

Our ref: DS/1111/A322

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Education Department
PO Box 32
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26 June 2007

Dear Frank

Student Loans – Phase 5.1b

Further to your e-mail of 22 June 2007 we have carried out projections of the loan system requested under phase 5.1b 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 20 June 2007.

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 our letter dated 20 June 2007. The monetary amounts quoted are all in 2006/07 terms.

	Appendix to 20 June 2007 letter	Appendix to this letter
Annual Loan	£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. Loans commence September 2009.	£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. Loans commence September 2009.
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	12 years	12 years
Interest rate charged to students	5.5% p.a. pre graduation 6.5% p.a. post graduation	5.5% p.a. pre graduation 6.5% p.a. post graduation
Interest rate charged to Department	5.75% pa	5.75% pa
Department Budget	£5.5m pa with flexible overspend from 2006/07 until end 2008/09.	£6.0m 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	5.5% p.a.	5.5% p.a.
Inflation Assumption	3.3% 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.

The loans system illustrated in this letter is identical to that illustrated in our letter dated 20 June 2007. The only difference is the level of the Department's budget so the only graphs which have changed are those which project expenditure against the Department's budget. However, for completeness, we have included the full set of graphs in the appendix.

With the increased budget the Department does not need to borrow as much and there is a period where the Department will be able to make repayments on its borrowings. However, in the longer term, the Department's expenditure on grants and expenses is projected to exceed their budget. This outgo represents expenditure that the Department will not recoup and therefore again illustrates that over the long term the Department is projected to have borrowings which it will not be able to repay. However in the medium term this level of budget is adequate and is only projected to require an increase after 2022.

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 5.1b. It should be read in conjunction with our letter dated 26 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.

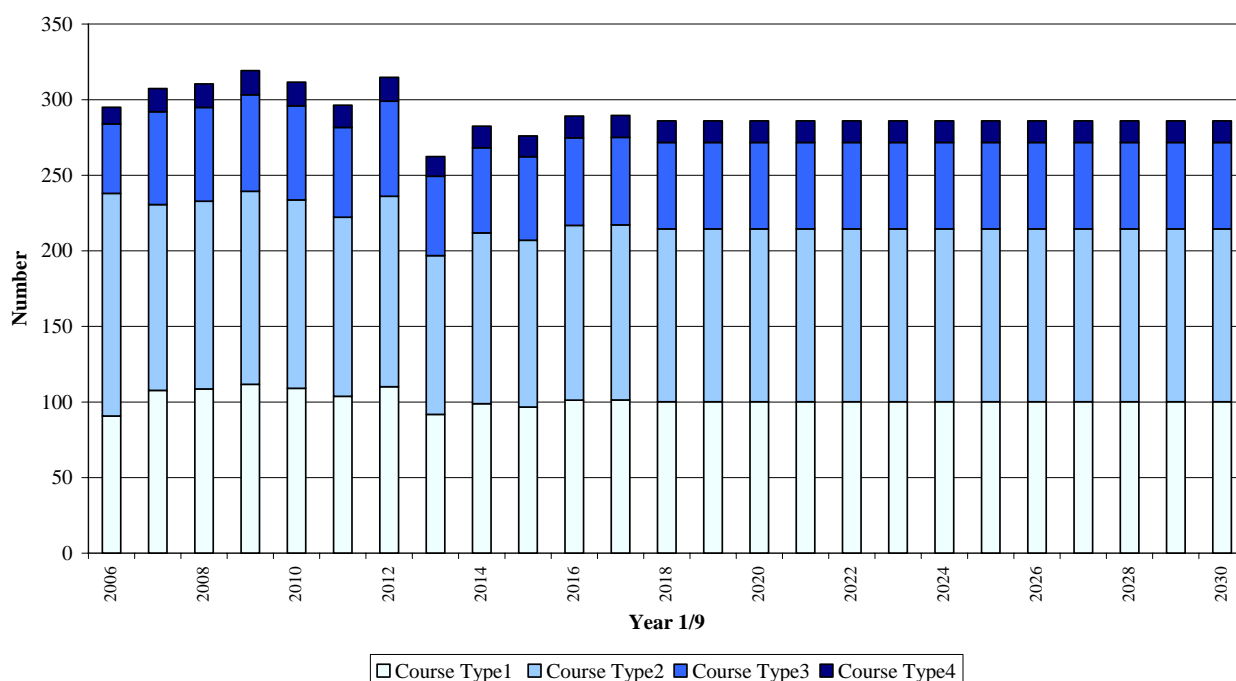
Total Outgo (Red line on Net Expenditure graph)

