

Our ref: DS/1111/A323

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 Education Department
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20 June 2007

Dear Frank

Student Loans – Phase 5.1

Further to your e-mail of 7 June 2007 we have carried out projections of the loan system requested under phase 5.1 (“New Request 1”) and illustrated our results in the Appendix to this letter. For further details on the data and assumptions underlying our projections please see our letter dated 2 April 2007. We have allowed for the latest tuition fee levels sent to us on 4 June 2007 by assuming a 2.6% rise in fees for 2007/08 compared to 2006/07 levels. (Previously we had been asked to assume a 3% rise.)

I have set out in the table below a summary of the loans systems illustrated in the Appendix together with a summary of the system previously illustrated in Appendix 1 of our letter dated 16 April 2007. The monetary amounts quoted are all in 2006/07 terms.

	Appendix 1 of 16 April 2007 letter	Appendix to this letter
Annual Loan	£2,250 p.a. increasing in line with inflation. Loan ceiling of £21,500 increasing in line with inflation.	£2,722 p.a. increasing in line with inflation (ie £3,000 pa in monetary terms in September 2009). Loan ceiling of £21,500 increasing in line with inflation.
Allocation of Loan (PC = Parental Contributions)	Loan towards Fees (capped at Fee amount if lower). PC allocated to Maintenance first with any residual towards remaining Fees. The States meet any remaining costs.	Loan towards Fees (capped at Fee amount if lower). PC allocated to Maintenance first with any residual towards remaining Fees. The States meet any remaining costs.
Repayment Term	7 years	12 years
Interest rate charged to students	4.5% p.a. pre graduation 5.5% p.a. post graduation	5.5% p.a. pre graduation 6.5% p.a. post graduation
Interest rate charged to Department	5% p.a.	5.75% pa
Department Budget	£5.5m pa with flexible overspend from 2006/07 until end 2008/09.	£5.5m pa with flexible overspend from 2006/07 until end 2008/09.
Administration Expenses	£250 per new student, £160 p.a. per existing student (increasing in line with inflation)	£250 per new student, £160 p.a. per existing student (increasing in line with inflation)
Base rate Assumption	4.5% p.a.	5.5% p.a.
Inflation Assumption	3.0% p.a.	3.3% p.a.

This letter was prepared for the benefit of the States’ Education Department and relies on information provided by them which we may not have independently verified. The letter should be considered in conjunction with our other related letters and reports and the assumptions made and limitations given. BWCI Consulting Limited do not accept or assume any responsibility to anyone other than the States’ Education Department.

Please note that the updated assumptions for base rate and inflation (to reflect current market conditions) mean that our results are not directly comparable with those illustrated in previous letters. However, it is still useful to compare the net expenditure graph detailed in this appendix with that illustrated in Appendix 1 of our letter dated 16 April 2007. The two graphs show a similar pattern but the long term net outgo is now projected to be lower than in our previous projections.

The States' outgo is higher than that previously illustrated for the following reasons:

- 1) The higher loan awarded to students leads to a higher outgo because the loan is issued to all students before considering any Parental Contributions. As such, Parental Contributions towards fees are slightly lower under this Allocation Method when the loan amount increases.
- 2) The increased repayment period means students remain in the loans system for longer leading to higher expenses.

The impact of these factors was marginally offset by the slightly lower future fees assumed due to the reduction in 2007/08 fees recently negotiated.

The States' income is higher than that previously illustrated for the following reasons:

- 1) The higher loan issued to students means higher repayments are received from students.
- 2) The higher assumed interest rate charged to students leads to a higher projected income stream. (There has been a 1% increase in assumed interest rate compared to only a 0.3% increase in the inflation assumption)

Please contact me if you have any questions on these illustrations.

Yours sincerely

BWCI Consulting Limited

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Appendix

This appendix illustrates our projection graphs for Phase 5.1. It should be read in conjunction with our letter dated 20 June 2007. We have also set out in the tables below our estimate of the States’ total and net (after allowing for income from loan repayments) expenditure over the next seven years, both in expected actual (“nominal”) amounts and real amounts allowing for inflation at 3.3% p.a.

