minister for Treasury and Resources:**

I think in principle that is reasonable. The difficulty, I would suspect, would be those that have factored it into their financial planning. I suppose the second part of the answer to the question would be over what period might you seek to make a change. There is an issue there to be addressed, but from a pure policy perspective I can understand the rationale behind it although it does strike me that you could design a system that would be targeted in a way that it would need to be phased in over a period. I do not know from an Education Department point of view if there would be any particular issues.

**Director, Education, Sport and Culture:**

Yes. As you will know from the previous report, we have looked at all sorts of ways of shifting it and what we found is that whatever we do we end up just changing the demographics of the winners and losers. By increasing, as you say, Chairman, the pot very slightly, what we have done is raised the bar so that people now earning well over £26,700 come into play and increased slightly the maintenance fees. That will have an impact on a number of people, but whichever way you cut the cake you have winners and losers.

**The Deputy of St. John:**

Minister, you stated a significant amount of money. Could you just specify what you see as a significant amount of money in relation to the allowances?

**The Minister for Treasury and Resources:**

I said not a significant amount of money.

**The Deputy of St. John:**

No, you stated that people receiving the allowances had a significant amount of money. I am just trying to determine what you think a significant amount of money is?

**The Minister for Treasury and Resources:**

Income wise? It was just some of the income bands that I was noting on our statistics, for example that there are individuals, or households I should say, with earnings in excess of £200,000 that are gaining some benefit.

**The Deputy of St. John:**

Am I right in saying that there are people who are earning over £100,000 who are achieving the allowance of £9,000 on the marginal relief?

**The Minister for Treasury and Resources:**

They would not be achieving £9,000 on the marginal relief because that is set. Sorry, depending on the circumstances of an individual family, it could be up to as high as £130,000 of income. The point I was making was that there are families, households that are earning over £200,000, which is way outside of marginal relief in the standard rate tax bracket, that are benefiting from and claiming this allowance.

**The Deputy of St. John:**

I was just trying to determine what you meant by significant, so thank you for that. The actual allowances under the tax system, when we talk about the £9,000 and the £6,000 they do not represent that relief to that individual, do they, in terms of tax purposes?

**The Minister for Treasury and Resources:**

No, they would get at standard rate 20 per cent of the amount and under the marginal relief basis it would be based on 26 per cent or whatever.

[10:15]

**Deputy S.Y. Mézec:**

Moving on, from a Treasury point of view is it better to fund higher education through direct funding or indirect funding?

**The Minister for Treasury and Resources:**

That is a very interesting question. I think from a Treasury point of view it is very much looking at the policies that are brought forward by Education and trying to find a suitable funding mechanism to meet the broader stated government aim of getting as many people as possible into higher

education or having the opportunity to access higher education. I think at the moment we have a system that does both in terms of your question. The point is what is the most cost effective and affordable way of expanding the availability of higher education. I suspect it is probably along the lines of expanding both.

**Deputy S.Y. Mézec:**

In terms of working out what is the most cost effective way of providing funding for people who are going for higher education, has it been looked into what the impact would be if there were no higher education allowance? You said before that relatively wealthier families can still benefit, sometimes proportionately benefit a lot more from that particular funding mechanism than somebody who is on the lower end of the income bracket. Rather than losing revenue through that indirect funding mechanism, instead to go for more funding in the grant system that can be targeted more effectively based on income. Has that been looked at?

**The Minister for Treasury and Resources:**

You could certainly reasonably take some of those at the top end and I suppose that would fall broadly into that £735,000 worth of funding, maybe a little bit more from adjusting the other system, and target that money into the grant or expanded grant scheme. You have got to make certain, obviously, that the grant scheme itself is working effectively and, of course, that is of critical importance. If you are not spending all the money that you have got allocated then you have to start asking yourself why is that and how can we adjust it accordingly.

**Deputy S.Y. Mézec:**

Have any other funding mechanisms been looked at, such as a specific tax for higher education? I know that in the U.K. (United Kingdom) something has been spoken of by various political parties like a graduate tax or potentially other forms of tax where the money raised is ring-fenced for higher education. Is that something that has been looked at?

**The Minister for Treasury and Resources:**

No, we have not specifically looked at doing that and, as I think I have stated on a number of occasions, looking at hypothecating taxes for purposes such as that is not something that would be at the top of the agenda necessarily. I think, first and foremost, you look at the existing systems and I think that is what the education system has been doing to ensure that they can deploy the resources that they have now to make sure they are providing the maximum output and outcome desired.

**Deputy S.Y. Mézec:**

Looking at what is happening with the current system, do you feel like it is achieving its maximum potential output? What scope do you think there is for increasing the benefit that can be provided

for these people under the current framework? At what point do you have to look at that framework and judge whether or not it is actually meeting the optimum needs?

**The Minister for Treasury and Resources:**

First of all, I should make it clear about the framework, as you describe it, and I suppose more broadly policy in relation to this area. That is very much an issue, first and foremost, for the Education Department. From a Treasury perspective, we will look at options presented to us that require funding, whether that be additional funding or other methods of funding, and work out what the options of availability would be in that regard. I think one observation that I would make is that we have increased, as you will be aware, the funding towards the education budget from £10 million to an additional £2 million recurring by 2019 to try to support that area but what I am noting is that not all the existing budget of £10 million is being spent; there is an underspend. There have been underspends in the past in this area, so not all the money that is available is being utilised and that would perhaps suggest that some additional focus needs to be around the question as to why.

