

STATES OF JERSEY

Education and Home Affairs Scrutiny Panel Student Financing Review

THURSDAY, 12th JANUARY 2017

Panel:

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

Deputy S.Y. Mézec of St. Helier

Deputy T.A. Vallois of St. John

Mr. B. Bekradnia (Panel Adviser)

Witness:

Chairman, Public Accounts Committee

[14:33]

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

Let us begin. Yes, if everyone can make sure that their phones are on silent, that is always helpful. Hello and welcome - for the transcript, happy New Year 2017 - to our first hearing of the year from the Education and Home Affairs Scrutiny Panel. Just for the tape, I will ask everyone to introduce themselves. I am the Chairman of this review, Deputy Jeremy Maçon of St. Saviour.

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.

Mr. B. Bekradnia (Panel Adviser):

I am Bahram Bekradnia. I am the adviser to the panel.

Scrutiny Officer:

Mick Robbins, Scrutiny Officer.

Chairman, Public Accounts Committee:

Deputy Andrew Lewis. I am Chairman of the Public Accounts Committee, interested party on grants and loans.

Deputy J.M. Maçon:

Brilliant. Thank you very much for coming and talking to the panel today. Obviously we know it is a subject which you find very interesting. Again, can you just confirm that you have read and understood the Scrutiny statement in front of you?

Chairman, Public Accounts Committee:

Yes, I have.

Deputy J.M. Maçon:

Good. We are hoping to run for about 45 minutes max. You may not need that long. It is just simply to update the panel on the work that you have been doing. Can I, on behalf of the panel, also thank you for the communique that we have already had from you? It is very much a chance for you to speak to us.

Chairman, Public Accounts Committee:

Thank you. My particular interest here is the grants and those aspects of funding higher education. As you know, I called for an in-committee debate in the States at the end of last year. I think it was a successful, useful debate and I hope that your committee has been able to draw from the Hansard comments in there. My biggest disappointment in that debate was that the Minister for Treasury was not even there. That is disappointing, because I had already spent probably 3 or 4 meetings with him, together with the Minister for Education and Chief Executive of Education, having quite constructive discussions about what the possibilities looked like, what could be done, so a bit disappointed he was not there. Also slightly disappointed the budget debate occurred as well and that we did not really hear anything from you, which was a bit of a concern. What I have done in recent times is communicated with the Minister for Education again, because interestingly enough - again, which I think is a concern - the Minister for Treasury has said to me on more than one occasion, which I mentioned in my note to you yesterday, that it is up to the Education Department to come to the Treasury Department with a proposal for them to then look at. Deputy Vallois, you have been in the Treasury, you know kind of how it works. There is a treasury function there, a

financial function that exists that simply does not exist in other departments, which is why they are called the Treasury. In my view, the Treasury should be tasked by the Education Department to come up with some proposals as to how they can fund their higher education funding requirement. At the moment, the Education Department is expected to go back with some ideas which the Treasury will then disseminate, examine and decide as to whether they can be achieved or not. That, to me, is a great concern. To try to plug that gap, there have been some conversations going on between other financial experts, a couple of major banks - outside of the remit of the States Treasury - that they have spoken to a number of clearing and high street banks. There are lots of financial experts in Jersey that we should be drawing on for their help and advice as to how we could possibly put together a fund of some kind that could possibly be administered by a third party, but provide the sort of funds that you would need, which are quite significant, as I have demonstrated in my note to you, and as you have already been told by the Minister for Treasury. Significant funds would need to be held in order to make any kind of loan scheme viable.

The Deputy of St. John:

The Minister for Treasury has been before us and stated that no banks - or even the Minister for Education has mentioned - that nobody is interested in taking on these types of schemes, so what is your view on that?