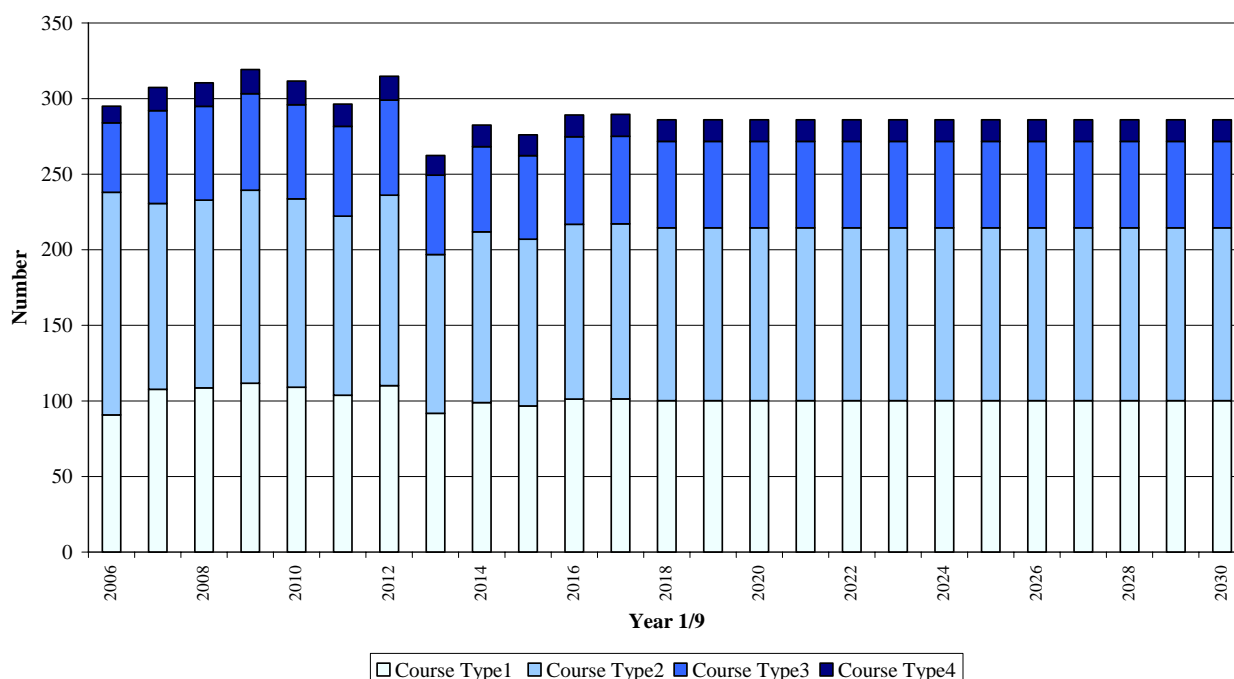
Total Outgo (Red line on Net Expenditure graph)

Year	2006	2007	2008	2009	2010	2011	2012
Real Outgo (£m)	5.3	6.0	6.7	7.7	8.0	8.1	8.2
Nominal Outgo (£m)	5.3	6.2	7.1	8.5	9.1	9.5	10.0

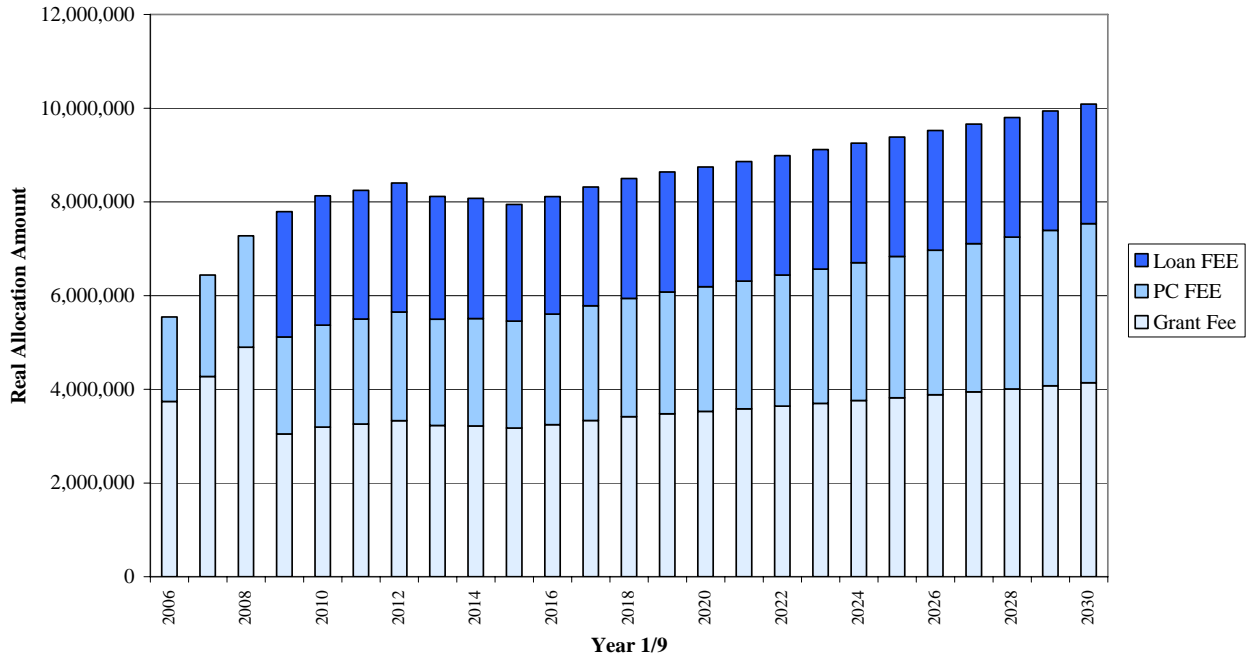
Net Outgo (Green line on Net Expenditure graph)