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

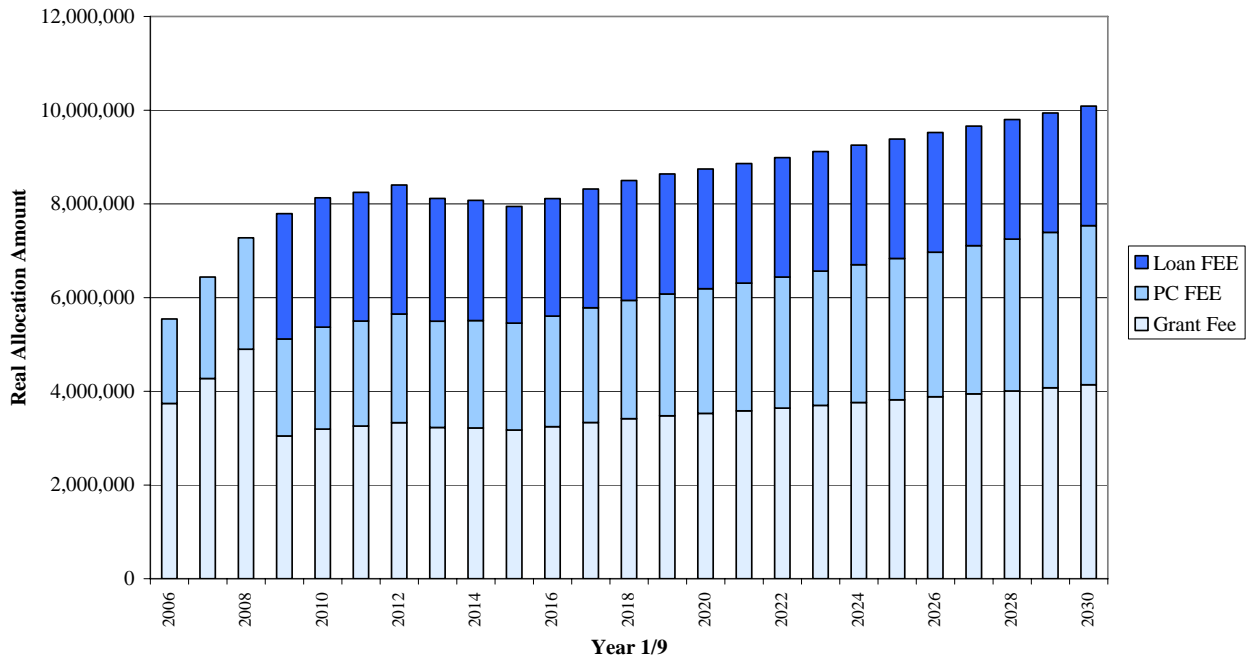
Net Outgo (Green line on Net Expenditure graph)