**The Deputy of St. John:**

Am I not correct in saying that the reason for that was that the actual way that the system was set up was the reason for the underspend in terms of it has been at £26,000 since 2001 in terms of the level being able to be provided and now that that has been changed we do expect to see more money being spent through the grant system?

**The Minister for Treasury and Resources:**

I think the best person to answer that question might well be Justin.

**Director, Education, Sport and Culture:**

The answer to that is no. The fact there has been an underspend, not huge but certainly an underspend, is simply because there are fewer students opting to go to university and, of those who are going, more are staying on Island, so it is a lot cheaper. We have a system set up, a budget set up based on historical trends and patterns. It is a ring-fenced pot of money so if the student numbers drop slightly then that money goes back so we do not spend it on other things. It would be very interesting to look at the figures for the coming year because you would expect that the overall cohort in any year was around about 1,000 young people but you will see the figures go up and down. We need to decide, I think, this year, look at the numbers this year: is it in fact numbers are just going up and down or is it a genuine trend, a dip or a trend? I think it is a trend because talking to young people and talking to schools, it is to do with the cost, clearly. So, as you know, we are looking at a number of other areas. In fact, we had meetings only last week with French universities to open up different gateways for young people. The underspend is because of the numbers falling. What we cannot do is just suddenly pay more money to those who are going because the following year the

numbers might go up again, so it is a volatile budget, but if it is a trend then we can redeploy that money and make it more widely available. My view is I think it is timely to have a root and branch review of this. A lot of the attention has been focused just on whether we should have a loan scheme or not. I think it is time for a broader review. Standards in our schools are beginning to rise, as we know they should. Our G.C.S.E. (General Certificate of Secondary Education) results went up last summer. That means more young people doing A levels this September just gone, more the following year, therefore a slight increase in those qualifying to go to university. So I think it is a good time to carry out that review, but the overall reason for that underspend is a drop in the number of students deciding to go to university, particularly off Island.

**Adviser to Panel:**

That is very interesting. I have been surprised by the relatively low proportion of young people in Jersey going to university. Could that be because, despite the availability of a grant and a loan, what is left for them to pay, especially for maintenance while they are away, is just unaffordable? So, although the grant and the loan is available, they just cannot take advantage of it and so that is one of the reasons why they may not be applying, why the numbers might have dropped.

**Director, Education, Sport and Culture:**

I think that in Jersey, the impact that you see in England is just slightly exaggerated in Jersey because you have the additional costs of flights off and on Island, slightly more vulnerable. I think we are following the trends of England but just slightly behind and I think it is a bigger decision to take. As I say, we have to be very careful in our Education Department when we look at annual figures because they do fluctuate. They are bound to statistically from year to year and so we are very keen to look at 3-year averages. My gut feeling is that this is not just a blip. My gut feeling is there has been a drop of around about 100 students a year on the edge of going or not, deciding: "I will not go" or "I will go to university but I will pick up one of the courses here on the Island." We now have 22 full-blown higher education degrees on the Island and access to a lot of other part-time degrees through other organisations, so there is now more choice on the Island for young people.

**Deputy J.M. Maçon:**

If I can just intervene, I am conscious that we will have the Minister for Education before us and we are concentrating on Treasury today. If I can put a question to the Minister for Treasury, as we have been talking about alternatives: can you please tell us what work, if any, has been done looking at a savings scheme, an I.S.A. (individual savings account) type scheme, a tax-saving scheme that in the long term might assist families and students towards university funding?

**The Minister for Treasury and Resources:**

There has been little work done. There has been some assessment of such schemes, as you rightly point out there. I think I have answered questions previously on this that any form of savings scheme is something for the long term as opposed to anything else and, because Treasury clearly are not a bank, it would require some participation and input from external sources as well.

**The Deputy of St. John:**

Following that question, what responsibility does Treasury have to ensure that appropriate monies are available for higher education?

**The Minister for Treasury and Resources:**

The same responsibility and same response as would be the case for any department making its request for funding. Departments put their budgets in and we would obviously support any particular additional request made by departments if we possibly can, if they are within an affordable envelope, to develop government policy, to support government policy.

**The Deputy of St. John:**

On that basis, who do you think should be responsible for financing higher education?

**The Minister for Treasury and Resources:**

Departments are responsible for policy and furthering requests for developing areas that are priority areas within their remit and presenting those budgets for consideration through the budgetary processes. Ultimately, Treasury would have an involvement in supporting or otherwise requests for additional funding.

**The Deputy of St. John:**

Do you think it should be a separate pot, so a type of fund area, or whether it should stay under the Education Department? I am just trying to see whether there would be a purpose for it being separate to the Education Department in terms of money, funding wise.

**The Minister for Treasury and Resources:**

I understand the point you are getting at. I do not see that really because the experts ... the operation of any scheme that is being funded needs to have appropriate oversight, clearly, and I think in terms of running the schemes the department with the expertise is the right one to be at the forefront. Clearly beyond that if it is not being managed properly that would be a separate issue and separate matter.

