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21 September 2007

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Dear Michelle

Student Loans – Guernsey Student Loans Company Proposal

Further to your e-mail of 3 September 2007 and our meeting on 4 September, we have considered the setting up of a Guernsey Student Loans Company (“GSLC”). The GSLC will issue loans to students and will finance this by borrowing from Treasury and Resources (“T&R”). The administration of the loans will be carried out by an external company and this expense would be met by the Education Department (“the Department”). Therefore, under this scenario, the budget available to the Department will need to cover expenditure on grants, the expenses of administering the loans system and the cost of guaranteeing the loans issued.

I have set out in the table below a summary of this loans system. This is similar to that illustrated in our letter to Frank Flynn on 26 June 2007. However, the key differences are:

- The GSLC borrows the entire amount required to finance student loans, rather than the Department borrowing the excess over its allocated budget.
- As instructed, we have not made any allowance for the cost of the Department guaranteeing the loans, i.e. the payments the Department will need to make should students default on their repayments. Therefore, a separate provision for this expense will need to be made when considering the Education Department’s budget.

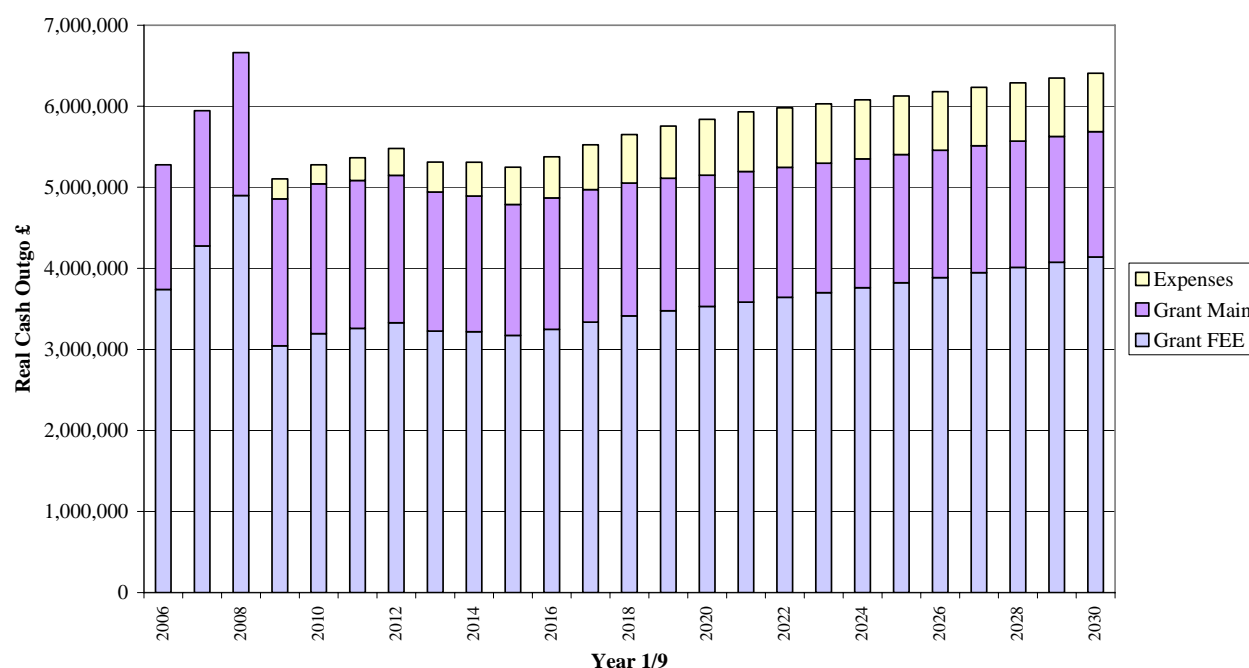
This letter was prepared for the benefit of Treasury and Resources and relies on information provided by the States’ Education Department which we may not have independently verified. The letter should be considered in conjunction with our other related letters and reports and the assumptions made and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