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

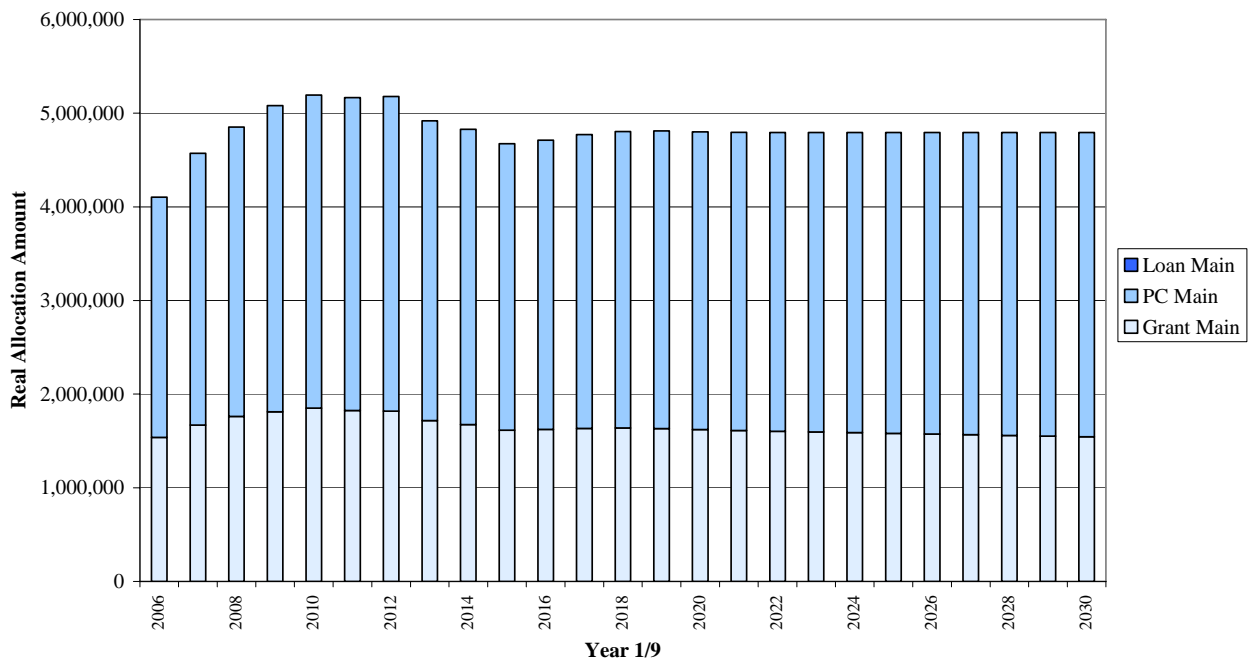
Number of Students joining each year



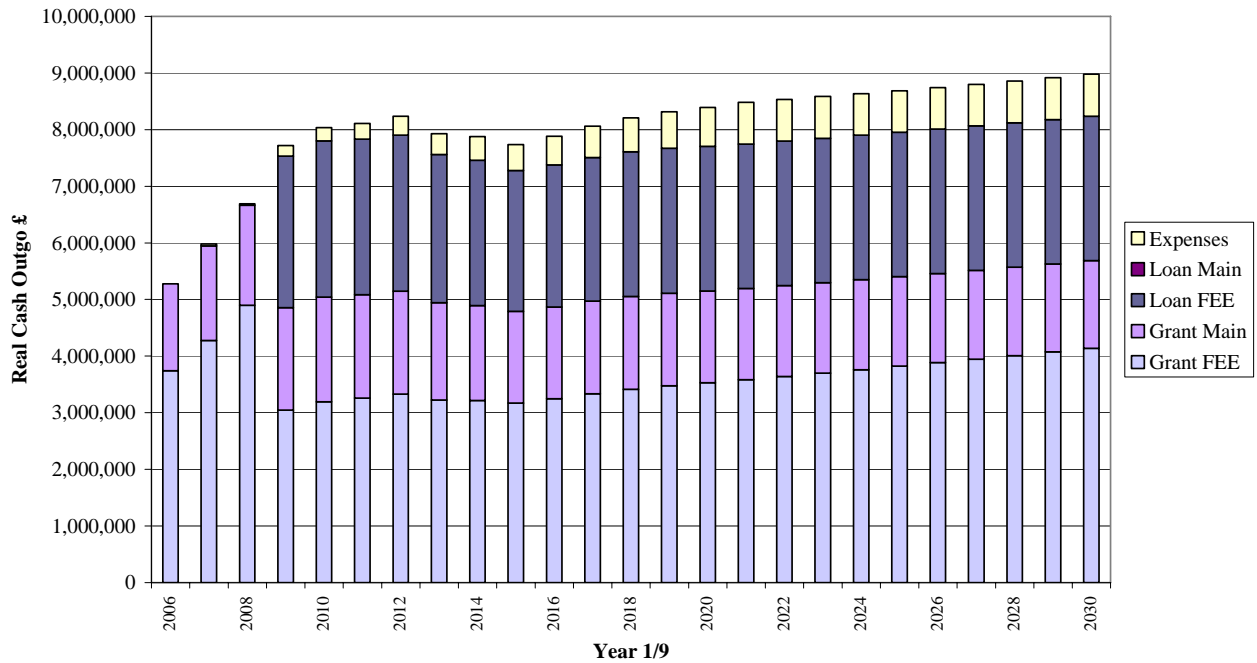