**The Deputy of St. John:**

How would the Treasury feel about a levy on employers who employ graduates?

**The Minister for Treasury and Resources:**

I am not sure this would be particularly a Treasury position. I can give you a personal view. I think that any form of encouragement for broader bursary participation within industry is something that one should encourage but not necessarily seek to legislate or use other mechanisms of that nature to encourage. We do see quite a lot of bursary schemes within the private sector. I think there are options in terms of developing what is available for Government to perhaps ... and this is one of the offers I think that the Education Department themselves have begun to look at. Joint government and industry schemes are options for getting greater participation than perhaps suggesting something such as a levy.

**Assistant Minister for Treasury and Resources:**

Can I just add a little bit extra in there? Another thing that is occurring, not necessarily with regard to higher education but certainly in giving contracts now to States projects, on many of them now there is a requirement for the contractor, the tenderer, to put in their bid how many young people they are going to be taking on as potentially on trades. That is one example where there is a move forward now, even at the lower levels of skills or manual skills, and that possibly could be translated out to the higher levels of students coming back with degrees.

**The Deputy of St. John:**

In terms of student finance as a whole, who should have the political responsibility for the finance side of higher education, student finance?

**The Minister for Treasury and Resources:**

Are you referring to the approval of additional financing, the policy?

**The Deputy of St. John:**

I am just asking who should have the political responsibility for student finance?

**The Minister for Treasury and Resources:**

As the system is managed at the moment, the department themselves have responsibility for their own budget in that area and they have an accounting officer, the chief officer, who would be responsible for that funding. If your question is more aimed at who should be responsible for extending that, clearly first and foremost it requires the department to come forward with a request based on the way in which they would seek to expand a particular scheme, higher education for example, and that request, as I have said, would go through Treasury. Ultimately, if it is a policy decision that requires adjustment through other departments, then the Council of Ministers would also have an input into that ultimate decision if there was a major change of direction required.

[10:30]

**The Deputy of St. John:**

If there was an ultimate need to overhaul and change the student finance system that we currently have, would that lie at the door of Treasury or the Council of Ministers or the Minister for Education?

**The Minister for Treasury and Resources:**

I think first and foremost, and I would always say this, that it is important for the department that has the expertise, in this case Education, to come up with some policy directions with regard to delivering on their key priority objectives and bring that forward, therefore, to Treasury where we will provide some financial scrutiny in terms of the plans, the reality of them, the affordability and so on and so forth. Ultimately, if it was a major change, I would suggest that it should go to the Council of Ministers for their approval.

**Deputy S.Y. Mézec:**

It is obviously difficult in politics making sure you make decisions that improve the here and now but also look to the long-term future to ensure that that is protected as well. But given that one of the strategic priorities of this Government is to ensure economic growth, which obviously then leads to increased tax revenues, how do you see the Government's position on higher education as an investment that sees a return later in the future?

**The Minister for Treasury and Resources:**

I think the Government recognises, as other governments clearly do, the value of a strong education system and within that, higher education is obviously critically important. That is why we invest £10 million in this area and that is why we have increased the funding by a further £2 million recurring by 2019 and why we have the other allowances that we have been discussing this morning. The big question is the effectiveness of what we have got in place at the moment and whether that can be improved. My view is, yes, it can. I think the Education Department themselves think it can be and work is ongoing to achieve that aim.

**Deputy S.Y. Mézec:**

If because of financial considerations fewer young people decide that they want to go on to higher education, what impact do you see that having on Jersey's economy and government finances, maybe not necessarily right away in the next few years but longer term? What impact and are there any forecasts looking at the number of young people going to university today compared to a few years ago? What long-term impact do you think that will have on government finances?

**The Minister for Treasury and Resources:**

There are very many moving parts in answer to that question. As the Education chief executive has just said, there is significantly greater on-Island provision than there used to be so that means our young people still have opportunities to get degree qualifications on Island as opposed to going off Island. That would provide some of the difference, I suppose, to the numbers that were originally going off Island for such qualifications. Ultimately, we want as many of our young people to get as high a level of qualification as possible. One of the very obvious benefits of that is ultimately, if we grow more of our own, we are going to be importing less qualified labour. In terms of migration, it is critically important, as you rightly say, for the medium and longer term.

**Deputy S.Y. Mézec:**

You have pre-empted what was going to be my supplementary question to that. When you look at the figures, as we have seen in terms of numbers who are going away for higher education or just undertaking it in general, where does this sit on your list of priorities with a specific perspective on economic growth? We know about all the various efforts there are to make sure young people are trained up for Jersey's emerging industries and obviously that is something that does not happen overnight; it takes a longer period of time. On your list of priorities, where does assisting people with higher education fit in, specifically with the perspective of economic growth?

**The Minister for Treasury and Resources:**

It is clearly very high up because economic growth and productivity improvements, a strong economy, supports jobs, gives and creates job opportunities, helps the migration issues that we have talked about. So it is right up there at the very top. It is recognised here in Jersey, as it is in other jurisdictions, as being critically important, not just higher education but a good strong education system throughout.