Year	2006	2007	2008	2009	2010	2011	2012
Real Outgo (£m)	5.3	6.0	6.7	7.7	8.0	7.8	7.7
Nominal Outgo (£m)	5.3	6.2	7.1	8.5	9.0	9.2	9.3

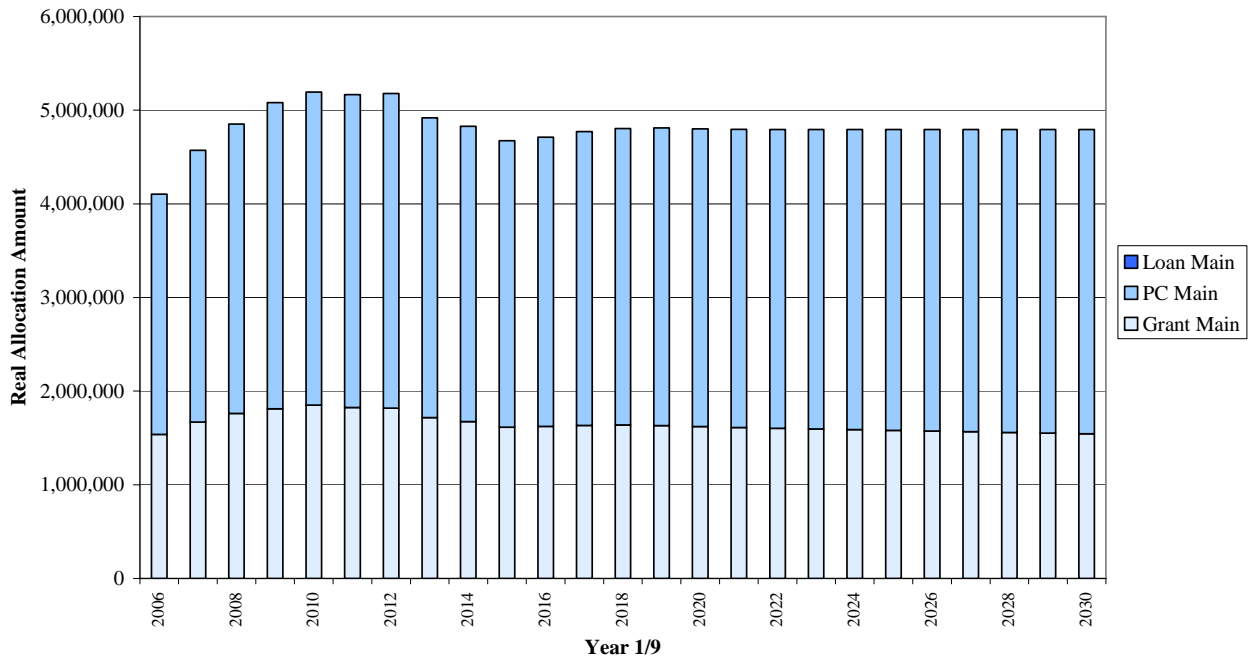
Number of Students joining each year