Allocation of Course Fee



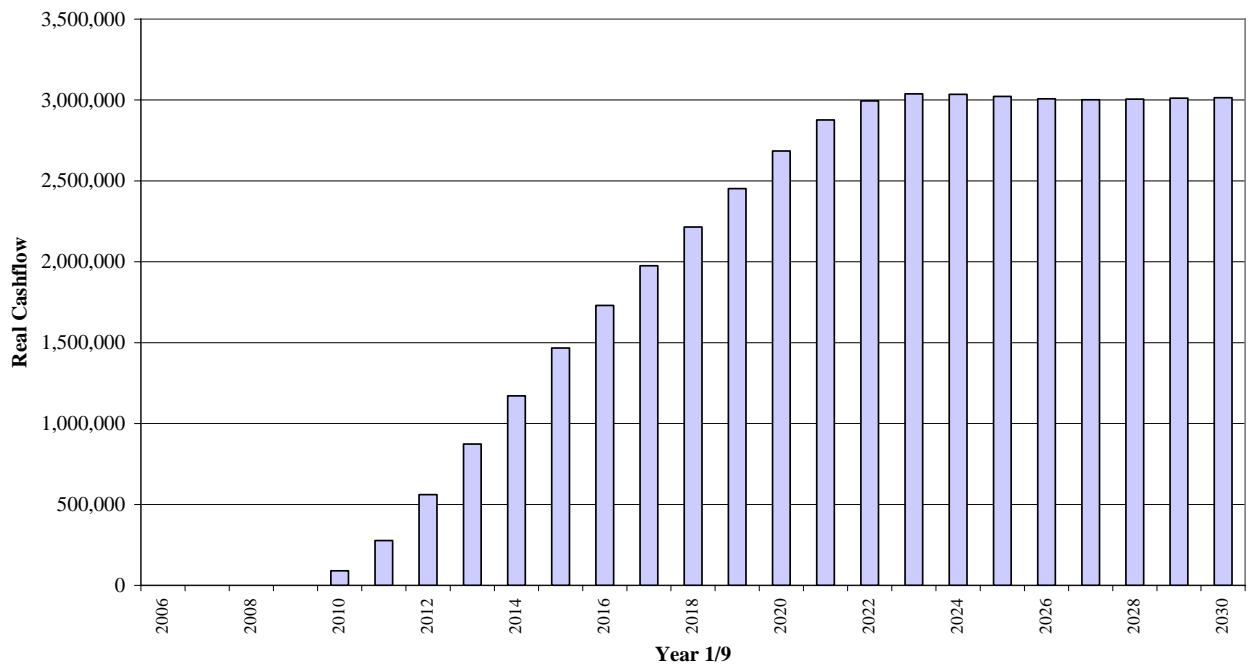
Allocation of Maintenance Allowance



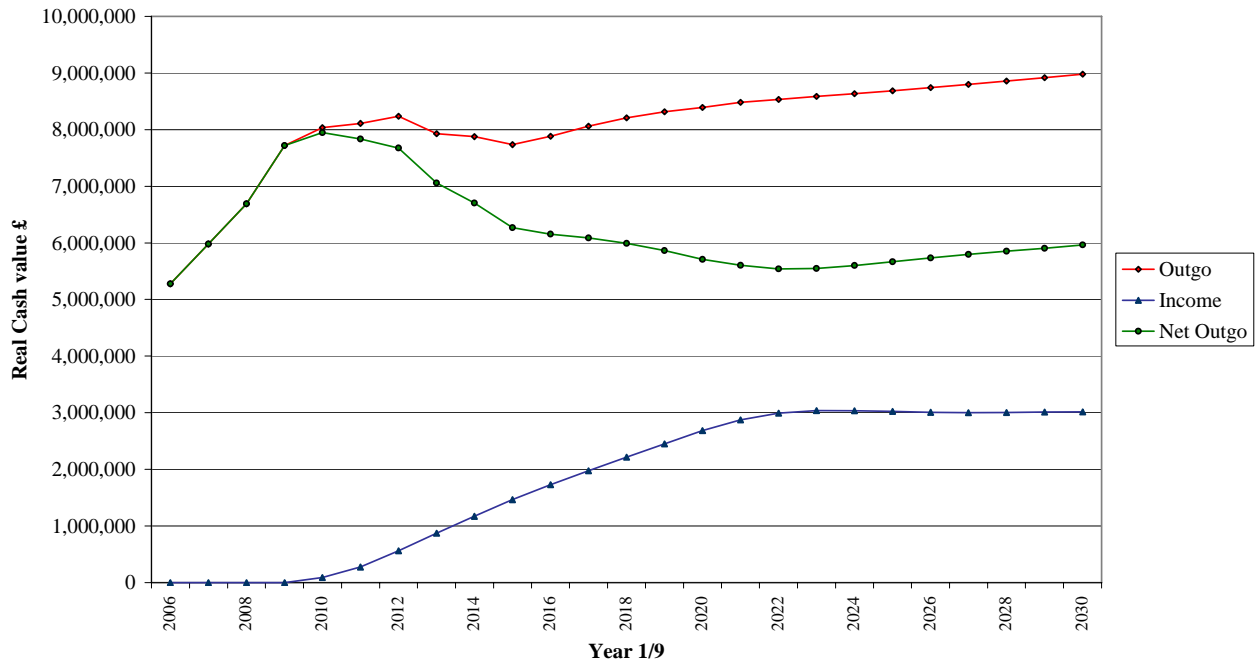