Chairman, Public Accounts Committee:

They are quite right. The appetite for risk from the banks is very low, so whatever scheme was established by a financial institution, they would at this stage expect the Government to underwrite it. But there are other ways of doing this. Whatever happens, most institutions may provide a service, but they would expect to be paid for it or they would expect to have the risk mitigated by the Government. Because of that, we are saying, or the Treasury is saying: "We cannot do anything." To me that is not an answer. They need to accept that that is the way credit is at the moment and you need to then find a way of doing it within those boundaries of credit that exist. One of the things that is a hot topic at the moment is the funding of the hospital. It has been explained to us in some detail about how that is going to be funded through a bond issue. There is no reason why you could not do something similar for student loans. There is a huge cost to that, but we are already funding grants. If those grants were to continue, we would have to find the funding from somewhere else, but if you did a hybrid, in other words, you maintained some grants and used some of that fund, that grant budget, to be allocated to a default run rate or the administration of a bond scheme or the payment of the interest on that bond, then it is all possible. The money is already there. It is a question as to how the department decides they should spend it. At the moment, they are spending it exclusively on grants and tax credits as well, which the Deputy of St. John has mentioned in a speech she made in the Chamber not so long ago. I think it is £3 million or £4 million of tax credits.

The Deputy of St. John:

About £3.5 million.

Chairman, Public Accounts Committee:

Yes. Again, that could be allocated to this area as well, so you could create enough of effectively a slush fund to finance the cost of a bond and the cost of its administration.

The Deputy of St. John:

In your view, from what you have worked on, what you have looked at, in terms of the optimal way to move, would you suggest removing grants completely and going fully down a loan scheme?

Chairman, Public Accounts Committee:

That is a big political question, because some would say that some of our lower-income households would find that difficult, they would object to that. Having said that, I have also spoken to people in low-income households who have said: "The grant system is not enough, so we are not going anyway, because although we get some subsistence and the fees paid, the subsistence is not enough to live." Let us say you are at the L.S.E. (London School of Economics), which one particular constituent of mine's son is, and it is a very low-income family, they cannot really afford the subsistence in London. Lucky, great, got a place at L.S.E. but cannot afford it. So even the grant system for the low-income households is not sufficient to enable a lot of those families to go. That is possibly why the take-up of grants is dropping. There may be other reasons as well, but I suspect that is a strong reason why.

The Deputy of St. John:

Just to go into your possible model that you have explained in your email to us - thank you very much for providing it to us - the loan that you would consider, or it is a possible model, would that include the tuition fees and the maintenance grants and everything that goes with it?

Chairman, Public Accounts Committee:

It can do. I have given a figure there of £20,000. We know of course in some cases it could be £30,000, but ...

The Deputy of St. John:

That is per annum?

Chairman, Public Accounts Committee:

Yes. But the appetite for borrowing among families will probably not get up to the £30,000 and many are quite content to fund some of it, but they simply cannot afford to fund all of it. So I think the

numbers of people that will take the maximum loan that you could get would probably be fairly low anyway. I put an average figure there of really most families would need to borrow probably between £15,000 and £20,000 in order to get through that year. Of course, rolled up over 3 years, that is a £60,000 liability. I think a lot of families again would probably not want to get to that level, but you need to have an upper and a lower level. I would think £60,000 is probably a realistic amount with other funding you may acquire if bursaries are available, which are not necessarily always taken up, and you can do other borrowing as well, which already happens.

Deputy J.M. Maçon:

In this sense, the scheme you are proposing can also be seen as more like a top-up model, so you can raise certain funds yourself?

Chairman, Public Accounts Committee:

It is a realistic top-up. The top-up we currently have with the £1,500 a year is nonsense. You can do hardly anything with that. That is what I was living on 30 years ago when I was a student, so things have moved on. It is simply not possible. Although I am sure some families find it useful, it is just not realistic. You need significantly more than that to fund yourself living away and paying fees.

Deputy J.M. Maçon:

You have seen the report which was produced by the Education Department that looked at the sums that might be involved and might look at the default rates. I wonder if you would like to make any comment about their analysis.