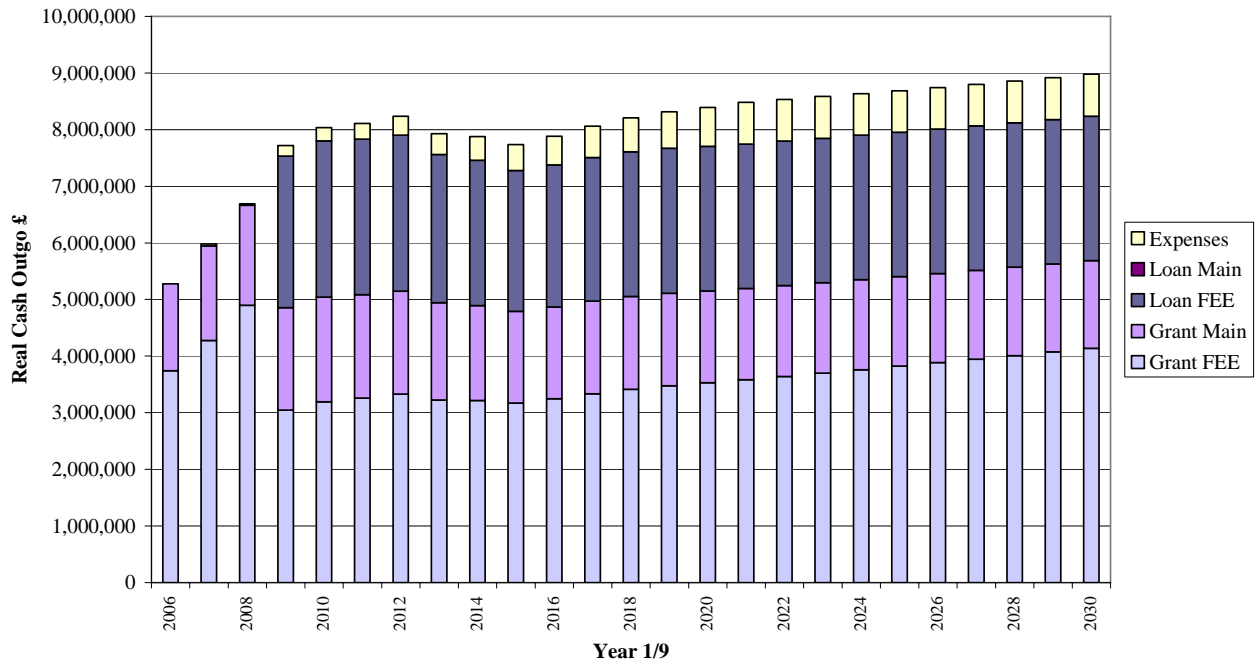
Allocation of Course Fee



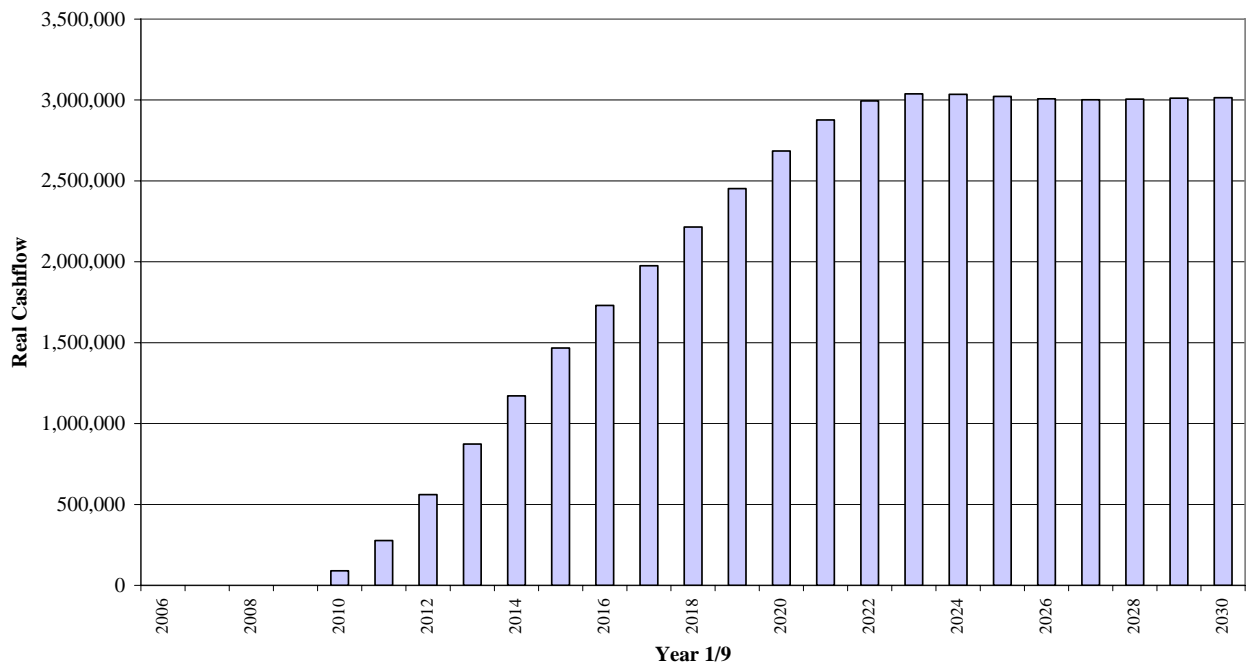
Allocation of Maintenance Allowance



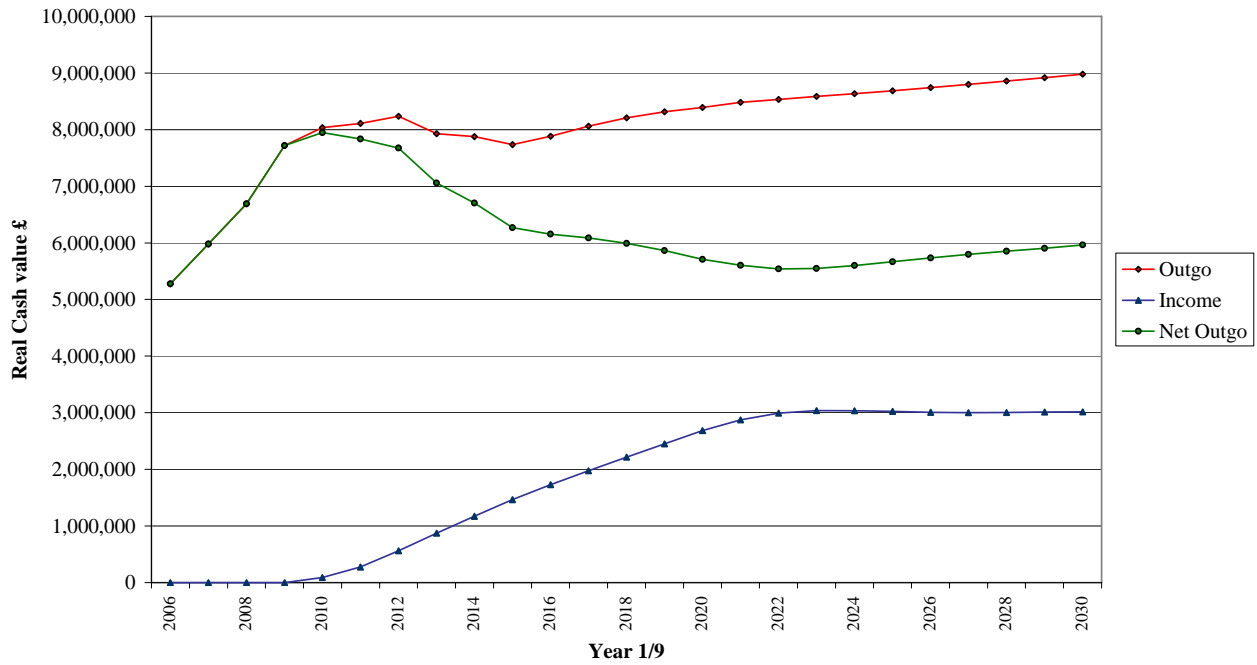
States' Expenditure