States' Expenditure



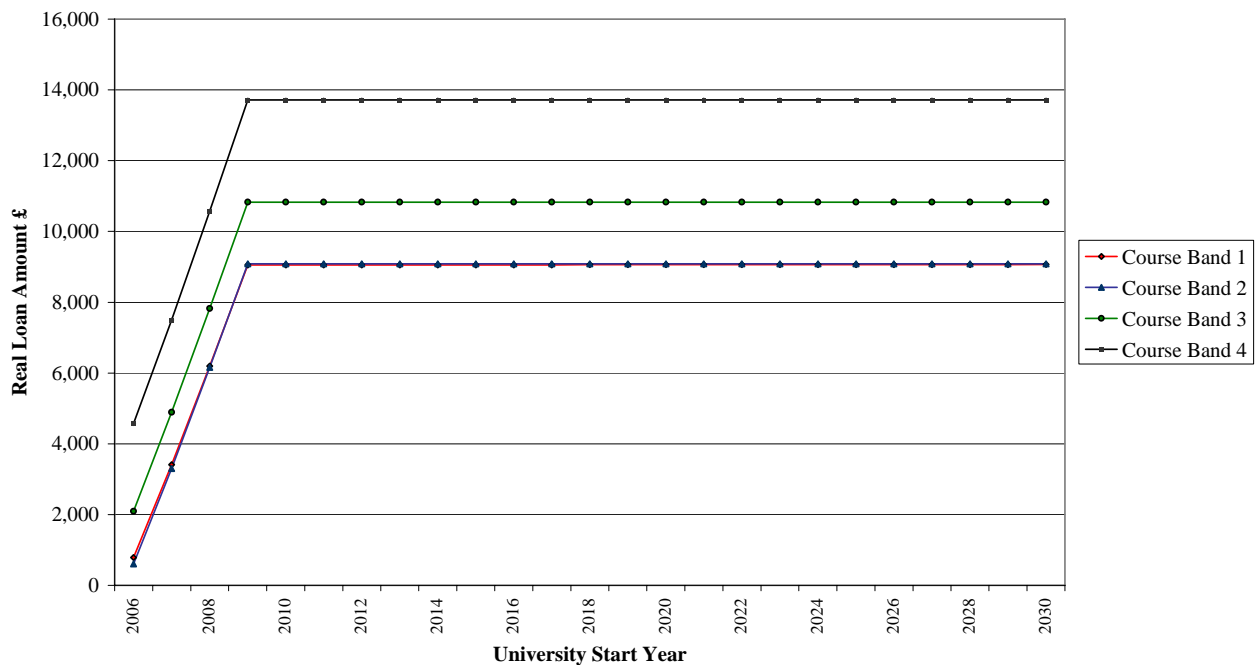
States Income from loan repayments



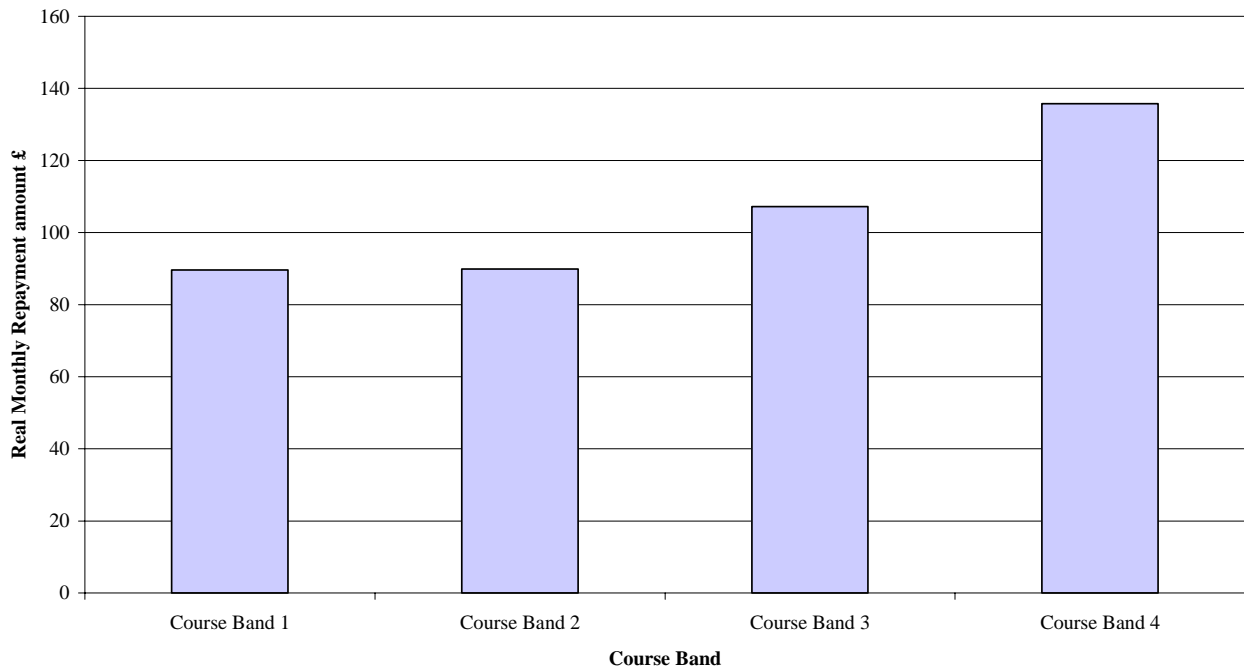
Net Expenditure