Chairman, Public Accounts Committee:

Their analysis of the default rate I thought was verging on barmy. We already know the default run rate on the £1,500 is very, very low, it is like 3 per cent or 4 per cent. I would accept that if it was a higher amount, then the default run rate could be much higher, but they were allowing hugely high default run rates of up to, I think, 50 per cent. I do not believe in a small Island like Jersey, where we know where you are, it is likely to happen. People do not knowingly go into loan exercises thinking: "You know what, I am going to borrow that money and I am not going to pay it back." That is not how intelligent people that go to university work. They want a good credit rating when they finish university. They get a job and 3 or 4 years into that job, they may want to get a mortgage. If they have got a bad credit rating, they are not going to get a mortgage. I think the risks, they were taking it at an absolute worst-case scenario. I do not think it is realistic.

Deputy S.Y. Mézec:

In your email to us, under: "Possible model" you have got a variety of different numbers in here just to illustrate how this would work. You have spoken about potential average numbers of students wishing to enter higher education and which proportion would take the maximum loan and who might default and what have you. Is there a point where this model becomes unviable because of the take-up? You have said 400 students, but what if it ended up being a much higher amount who took the maximum loan and what would happen if the default rate was higher? Does this model only work on the assumption that X number of people would take it up or would it become unviable?

Chairman, Public Accounts Committee:

No. What you would do, at the moment that is based on a £120 million fund, so if you had a fund of £240 million, you can double the numbers of take-up, so I am taking that on the basis that there is, on average, 400 students go away every year. I am suggesting that half of them would require loan assistance, and bearing in mind of that half, only half of them might take half of the loan, so it could even be less. Bearing in mind if you continue with a grant system for the very low-income householders, but perhaps a reduced grant system in terms of the quantum of grants you hand out, then you may have more take-up on the loans. I have taken what I think is a fairly conservative figure of 200 people taking up the maximum loan. I suspect it would be a lot less than that, but if it was a lot higher, then you would simply have to have a bigger bond. Now, we know what the cost of the bond for the hospital is. We also know with the hospital we are never going to get any of the money back. It is not an income generator. This is generating income, because the majority of the loans will be paid back with interest. Some will be paid off earlier than others, so your bond rate you might get may well be slightly lower than you would get for the hospital.

[14:45]

My understanding from the Treasury at the moment is that they do not want to consider going down this route because it just might affect the rate that they might for the bond from the hospital. So our timing to ask for this to happen is very bad in the eyes of the Treasury, but I think we are still talking about relatively small sums with the Government when you consider the value of our assets.

The Deputy of St. John:

In terms of the Treasury and the Public Finances Law as it currently stands, in terms of our ability to borrow, should the funding strategy for the hospital go through, it would be breaking the law, so would you approve of changing the Public Finances Law and asking to borrow more?

Chairman, Public Accounts Committee:

Yes, and I have already asked the Minister for Treasury if he would consider changing the law and increasing it. At the moment, as you know, it is based on the annual revenue. I have had this

question several times with the Minister for Treasury and, yes, they would seriously consider it because they may have to do it anyway, because I think they are pushing it pretty close to the mark at the moment with the hospital and the other borrowings we have. I suspect they will need to do it anyway, so what better reason to do it than to fund education for young people? I think that is something which we should be promoting within the States as Members and getting a law change.

Panel Adviser:

I think it is very helpful, thank you. I can see a lot of merit in that. I think we need to be a little careful about putting very specific proposals, because I am sure a finance person would be able to shoot holes through anything.

Chairman, Public Accounts Committee:

Absolutely, which is why in my footnote there I am saying that that could be modelled in so many different ways.

Panel Adviser:

Yes, and this is my point.

Chairman, Public Accounts Committee:

This needs a lot of work from an investment banker or somebody who has done a rights issue or something like that to look at it.