**Deputy S.Y. Mézec:**

We have asked questions before about where political responsibility should lie for student financing and obviously there will be a responsibility within the Treasury Department and there will also be one within the Education Department, but what about Economic Development? What representations are you getting either from that government department or, more widely, the business community saying: "This is an issue that we believe needs more attention to"? Do you get representations from those people?

**The Minister for Treasury and Resources:**

It is interesting, I think, that as we have seen sectors develop over decades, finance being an example, we have seen more and more companies providing, for example, bursaries, which I think is a positive example of how sectors develop and how the educational requirements and needs are

recognised and acted upon. As I have said, I think there are opportunities and I know that Education are looking at ways in which government and the business sector can work more closely together with some activity of government perhaps co-funding bursary schemes with industries in sectors where it is in particular interest and value to the local economy. I will give you an example and that would be the development of our digital sector where there is, it appears, a shortage of the right level of skills. For government to step in and work with industry to try to provide a system that would boost further participation I think is a very positive step forward. In terms of departments that get the feedback, that would be the Economic Department together with Education about where the needs are. Identifying the actual needs is going to very much be at the coalface, if I can put it that way, in the particular sectors where development is ongoing and yet there is not the available skills to meet the growth.

**Adviser to Panel:**

Minister, just a supplementary to that. You said, and I am sure this is right, that one of your top priorities in terms of development of the economy is production of graduates and top level education. I have been trying to compare Jersey with its competitors and on almost every count - the proportion of young people who go to university, go into higher tertiary education and particularly the investment of the state in higher education - you are well behind. It seems to me on the basis of what I have seen so far, you are well behind your competitors. Does that concern you in terms of what you have said, the need for more and more graduates to be produced in order to enable your economy to grow?

**The Minister for Treasury and Resources:**

At face value, yes, it would. I would be interested in the specifics of what you are referring to and I think we need to look at a broader picture.

**Deputy J.M. Maçon:**

You will enjoy seeing our report when it is produced then.

**The Minister for Treasury and Resources:**

I am sure I will.

**Deputy J.M. Maçon:**

Can I just ask is education seen as an investment? How is that treated with regard to if a loan were taken out, could that be balanced off against the borrowing levels, seen as an investment rather than a cost? How would that work for accounting purposes?

**The Minister for Treasury and Resources:**

I think education is an investment at a very high level. I think if you were trying to treat it like a balance sheet it is slightly difficult in terms of assessment. If you get into areas that the U.K. obviously are very well versed in since their student loan scheme was first established in terms of the amount of funding required, the amount of defaults that have occurred and potentially the liability that is being carried, it is quite difficult to assess what that actually means.

**The Deputy of St. John:**

In May this year there was the production of R.51/2016, which was for higher education funding by the Minister for Education. What work has Treasury been doing since the production of that report to assist Education in finding an appropriate funding mechanism for higher education?

**The Minister for Treasury and Resources:**

As I pointed out earlier on, it is for Treasury to do that once there is a scheme that needs funding and although it looked at a number of areas for improvement, it has really got to pin down exactly where the additional funding is required. As a result, more funding was put into the grant area. As I have mentioned already, the £10 million was increased by £2 million per annum recurring by 2019, but it is really down to Education to develop where they would like the additional funding and then we look at those requests and assess them.

**The Deputy of St. John:**

Is it just purely about additional funding then? Is it not about the actual whole context of the funding itself and looking at the appropriate way forward and, therefore, would need Treasury sitting alongside Education to do this rather than Education to do it themselves, to come forward to Treasury to say either: "Give us some more money" or "This is the type of scheme that we want"? Is it not better to be working together on this?

**The Minister for Treasury and Resources:**

Of course Ministers and departments do work together but it is ultimately the responsibility of the department to develop their policy. What we assisted Education with is looking at some of the higher cost options, for example loan schemes in comparison to the examples that we have seen being developed in the U.K., and looked at that in the context of affordability here in the Island. Education are now looking at the expansion of some of their existing schemes as being the most sensible, easier, more affordable short-term way in which we can get more people into higher education. Once those have been worked through and come back to us then we will look to see how much of that can be funded from the point you were making earlier on, which is revising the existing system, including the allowances that you referred to. You have made the very reasonable point that we should be perhaps looking at ways in which that could be adjusted and targeted in a more effective way and indeed why it is that not all of the existing funding is being deployed and targeted for reasons

that might be extending out into areas like the cost of living maintenance in the U.K. and so on and so forth. Some of the solution may be within existing budgets and it is retargeted, some may require additional funding, but there is more of a focus now into the areas of expanding what is there already, like bursary schemes as I have touched on, bursary schemes jointly with industry, extending some of the good schemes like the master's bursary scheme that is there but has relatively low participation rates. Once that is pinned down we will work with Education on the funding side.

**The Deputy of St. John:**

Have you stated any stipulations towards how Education can or cannot look at this? Are they confined into a particular box, so you have already turned round and said: "I do not want you spending any more money, I do not want you doing this", those types of things, or have you literally turned round and said: "Go away and work up whatever you think is the optimal system for our students in Jersey in the future and come back and we will work a scheme"?