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.
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.
Issuer of Loan	GSLC, financed by borrowing from T&R
Repayment Term	12 years
Interest rate charged to students	5.5% p.a. pre graduation 6.5% p.a. post graduation
Interest rate charged to GSLC	5.75% p.a.
Department Budget	To be determined based on projection results
Administration Expenses	£250 per new student, £160 p.a. per existing student (increasing in line with inflation)
Base rate Assumption	5.5% p.a.
Inflation Assumption	3.3% p.a.
Cost of Guarantee	No allowance – the cost of any write offs will be an additional expense incurred by the Education Department

Please also see our earlier letters to Frank Flynn for further background to our assumptions and the methodology behind our projections. As with all our previous projections, we have excluded expenditure on areas such as post-graduate awards and College of Further Education grants. The full list of exclusions is detailed in paragraph 1.4 of our report titled “Introducing Student Loans to Higher Education Awards”.

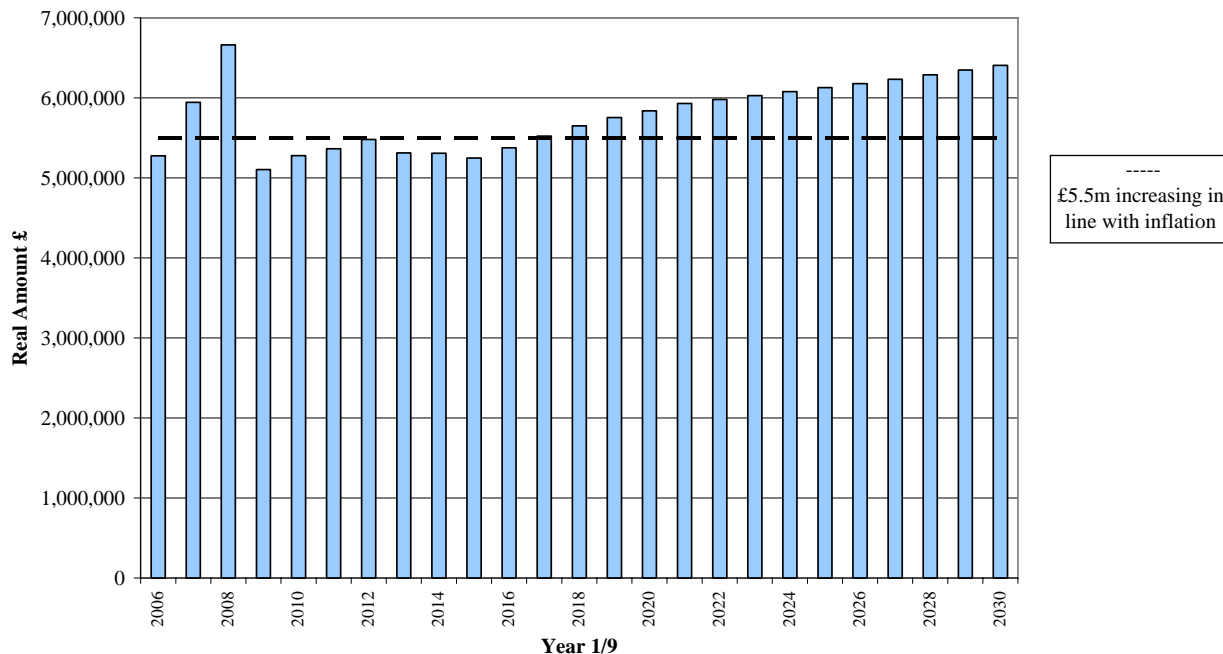
The graph below illustrates the Department’s expenditure on grants and expenses under this system.

Department's Expenditure on Grants and Expenses



For budgeting purposes, the following graph illustrates this expenditure together with a budget of £5.5m in 2006 monetary terms, increasing in line with inflation.