Panel Adviser:

Somebody who understands about public finance as well, because I think one of the points - and I have made this point already to the Minister for Treasury and I will make it again, I think, in my report to the Scrutiny Panel - is that in England, it was the amount of the student loan was taken off the balance sheet and did not count as public borrowing, to the extent that they could show a flow of repayment. Apparently accounting conventions do not regard that as public borrowing, so I think there is an argument there about it. Now, I have got one or 2 specific points here. The 400 entering H.E. (higher education) at the moment is a serious understatement. If you include those that the English higher education statistics recognise as coming from Jersey, but are not on the department's horizon because they do not apply for loans, it is nearer 2,000 altogether, which would be about 700 a year going to university. If they are to be eligible for the loan - and it is an attractive loan, I think it would be - I think you have got to assume that a lot of them will want to take it unless we make it means tested.

Chairman, Public Accounts Committee:

It is means tested already in effect in the grant system, so ...

Panel Adviser:

Yes, but the access to the loan I mean.

Chairman, Public Accounts Committee:

Yes, but you could make that means tested. Of course I am stating figures there of £20,000. What I do know is if you have a loan scheme, it has to be more than £1,500. I think £20,000 is a more realistic figure, but if it was £10,000 because it had to be, because suddenly we have got double the number of students taking it up and we cannot exceed this limit that we have got at the moment, which we cannot, or even the limit was raised to £1 billion, then we still are going to be running close to the wind if we do this.

Panel Adviser:

I think we should say what is necessary and then let it be cut back.

Chairman, Public Accounts Committee:

Yes. But of course we are going to recycle the money as well. We will not know really for about 5 to 6 years as to what the average default run rate may be. Now, if we can tap into the student loan administration system in the U.K. (United Kingdom), which I have been on at the Minister for International Relations now for months to contact them. I have even given him the direct details of the chairman, and to date I am not aware that meeting has occurred. It is not to ask for their money. Why should we have their money? We are not taxpayers in the U.K. It is to ask if they would be prepared to take on the administration, which we would pay them to do. The key point about that is that the Pay As You Earn (P.A.Y.E.) system would then deduct from the earners of our students working in U.K. their loan, which is impossible to do otherwise. That is critical. I do not have the exact statistics, but my understanding from the department is that the vast majority of graduates in the U.K. from here end up working in the U.K. So that is a very good way of minimising your default rate.

Panel Adviser:

It would be if you can persuade them to do it. I think probably that is a lost cause.

Chairman, Public Accounts Committee:

We have not even had a conversation though.

Panel Adviser:

Okay. It is something for us to raise. We are meeting the Minister for Education tomorrow.

Chairman, Public Accounts Committee:

Yes. But even if it was not the Student Loans Company, there are plenty of debt-collecting companies in the U.K. that could be retained to administer it and follow this through.

Panel Adviser:

All right. But I think that is a problem. I think your 20 per cent figure is probably far too low. The English experience is that English students that go to live and work abroad are not repaying at anything like the rates of those obviously that stay in England, so there is a much higher non-repayment rate, but when they come back to England to work, then they are picked up.

Chairman, Public Accounts Committee:

Yes. They are intelligent people with professional careers. At some stage in their lives, that is going to catch up with them.

Panel Adviser:

Yes. Now, the other thing is you are assuming here an income contingent loan arrangement, I think, rather than a mortgage loan repayment. Is there any particular reason why you prefer one to the other?

Chairman, Public Accounts Committee:

I based it pretty much on the student loans in the U.K., but there are lots of different ways you can do this. You are quite right. People putting up security - their homes, for example - although that would become a way of providing security, it would be a brave Government that foreclosed on somebody's property. That is a concern.

Panel Adviser:

No, I did not mean mortgage in terms of mortgage of a property. I meant that an income contingent loan arrangement makes your monthly repayment dependent on what you are earning, so the more you earn, the more you repay. But a mortgage is that it is a fixed period and you pay it back within 10 years.

Chairman, Public Accounts Committee:

Yes.

Panel Adviser:

That is what I mean by that. You do not think ...

Chairman, Public Accounts Committee:

Yes, you could do that. I would not rule that out at all. In fact, what I have there at the moment is a hybrid between what the Student Loans Company are doing and what we are currently doing with the £1,500. If this was to be viable, I think you would have to have a fixed amount paid, which would start as soon as you were earning a certain amount of money. 9 per cent is what they pay in the U.K. It is not high enough. If you only paid 9 per cent and you were averaging £30,000 for the next 5 years, you would not pay much of the loan back, plus your interest. I think it would need to be higher.