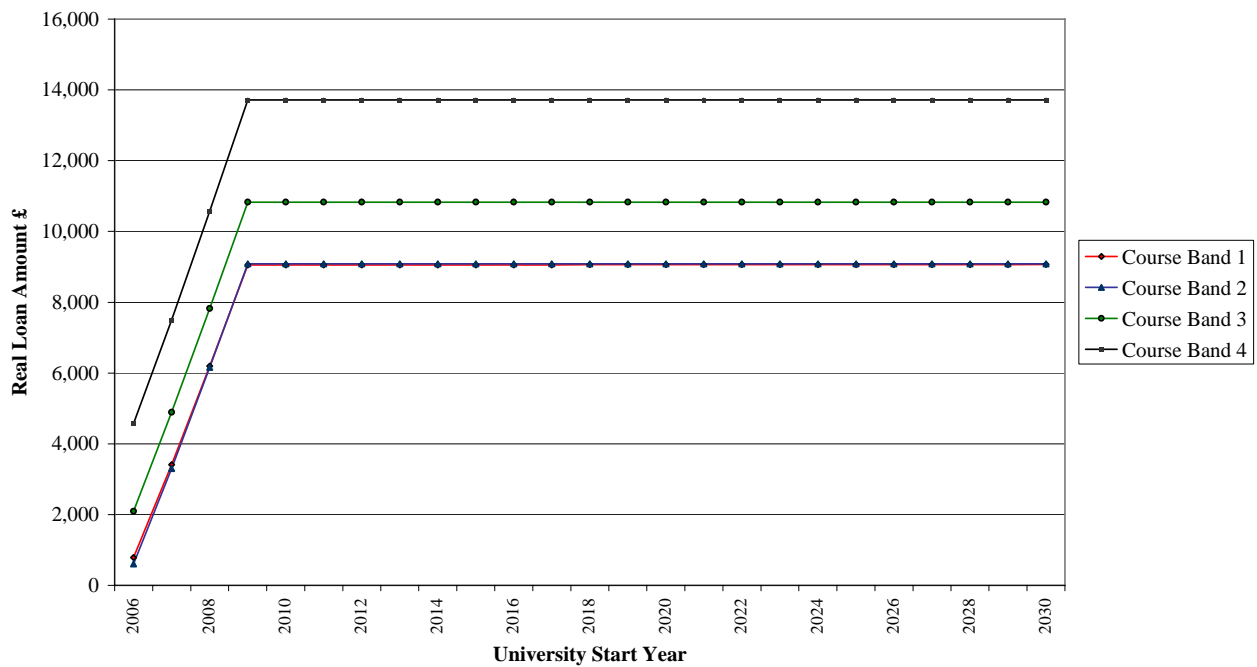
States Income from loan repayments



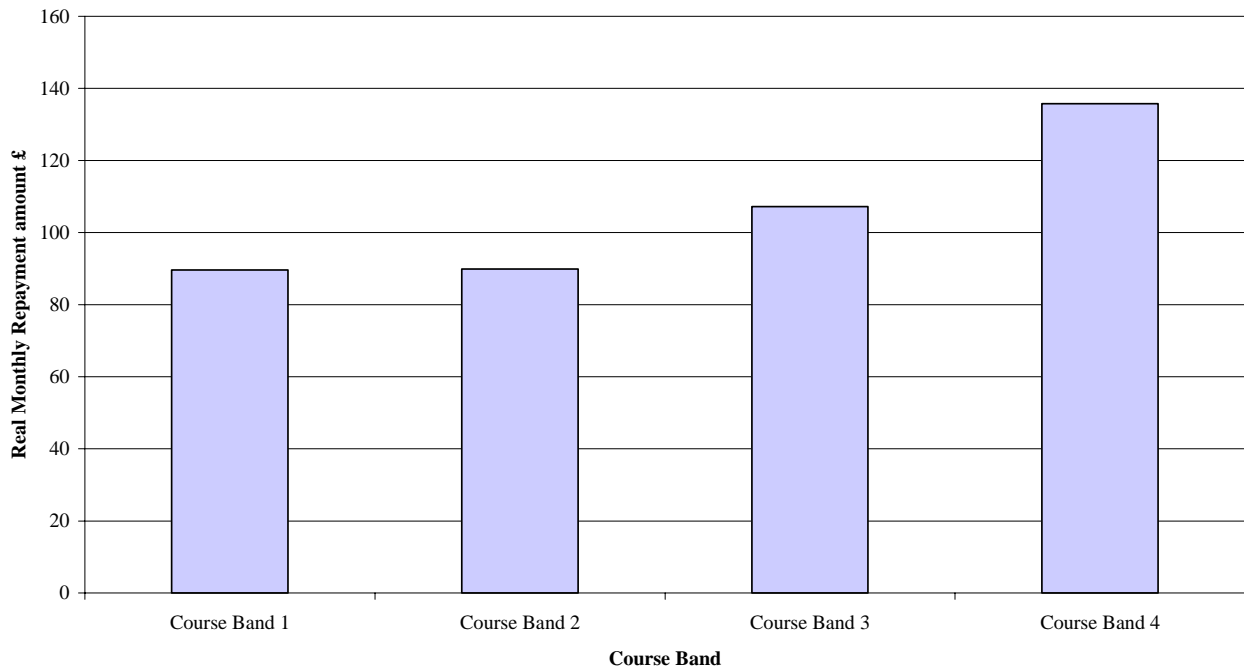
Net Expenditure



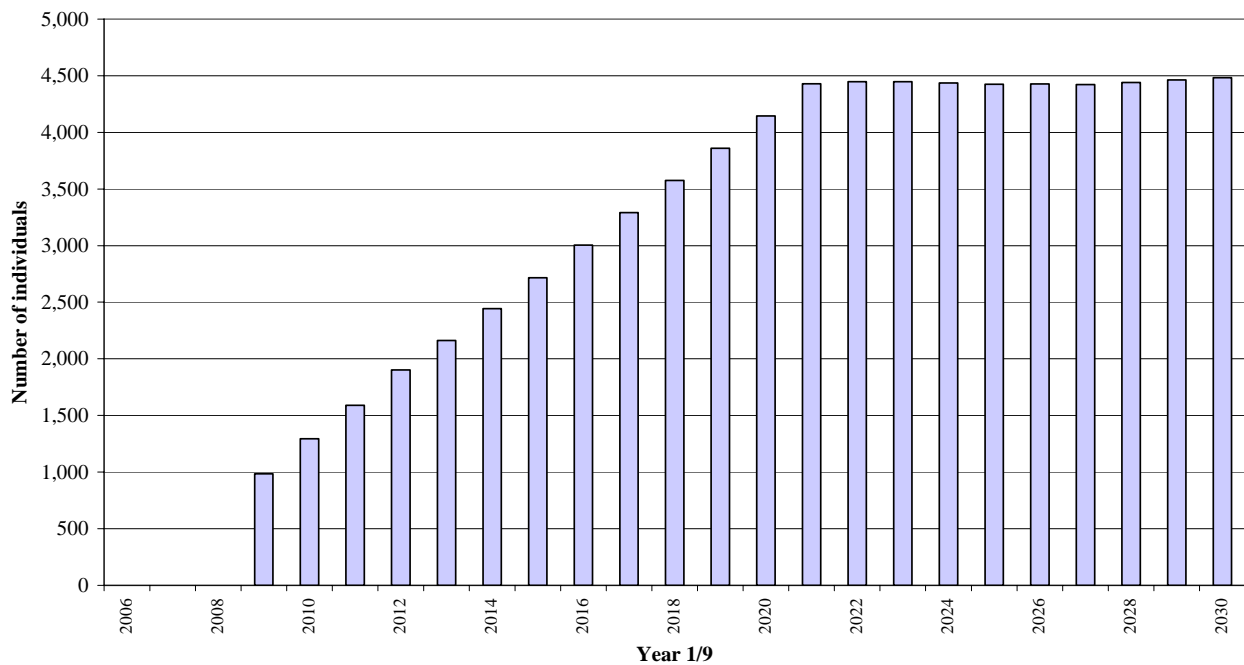
Average Loan Amounts on Graduation