**The Minister for Treasury and Resources:**

We have not said do not do anything, but I think really rather than ask me you ought to ask the chief executive of Education to perhaps give you a view on that. I do not think we have put any constraints or handcuffs or chains on their policy development.

**Director, Education, Sport and Culture:**

No.

**The Deputy of St. John:**

It was not the policy development I was asking about. I was asking about the funding. You are the Minister for Treasury, the funding side of things. We all know how the States works and sometimes there are constraints placed on departments to say: "This is your box, now go and work within it. All I am asking is that in this particular scenario, whether it be we can fund this over a longer period in this particular way, we will find a way to do it." Have you put constraints on and just said: "You are not going out of these confinements"?

**The Minister for Treasury and Resources:**

No, I do not believe there are constraints. Clearly both Education and ourselves are very well aware that there are some options that would be what I would describe as completely unaffordable. But I have certainly said in a fairly recent meeting with the Director and the Minister to come up with development of extending some of the existing schemes and we will look at how we might find ways to fund them, believing on that basis that there would need to certainly be a creative solution.

**Deputy J.M. Maçon:**

Can I just ask then, that remit would also include changes to the tax scheme?

**The Minister for Treasury and Resources:**

That would potentially, depending on whether one was going down the route ... if you are talking about, for example, the allowances, that would really be up to the Education Department to see if that was an area that they felt was not working and could be better devised or rewritten.

**Deputy J.M. Maçon:**

I am conscious that in R.51 there seemed to be very little involvement or recommendations to do with the Treasury Department. It appears that the tax scheme did not appear to be reviewed and it appears that there is comment that could be made. I just wonder why there was no mention of the Treasury in R.51?

**The Minister for Treasury and Resources:**

Perhaps you need to ask the Education Department that question.

[10:45]

I think that, first and foremost, it is in the interests of the Education Department, the Treasury, but more importantly Government, to try to improve the situation with regard to higher education and greater participation as quickly as we can. The view is, I understand from Education and I support this, that there is greater likelihood of getting improvements and, therefore, greater levels of participation by expanding and working with broadly existing schemes.

**Director, Education, Sport and Culture:**

While we have been given no straitjacket to work within, we are obviously conscious of the overall position that the Government is in in terms of its budget. There are examples where the Education Department is working very closely with the Treasury. For example, the Treasurer and I went together to meet the Jersey Banking Association and spent some time talking to them about loan schemes and saving schemes. We were very politely told that a loan scheme was not something that they would want to participate in but a saving scheme is something they would look at. We were only last week, or the week before, with U.K. Government officials arguing yet again to allow us to enter the U.K. loan scheme. The response there was they would have to change U.K. law before we could do that and it is unlikely that they will be doing that obviously. We have also been in discussion about possible extensions to the current scheme. I said we have had a slight tail-off in recent years but are concerned it might go back up again so we do not want to make too many long-term investments with the budget. What we are looking at are schemes that will allow us to work flexibly so if the numbers continue where they are and there is some freed-up money, rather

than give it back to the Treasurer, we are looking at schemes that we can introduce quite quickly. It is early days yet so this is not for announcement, but one of the areas we are looking is we do like the idea of working with industry and commerce in terms of bursaries because we can flex that from year to year. Students will be there for a 3-year period so we have to be very careful. The beauty of that is we will be using public money to invest back into Jersey's industry and commerce. Similarly, we could have a scheme where we could look at our own States departments: do we need engineers, for example, in various places? We could look at that. We are also looking at ways we can invest in existing schemes.

**Deputy J.M. Maçon:**

We will come to that. Can I ask specifically on the point in R.51 of what work was done with Treasury, because it does not appear there has been any analysis of the Treasury side of the system?

**Director, Education, Sport and Culture:**

It is very much an Education report. As an Education Department, we did not look at the tax system. It was written by the Education Department, which is why it has got the flavour it has.

**Deputy J.M. Maçon:**

Back to the Minister for Treasury, does the Minister believe that he is the only one who is responsible for identifying monies for higher education funding?

**The Minister for Treasury and Resources:**

No.

**Deputy J.M. Maçon:**

If so, why?

**The Minister for Treasury and Resources:**

As we have touched on before, there is possibly ways in which the existing funding can be better targeted and that funding is already within the Education Department and, as I have said, they are looking at ways in which their existing funding can be perhaps utilised in a more targeted and effective way to meet the policy objectives. Therefore, that would be very much an area for Education to work on and develop.

**The Deputy of St. John:**

You touched on the £2 million extra that you said has been placed into the funding. Can you just explain how you established that the £2 million was the correct amount of money and whether that was just a return of the underspends that were removed?

**The Minister for Treasury and Resources:**

I think that came about as a result of the fact that that particular grant funding had been frozen some years prior and, therefore, it was trying to take into consideration where it would have been if it had not been frozen at the time so it was more reflecting ...

**Deputy J.M. Maçon:**

Who would indeed make that judgment? Who indeed?

**The Minister for Treasury and Resources:**

Well, indeed, Chairman. Again, it was just trying to ensure that from an inflationary point of view we were back, broadly, to where we would have been.