Deputy J.M. Maçon:

Any other questions?

The Deputy of St. John:

Can I ask, in terms of there potentially not being a loan scheme available, nobody wants to go ahead with it - we have seen one department saying it is somebody else's responsibility and all those types of things - but say we hit the brick wall that we usually do in terms of no loan scheme, what else do you believe could be viable, if anything?

Chairman, Public Accounts Committee:

There is not anything. We have looked at it all. I mean, there have been endless reports done going back to 2004. The fact is that there are 3 things you can do and we are doing all 3. You can have a loan scheme; you can have a grant scheme or you can do on-Island courses. There is always going to be a limit to what you can do on-Island. In the last report that was done, Dr. Goldstein said - I will quote you, if you like - basically that: "It is a strongly-held view by many policy-makers that the vast majority of students would prefer to study in England, even if similar courses were available on-Island" and we know that some courses are available here. He goes to say: "There is a strong opinion among interested parties, particularly educationalists, that the brightest youngsters that we have here and the promising young people, it is vital that they should study in a different environment to Jersey." It is very, very important. That was somebody we paid to do a report for us in 2004 and today we are sitting here and we are ignoring it.

Deputy J.M. Maçon:

As if the States would ever do that.

Chairman, Public Accounts Committee:

I know, but the fact is that there are only 3 things you can do. At the moment we are being told that we cannot have a loan scheme: "Okay, cannot have a loan scheme, so what about grants?" "Oh, you cannot have any more grants either." "Okay, so what do we do?" "Oh, we will have some on-

Island courses.” There are not enough of them, and even if you invested loads more, you would still never cover some of the subjects that you would need to know.

Panel Adviser:

Even if you did, I mean, the point was made in some of the responses to the consultation that what you would have then is on-Island courses for those who could not afford to go off-Island to the more prestigious universities.

Chairman, Public Accounts Committee:

Yes.

Panel Adviser:

To be honest, Oxford will always be a better university probably than University College Jersey. You would not want to deprive students of that opportunity.

Chairman, Public Accounts Committee:

No. That is certainly my view, that there are technical qualifications that you would never have a college here capable of delivering. But there is also that worldly experience that young people get.

Panel Adviser:

There are other alternatives, and the Minister mentioned some of them in his statement, like developing relations with French universities or with other universities, but probably nothing that is going to touch the scale of the problem that we have.

Chairman, Public Accounts Committee:

No. If you ended up with 100 more students studying using European universities, on-Island study and sandwich courses - part here, part Plymouth, which happens now - then if you provide another 80 or 100 places, you are still not going to hit what you are saying could be as many as 700. It is not realistic. I think for 10 years we have been pretending this problem will go away. I have been told on fairly good authority that there are people in the Treasury and the Chief Minister's Department that do not believe there is a problem. They do not believe there is a problem. It is only now, 10 years into this problem, whereby fees have gone up and grants have not gone up at the same rate that we are now having this situation. It is going to get worse and worse. We cannot continue to ignore it, but there is an attempt to do that and put it off a bit longer. I think that is being further complicated by the fact that we do have to borrow a lot of money for some infrastructure at the moment, so it is bad timing.

Deputy J.M. Maçon:

Can I just ask, your figures, just to challenge them a little bit further, we know that the biggest rise in the cost of education was the increasing of the cap to £9,000 for each of the universities. My next question is going to be now that it is going to be unrestricted, I believe that is how they are moving ...

Chairman, Public Accounts Committee:

It starts at £9,250 this year and it is going to £9,500 next year, I think.

Deputy J.M. Maçon:

Yes. Again, with your figures, if we are looking at a scale where the university fee costs are going to increase, increase, increase, how long do you think your model could last?

Chairman, Public Accounts Committee:

You can close your fund at any time you like.

Deputy J.M. Maçon:

To new entrants, you mean?