Department's Expenditure on Grants and Expenses

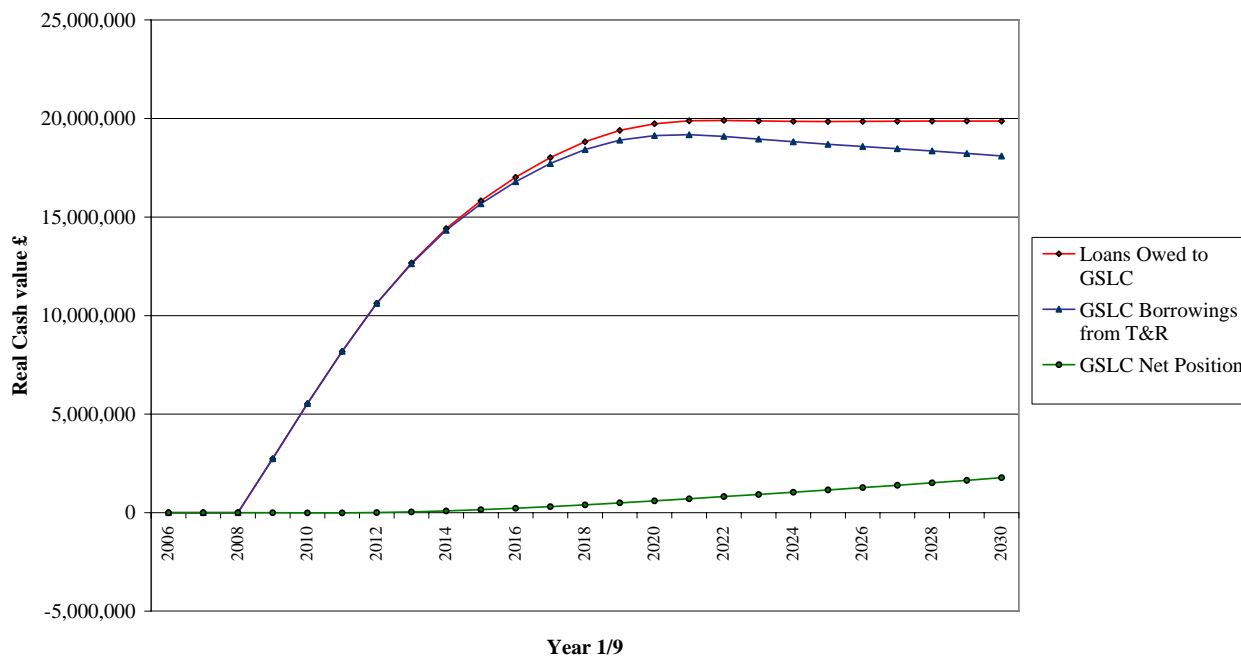


In the short term (assuming a flexible overspend until September 2009), the Department's expenditure on grants and expenses is within a budget of £5.5m (increasing in line with inflation). However, as noted above, the Department will also need to make provision for the cost associated with guaranteeing the loans. There will also be a cost to set up the GSLC which the Education Department may be expected to finance in 2009. In addition there will be ongoing costs associated with running the GSLC which may need to be met by the Department (see below).

Our projection assumes that the Education Department pays the expenses associated with administering the student loans. The possibility of students paying the annual expense from two years after they commence repayments was raised but this would only lead to a small reduction in expenditure in the short term as most students will be receiving rather than repaying loans. However, if it would be useful then we could prepare a projection of this scenario.

The graph below illustrates the amount on loan to students by the GSLC together with the amount the GSLC has borrowed from T&R.

GSLC Net Borrowings



In the first few years of running, although not visible from the graph, the GSLC will have very slightly negative net borrowings because the interest rate charged to students pre-graduation is assumed to be lower than the interest rate the GSLC is charged. Over the longer term, as students graduate, they will be charged higher interest than the GSLC and the GSLC will move to a position of positive net borrowing. However, there will be costs associated with running the GSLC and T&R has indicated that they expect these costs to be met by this interest differential. If this is the case then the GSLC would be in a position where the amount it owes to T&R is equal to the amount on loan to students.

In making these projections we have assumed that the GSLC will not have to pay interest annually to T&R but can allow their debt to accumulate and only make repayments when income is received from students. We have also assumed that all students will meet all their repayments. This is equivalent to assuming that any missed payments are met immediately by the Education Department.

I hope this provides all the information you require but please contact me if you require anything further.

Yours sincerely

BWCI Consulting Limited