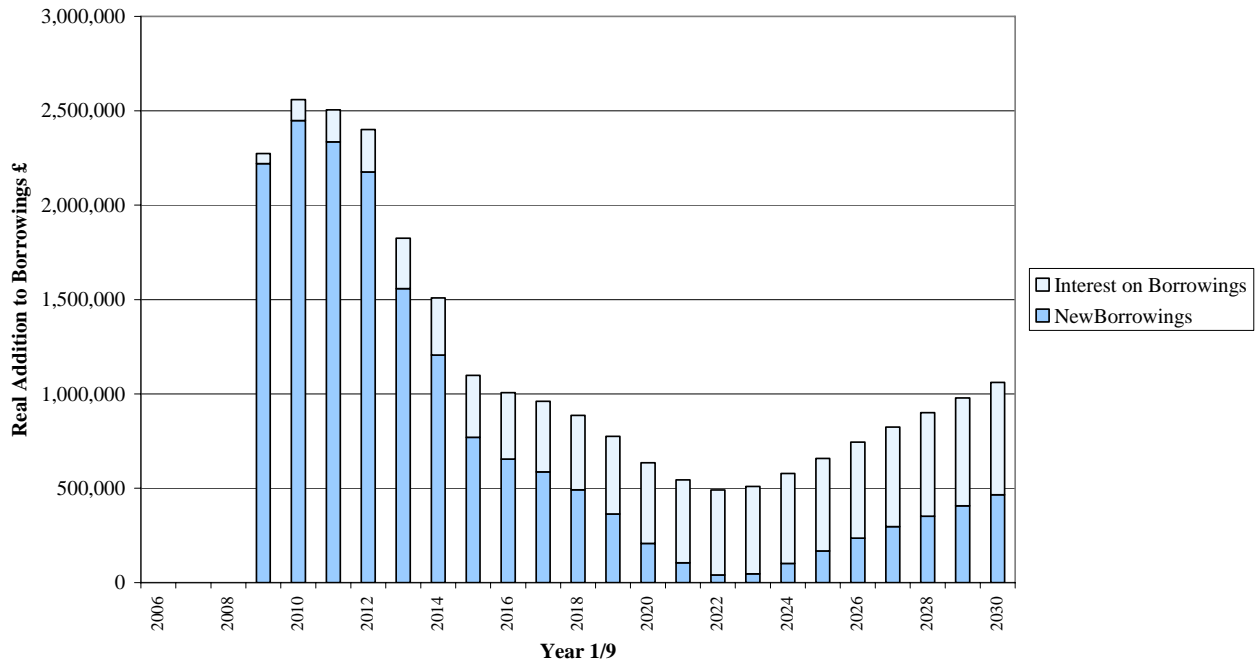
Average Repayment Amount



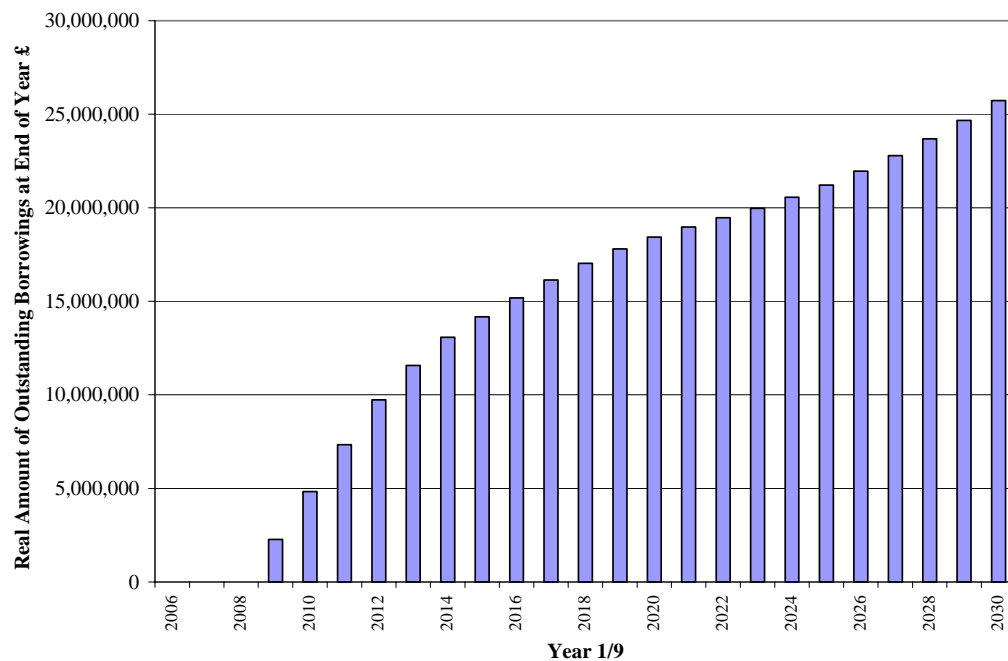
Individuals with an outstanding loan



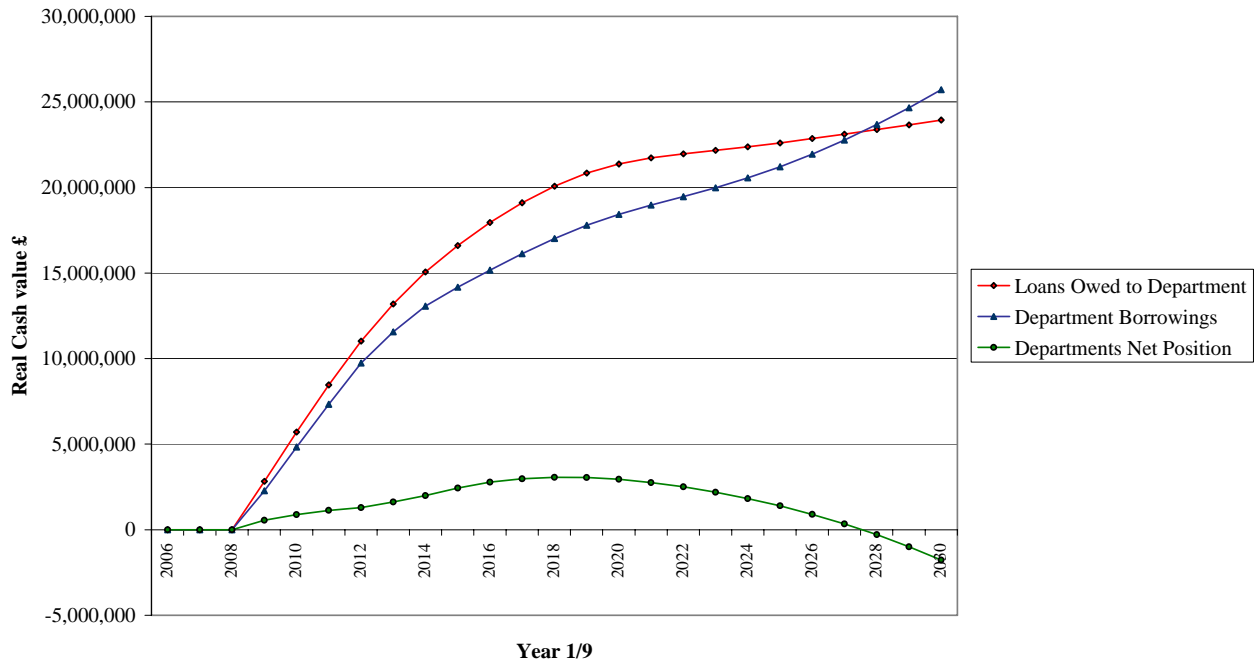
Department's Annual Additions to Borrowings