Chairman, Public Accounts Committee:

Yes, so you can close it to new entrants any time you want or you can reduce the amount you are lending out, so there will be losers perhaps in the future, but I would hope that economic circumstances will be such that if we escape the worst parts of Brexit and Mr. Trump that the economies in the next few years of the Western world will develop and hopefully families will have more disposable income. At the moment, we are in a fairly long period where the gap between the rich and poor has got bigger and there is a big attempt to try to close that. That may happen in the next 4 years. I do not know; I am just a politician. I would like that to happen, but it may well not.

Panel Adviser:

Chairman, could I ask a politician the politics of all this? How do you see it? I have come to Jersey. I am very happy to be here, delighted. It is my first visit so I am getting to know the place. But it sets a lot of store by being a low tax, low-spend environment. Say the Scrutiny Panel did agree that there should be a loans system that would involve a significant amount of borrowing, how would that go down, do you think, politically?

Chairman, Public Accounts Committee:

I think it would be challenging. We just had a revelation today that a large fund that we put into business and innovation has gone wrong, it appears maybe down to maladministration. That is not to say we should never do it again, but if you do it, you have got to do it well and do it properly. Now,

we are a low-tax jurisdiction. We do have high-quality public sector services and we have low taxes. The 2 do not normally go together, you do not normally have low taxes and very high levels of public service. We are just beginning to see those public service levels start reducing, because it is simply not affordable any more. My biggest concern here is that we have a large number of people that are paying very, very little tax. You have only got 15 per cent of people that are paying the maximum rate, which is 20 per cent. There are a huge number of people that are paying less than 20 per cent that are earning over £100,000 joint household income. That is unusual when you are providing quality public services. If you want to provide things like, let us say, a full grant scheme, like Gibraltar does, Gibraltar's tax level for income tax is much higher than ours. Even though they are billed as a tax haven - I use those words loosely; a finance centre - they have high levels of personal tax. We do not, so we cannot have both. If we wanted to have a full grant system or a subsidised loan system that is underwritten by the Government, maybe we need to ask the public: "What do you want? Here is the list of things that you say you want. To pay for them, we need this." We have 3 methods of taxation in Jersey: impôts, G.S.T. (Goods and Services Tax), which you call V.A.T. (Value Added Tax), and income tax. Now, the Government needs to be honest and say: "Look, these are the 3 ways you raise revenue" not extra health charges and other things which we have had political debates about recently: "Those are the 3 methods we use. This is how much money we need to provide all these things, one of which is higher education, and this is how we have the levels of those 3 things in order to achieve that."

Panel Adviser:

I agree with you. I understand all that, but my question to you is do you think that the politicians in Jersey are willing to bite that bullet and put those options to the ...

Chairman, Public Accounts Committee:

I met a politician at a conference recently from St. Helena. She won her seat by saying: "I am going to increase taxes, but I am going to provide you with excellent public services." It is a brave politician that does that, but I think at some point some of us are going to have to stand up and say that: "Do you want excellent public services, which includes funding higher education, and if you want that, one of the solutions to achieve that would be to increase taxes."

Panel Adviser:

Or to borrow more.

Chairman, Public Accounts Committee:

Or to borrow more. If you have got a funding stream to cover that borrowing, which we have done successfully with the proposal being put forward for the hospital, it is being funded by our Strategic Reserve, the interest from it.

[15:00]