**The Deputy of St. John:**

At the stage of the M.T.F.P. (Medium Term Financial Plan) last year the Council of Ministers were very adamant that there was no extra money for higher education funding but then in the addition this year they found another £2 million and decided to apply that. I am just trying to understand the thinking, the discussion behind the establishment of putting that £2 million back into the higher education funding when last year it was apparent that no extra funding was going to be applied.

**The Minister for Treasury and Resources:**

That is reflected more than anything else in the performance of the economy and the condition that we found ourselves in. Initially, when it was extremely tight for all departments, it was very difficult to identify additional funding for any of the priorities that we had but obviously as conditions improved we recognised that this matter needed to be addressed. There was some small amount of additional funding available and it was prioritised into this area to take into consideration the fact that some years ago it had been frozen and, therefore, had fallen behind where it should have been on inflation-adjusted terms.

**Deputy J.M. Maçon:**

Can I just clarify the £2 million, when you talk about where inflation should have taken it was that looking at the maintenance part, the fees part or both together?

**The Minister for Treasury and Resources:**

I think it was looking, from memory, at the fees part.

**Director, Education, Sport and Culture:**

It was both.

**The Minister for Treasury and Resources:**

It was both, was it? Okay.

**Director, Education, Sport and Culture:**

This was an example of Education was saying to the Treasury: "We need more funding here. It has been stuck for too long and no money has been made available." So what it allows us to do is raise the threshold from £26,000 up and to increase slightly the maintenance allowance.

**Deputy J.M. Maçon:**

You are saying over that period since 2001, had it tracked inflation it would have come to £2 million extra?

**Director, Education, Sport and Culture:**

No, the £2 million goes some way to plugging that gap but it does not close it.

**Deputy J.M. Maçon:**

What would the difference have been?

**Director, Education, Sport and Culture:**

I would have to go back and look at the figures.

**Deputy J.M. Maçon:**

We will look forward to that information from you then, thank you. I believed it was more.

**Deputy S.Y. Mézec:**

What are your views on student loans?

**Deputy J.M. Maçon:**

Student loan systems.

**The Minister for Treasury and Resources:**

Sorry?

**Deputy S.Y. Mézec:**

What is the Treasury position on the concept of a more comprehensive student loan system? We know that from sections of the public there has been demand for something like this, so what is your view on it?

**The Minister for Treasury and Resources:**

I think it comes under the broad heading of affordability. I understand the appeal in some areas. I think, first and foremost, the system that we have got, as I have said several times, is broadly a good system although it needs some adjustment. If you go into areas of a loan system similar to the U.K. it becomes significantly expensive, significant impact potentially on public finances and consequently the focus, I believe, should be not on a loan scheme as such but on developing other options and the existing grant scheme that we have got.

**Deputy S.Y. Mézec:**

There currently is a small loan system with NatWest of £1,500 a year. Do you support the continuation of that or would you like to see changes to that?

**The Minister for Treasury and Resources:**

The comments that I was making were largely around the fact of the student loan system in the U.K. and the move for Jersey to go to a full loan system is not something that I believe we should seek to do. The existing scheme amounting to £1,500, and someone suggested that should be extended, requires obviously the participation of banks. I believe there has been some reluctance in that area to maintain the existing system or indeed, more to the point, extend it for a number of reasons. I think there are some clear limitations to the options that are available.

**Assistant Minister for Treasury and Resources:**

I think, Sam, it might be useful just to look at page 4 of R.51 where it says about two-thirds of the way down the page that: "Students have told us a high level of debt would be a deterrent" and looking under the heading "The Problem" the fourth paragraph down from that "Many parents ..." So the information coming back to Education is that most of the students do not want to take on that debt before they set out on whatever careers they want to go on to. They see that as a deterrent to going to university. Many people are saying that that would be a good option but students themselves are saying: "No, thank you."

**Deputy S.Y. Mézec:**

Do you know anything at all about the default rate on the current loan system?

**The Minister for Treasury and Resources:**

The latest figures presumably you are talking about here.

**Director, Education, Sport and Culture:**

It is very low, but because it is with a bank it is commercial. They do not borrow money from the States. They borrow it from a bank.

**Deputy S.Y. Mézec:**

But presumably, though, if there is a loan default rate on a particular type of loan then it is a less risky thing to be involved in because you can predict that you will get virtually all of the money back. In terms of risk, looking at the current system and the default rates, how has that affected your perception of whether a more comprehensive loan system would be viable in the Island?

**The Minister for Treasury and Resources:**

I do not think we have seen that example in the U.K. in terms of default rates. The low level of £1,500 that it is set at at the moment is an entirely different kettle of fish for a commercial bank to what we have seen with the student loan company in the U.K. where default rates at one stage were up, I believe, at about 45 per cent. I know they dropped down again to about 25 per cent but even at that sort of level you are talking ... I know you are at £1,500 but if it were a full student loan then it has been assessed at about £700 million that would be having to be underwritten, effectively. If you had a default rate of 20 per cent, that is £140 million. These are very large numbers and high levels of risk, even with much lower default rates than we have seen experienced in the U.K.

**Deputy S.Y. Mézec:**

If not a full student loan, perhaps even just an enhanced loan, so an amount that is higher than £1,500 a year, at what point would you anticipate that default rate would become a problem? If it is a very low default rate at £1,500, what do you anticipate it would be if it were £2,000 or £3,000? At what point would it become a problem?