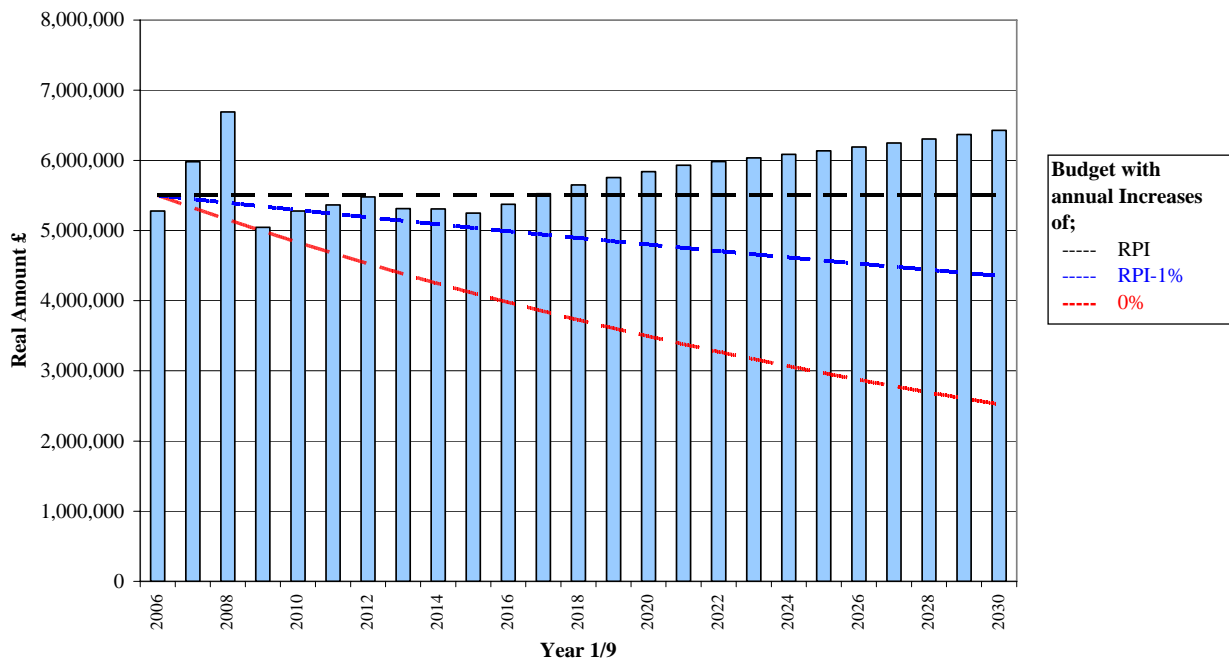
Department's Outstanding Borrowings (including interest)



Departments Net Borrowings



Department's Expenditure on Grants and Expenses Vs Budget



This graph shows the Department's expenditure on grants and expenses relative to a budget of £5.5m p.a. in real terms. However, we have allowed for the Department to be granted a flexible overspend from 2006/07 until 2008/09 in our projections.