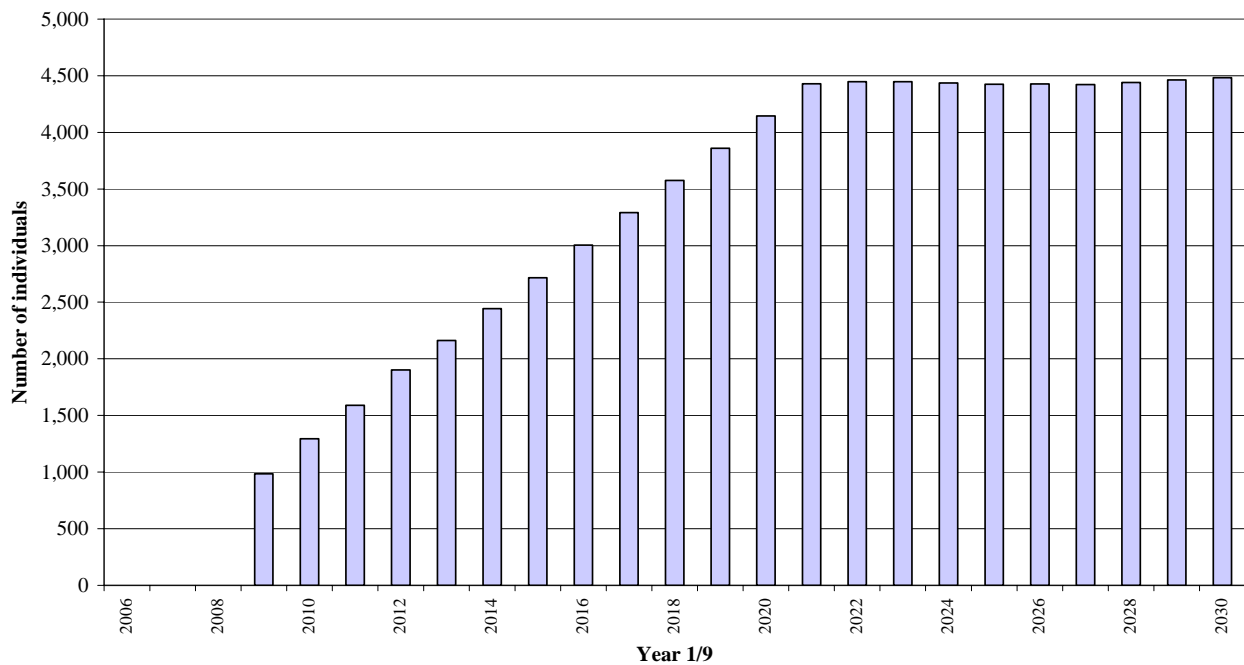
Average Loan Amounts on Graduation



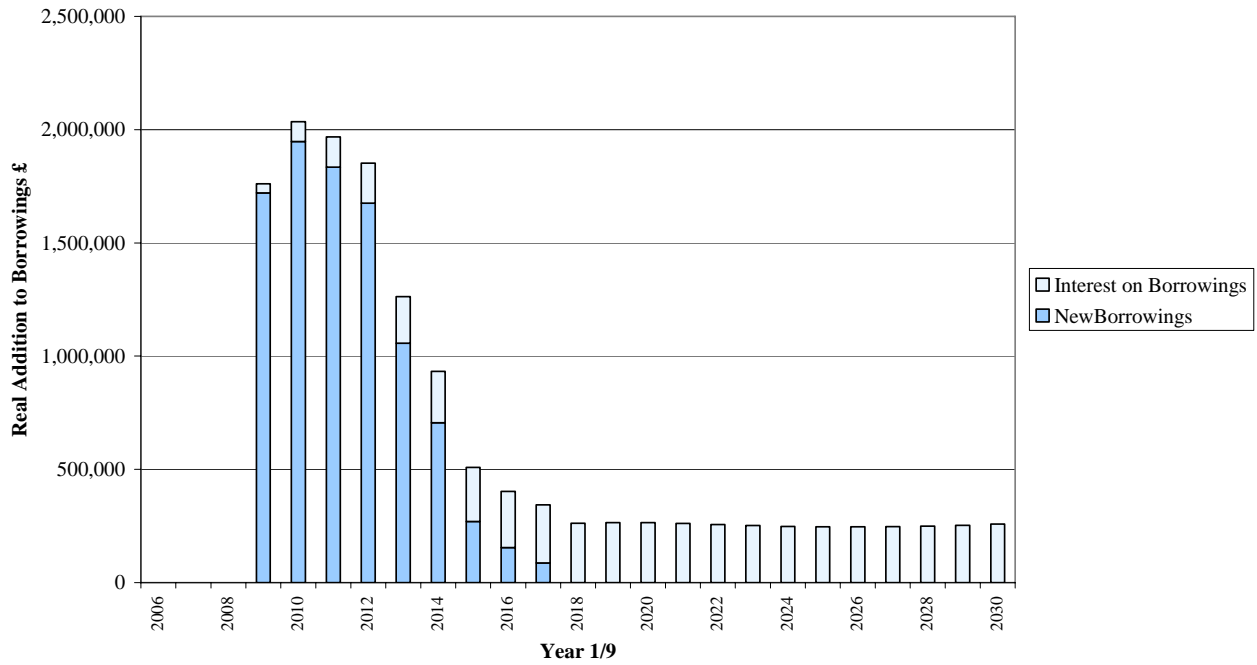
Average Repayment Amount