**The Minister for Treasury and Resources:**

I think the point to focus on is the requirement and need for the banks to be prepared to get involved in it. What we have noticed, and I think what Education has experienced, is that whereas there were, I believe, 3 banks to start with, we are now down to one and it is difficult in a small jurisdiction. I think the reluctance by the banks, and this applies to a much larger student loan scheme, is around the default rate. It is not just the amount of money but it is also from a reputational point of view they would not want to be calling in the loans in the same way the Government would not want to be calling in loans that are defaulted.

**Deputy S.Y. Mézec:**

I do not know if you are aware but in New Zealand defaulting on a student loan is a criminal offence. Is that something that has entered your consideration at all? I am playing devil's advocate when pointing out that that is one option on the table obviously.

**The Minister for Treasury and Resources:**

I am not sure how appealing it would be if you made it a criminal offence, particularly again in the focused area of a small jurisdiction like Jersey. I can assure you that governments would not be wanting to pursue that and I suspect the banks would not either.

**Adviser to Panel:**

May I just intervene on the question of default rates? If default rates were redescribed as non-repayment rates ... which is what is the 30 per cent or the 45 per cent you mentioned in England. That is largely because of the subsidy, the terms of the loan particularly that they are written off after 30 years in England. The terms of the loans have now changed and that 45 per cent has reduced to 30 per cent. It is entirely within the gift of the Government to decide what the terms should be and, therefore, what the non-payment rates would be. Would that change your view, especially if you consider that the Government is getting a big bang for its buck. For every £30 that it invests the student is eventually investing £70. Would that change your view about the attractiveness of a student loan scheme? I am not advocating it but I am just interested to know whether if it was redescribed and could be defined in a way that would make it attractive to you.

**The Minister for Treasury and Resources:**

I suppose if the liability were at lower levels, if you were to craft it in a different way it could be looked at but I still suspect that the numbers are going to be significant if you are going to provide ... and I think you made the point yourself earlier on about the elements of the grant itself but also the maintenance side of it being one very reasonable reason why perhaps students have decided not to go. It is really about assessing the risks that one would face with regard to this. I know that in the U.K. these loans are described as financial transactions, so effectively they are off balance sheet. We do not really operate ... we are a little bit more prudent over here, if I may say so, a bit more conservative so we would not tend to push liabilities like that off our balance sheet.

**Adviser to Panel:**

I think the British Government are just describing what they do in terms of international connections, are they not? But anyway ...

**Deputy J.M. Maçon:**

I am just conscious of the time. Are you able to stay for another half an hour?

[11:00]

**The Minister for Treasury and Resources:**

I am happy to stay for another 10 minutes or so, 15 minutes.

**Deputy J.M. Maçon:**

We shall rattle through then.

**The Deputy of St. John:**

Just quickly following up on the default rate, on page 12 of R.51 it suggests that with a default rate of 30 per cent the monies paid could be in the region of £4.2 million a year for a fees-only loan scheme. That is equivalent to half the current higher education budget. What is the Minister for Treasury's view on that, considering it is half the current budget?

**The Minister for Treasury and Resources:**

I think it goes back to your point about how you define, at the end of the day. As I have said, the liability is likely to be, in our view, much higher based on some of the statistics that were produced. It is down to that level of risk.

**Deputy J.M. Maçon:**

Can I just ask about the current loans that we have? How secure is that function as it exists? We have known for a long time that it is not the keenest project that the bank has.

**Director, Education, Sport and Culture:**

I spoke to bank recently about this. We approached the bank quite recently because, as you say, there are 3 banks down to one and we approached the bank to say would they consider increasing it, going back to Deputy Mézec's point, and the answer to that was no. They do not see it as commercially viable. NatWest Bank continue to run the scheme as part of its contribution to the community of Jersey. It makes no money because it is relatively small numbers and it is quite expensive to administer. But it is set up as a straight forward personal loan scheme, like any other. So the answer to that is it is still secure, they say they are going to carry on with it but they do not want to extend it and it is down to one bank.

**The Deputy of St. John:**

Can I just ask what about banks outside of Jersey? Have there been any discussions with banks outside of Jersey or can we only do it with banks inside of Jersey, or even discussion with the actual politicians in the U.K. about Jersey accessing?

**Director, Education, Sport and Culture:**

We have spoken to the U.K. on a number of occasions, the last being a few weeks ago with a joint deputation between Jersey and Guernsey. The answer to that was no. In order for us to join the

U.K. scheme, they would have to change U.K. law to make that happen. We do not pay into the tax scheme in the U.K. and they are unlikely to change the law to allow Jersey to join the scheme. I think they have got other things to do. But we felt it is important to at least see if that door has closed on us and in our view it has been closed on us.

**Deputy S.Y. Mézec:**

Minister, you said that we deal with these things in a more prudent way than other places and do not necessarily show things on our balance sheets in the way that other jurisdictions may choose to, but we know that we have borrowed a very large amount of money for social housing projects and we are possibly going to be borrowing an even larger amount for the hospital in future. If this concept of borrowing very large amounts of money for a big social project is something that can be accepted when it comes other contexts, why it is not something that can be accepted for higher education, given that it is clearly such a benefit to the economy and for improving young people's prospects in life?