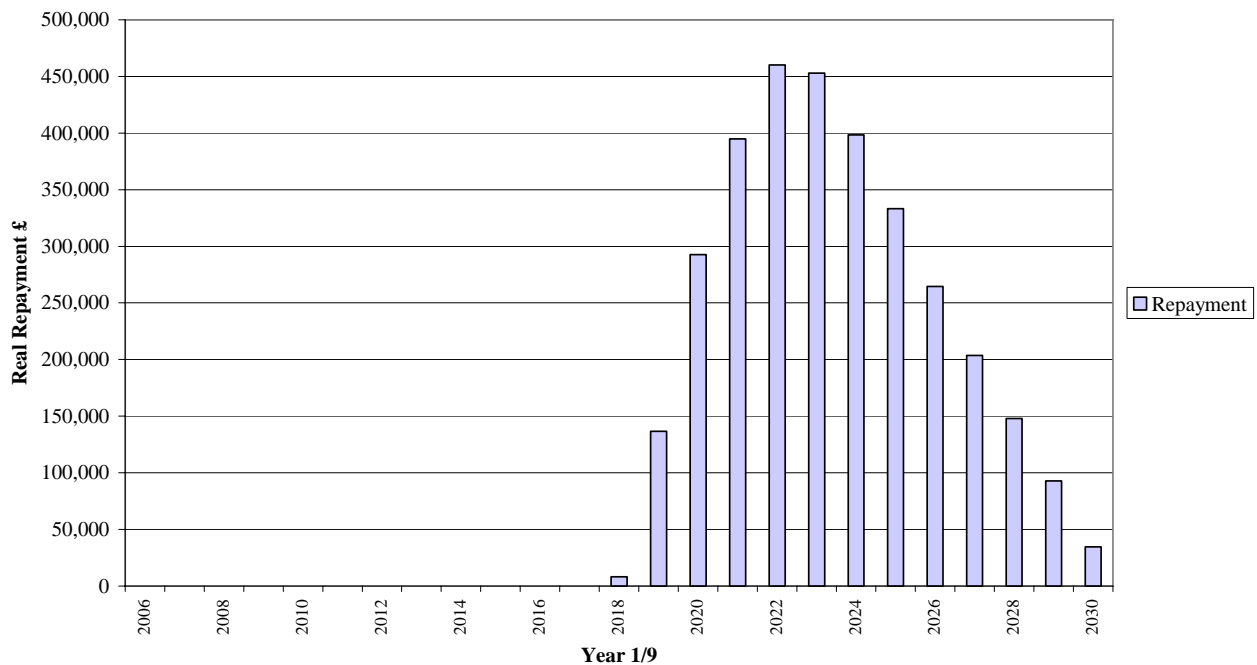
Individuals with an outstanding loan



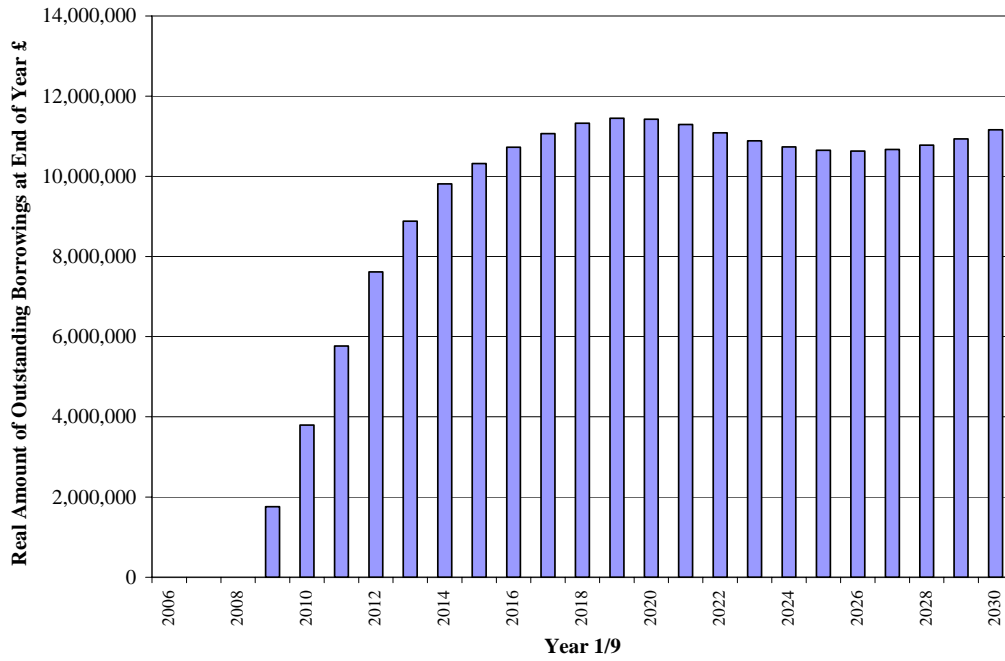
Department's Annual Additions to Borrowings