**The Minister for Treasury and Resources:**

We only have so much capacity in terms of borrowing and you have to split out, therefore, those particular areas that you have mentioned. For example, the housing bond was developed and had a specific income stream associated with it. Secondly, the hospital is yet to be approved but nevertheless, you are absolutely right, there is an intention for at least an element of debt funding to provide the solution for that particular project. However, if you were to add a further potential external debt borrowing into the equation then it begins to affect the state of our public finances, the ability for us to maintain our credit rating and reputation and so on and so forth. I think it is simply a case of how much we can reasonably afford to consider borrowing to be able to maintain our position.

**The Deputy of St. John:**

At what point does borrowing affect our credit rating and our funding sources in terms of the States finances?

**The Minister for Treasury and Resources:**

I will let the expert, Alison, give you an overview of that.

**Director, Financial Planning and Performance:**

S&P, who are our rating agency, have a point of 30 per cent borrowing to G.D.P. (gross domestic product). At the moment that is where they set it, but also they have concerns about big movement. For example, we will be talking to them around our proposal for the hospital borrowing because it would be something that they would want to make themselves comfortable about as well.

**The Minister for Treasury and Resources:**

Could I just add to that? I think I have mentioned this publicly anyway. Our level of debt to G.D.P. is currently about 6 per cent. If we go to a bond with the hospital at £400 million - and as you know the proposal is up to that level; it is yet to be finalised - that would take our debt to G.D.P. to around about 16 per cent, at face value well below what Alison has just referred to in terms of concerns for the rating agency, but it is not just the level. It is important just to emphasise it is the pace and scale at which you move and change your debt position that can change their outlook not just on the rating itself but the outlook for the rating and that needs to be taken into consideration. That comes back to the first point I was making about significantly changing our level of debt.

**The Deputy of St. John:**

Bearing that in mind, do we have any issues with regards to how the Public Finances Law is also written with regards to the level of debt?

**Director, Financial Planning and Performance:**

If we had the £250 million already in issuance, if we were to issue up to another 400 we would be at the limit because the borrowing limit is the equivalent of your previous year's tax take currently in the Public Finances Law.

**The Deputy of St. John:**

What was our previous year's tax take?

**Director, Financial Planning and Performance:**

It depends on what year, of course.

**The Deputy of St. John:**

It would be last year, would it not?

**Director, Financial Planning and Performance:**

The decision will be in 2017, so we would be looking at 2016's level which is forecast to be in the region of 665.

**Adviser to Panel:**

Just very briefly, you mentioned the debt to G.D.P. levels being critical and you mentioned Jersey's prudential approach to these things. They are rather different because, as you have already said, in other countries this sort of debt could be taken off the balance sheet and not counted in the debt and not regarded by the markets as a factor in the debt to G.D.P. ratio. You could, if you wanted to,

take if off balance sheet but you say that the prudential considerations might ... which is more important, do you think?

**The Minister for Treasury and Resources:**

If you are a large jurisdiction like the U.K. you have other options in terms of managing your level of debt. The U.K. debt to G.D.P. is currently standing, I believe, at about 88 per cent, just to put that into perspective, at £1.7 trillion. The numbers are almost unimaginable. But if you try to consider that in the Jersey context where we do not carry that level of off balance sheet debt either, because of course that is on top of the 88 per cent, it is just the conservative and prudent way that we have managed our public finances. I think in recent years the debt funding for the housing project to improve social and first time buyer housing demonstrated we are able to move to a certain extent but it is just the cumulative effect if you continue on in that way.

**Deputy J.M. Maçon:**

We will move on then. Looking at page 51 to the annexed financial reports to the accounts 2015 it shows that in 2015 £12.1 million was spent on vocational and tertiary education, and I think we have had this figure clarified but how much of this was on tertiary education? I think you have already touched on it but just for the record.

**Director, Financial Planning and Performance:**

We would have to come back to you on that one.

**Director, Education, Sport and Culture:**

In rough terms we spend about £8 million on Highlands Campus in terms of F.E. (further education), but I will have to go back and get the actual figures.

**Deputy J.M. Maçon:**

We will send that one in email form, I think. Panel are there any other questions for the Minister? To the Minister and your team, if there is anything that you would like to clarify for us that has arisen today or perhaps we have got the wrong end of the stick somewhere, just to give you that opportunity to add any comments. Deathly silence.

**The Minister for Treasury and Resources:**

I suppose the summary of the discussions are that there are a few areas of public finance that are more complicated than the accounting treatment of student loans that you were talking about earlier on and student finance generally. I suppose one of the other considerations is not wishing to create a debt situation for students either, which needs to be balanced, and within that whole mix the overarching government priority of wanting to allow as many of our young people to be able to

access higher education as possible. We will continue to work with and respond to Education with regards to policy development in that area from a financing point of view.

**Deputy J.M. Maçon:**

Thank you very much. In which case, I shall bring this hearing to a close. May I thank you for giving evidence to the panel today. In line with our protocols, could I ask that the public and the media exit the room. Thank you.

[11:11]