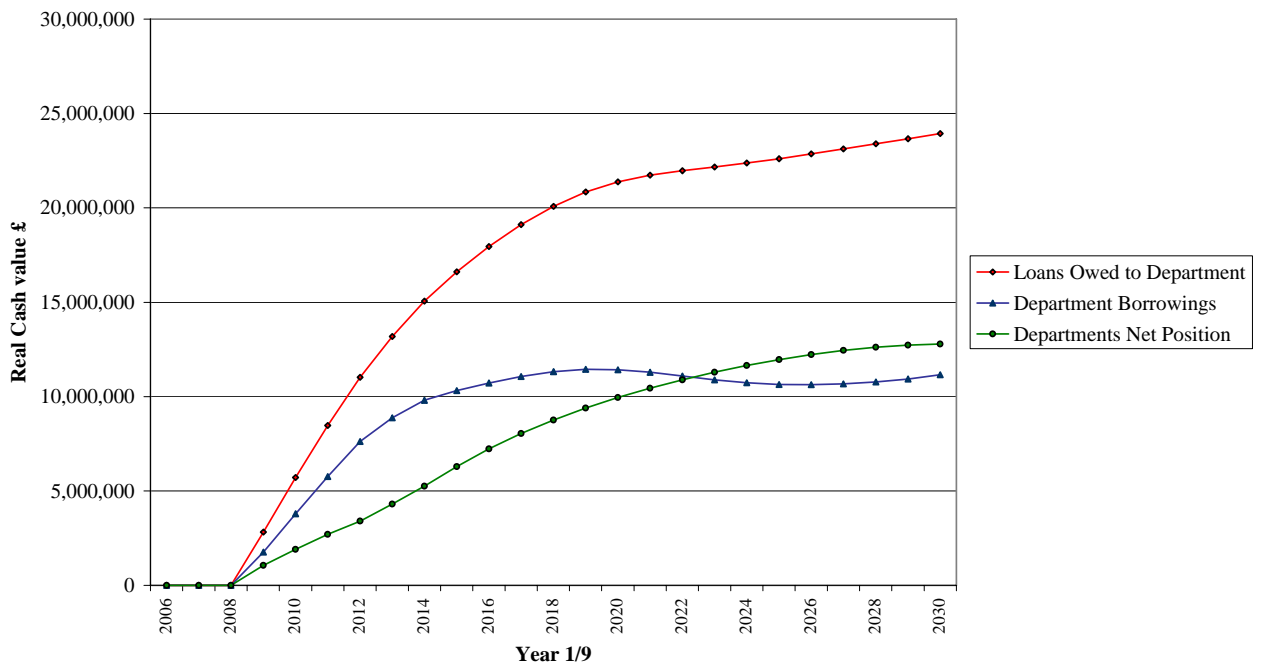
Department's Repayments on Borrowings



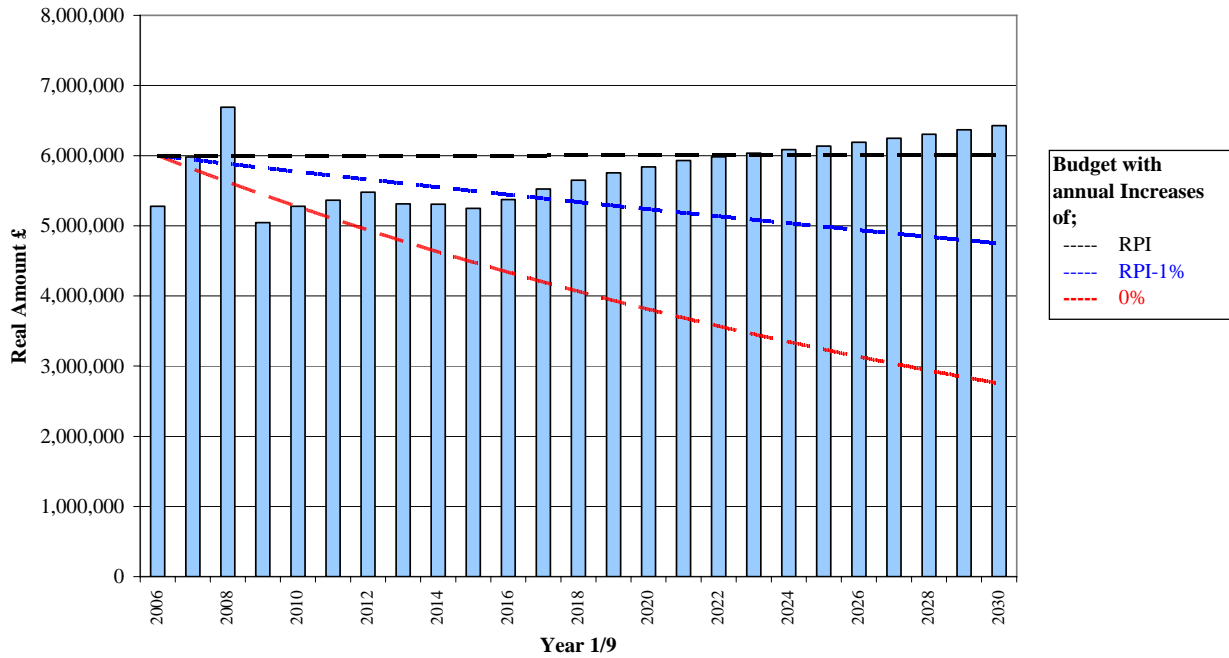
Department's Outstanding Borrowings (including interest)



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 £6.0m 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.