We could do other things with that reserve. Is it crisis time? Are we going to lose a whole generation of people that do not go to higher education? Is that a crisis? In my view, I think it is. Maybe the funds we currently have should be employed to mitigate that and use interest from investment funds we have to underwrite things like default run rates and the costs of running a scheme. There is no free lunch here. Somebody somewhere has got to pay for it. It is either user pays, which we are getting increasingly more of that. Currently we have a user-pays attitude to education for higher education, and politically I think that is wrong. I think that minimises the spread of people that can then go to higher education and take advantage of it. It becomes the demise of the middle classes and the wealthy and those that can really just about manage it at that low end of the scale get a grant, but then they too struggle when they get there. There is another element, which certainly when I was at university most of my colleagues did, and that was we worked. Depending on your course, that is possible. It is hard, typically done by American students. I was at a university - well, 2 universities - at the weekend, my son was going around universities. A lot of those universities, when they have got foreign students, and particularly Channel Islands students, they offer them work in the universities, behind the bars, in the student union and so on and pay them living wage to work in those things on the campus. They give priority to foreign students and in this case it was Channel Islands students, which I thought was great. So that is another way of doing it, but depending on your course, you try to do a lot of work work and course work and tutorials, it is not always possible, depending on the course that you are on. But that is something which perhaps also ought to be looked at more closely, because when I went, very few people worked, because the grant system was very good. Reality check now: most students do have a part-time job, whether it be in the vacation period or during term time.

Deputy J.M. Maçon:

Although I think would you not acknowledge part of the issue we have had, certainly coming into the years of recession and starting to come out of it, is simply those part-time little weekend jobs, extra hours jobs, particularly in the U.K., were not there? The normal jobs that the students would have picked up just were not available, but as I say, we are probably coming to the end of that now.

Chairman, Public Accounts Committee:

You are right, but like I say, some universities can be encouraged to employ particularly Channel Island students in some of those university jobs, which I heard the other day - I had never heard this before - that they were. That is great. Maybe we can encourage that more; I do not know.

Deputy J.M. Maçon:

Can I just ask, it is a question we have been putting out to everyone and you have kind of touched on it, so we will just go into a bit more detail: the responsibility for higher education, who is responsible for that?

Chairman, Public Accounts Committee:

By law, of course we are only responsible for people to finish their secondary education. I think it is up to 16, is that right?

The Deputy of St. John:

Yes.

Chairman, Public Accounts Committee:

Or 17 maybe.

The Deputy of St. John:

Sixteen.

Chairman, Public Accounts Committee:

Sixteen. By law, we are not. Maybe we should change the statute so we are. I do not know, but I do not believe that is the case in the U.K. either. It is the responsibility of, at the moment, the family to take that next step. It is not a Government responsibility. Having said that, from a wellbeing, from an economic development perspective, training those young people to work in our economy at some point, now or in the future, that is a pretty good long-term strategy to have, is it not? Why would you not? You are investing in young people and a large number do come back to the Island. Less will come back if we suddenly have an economy that is faltering because we do not have enough graduates to do the jobs that need doing. At the moment, yes, they need to fund it. I cannot see a statutory change to the extent that Government would be obligated to fund it, but I think Government should have some kind of obligation to at least provide some of the funding in order for them to pursue that aspiration of a higher education.

Deputy J.M. Maçon:

We have touched on this and we have certainly got the feeling, but I wonder if we can delve a little deeper. Why is the Minister for Treasury sitting on his hands on this?

Chairman, Public Accounts Committee:

I think it is because the debate about hospital funding, which is a huge amount of money, has got in the way. One could be sceptical and say it is convenient, but it is true. Delicate negotiations will go on in the next few months over the bond rate for that particular project. I see it as an opportunity

rather than a threat. They are negotiating some money for that, so why not negotiate for something that you are going to get a revenue stream from? Remember, with the hospital, you build it and that is it. You are not going to get that money back. You are going to have to fund it from your interest in the Strategic Reserve. This has a risk, but that is more than mitigated by the fact that you have a revenue stream, because payments of some kind will be coming back with interest. I think the reason why we have a delay at the moment right now is because of that. But I would like to see that as an opportunity rather than a risk. You are talking to these guys anyway. Why not talk to them about some kind of facility to fund higher education?

Deputy J.M. Maçon:

Many reports, but in particular the innovation report by Tera Allas, stressed the importance and need for skills, particularly high-level skills, which are needed in order to develop the Jersey economy. It does strike us that the Minister for Treasury perhaps does not ...

Chairman, Public Accounts Committee:

This is why I do not really understand. You see reports like that that say that education is so important. The conference last year: education, education. Were you there, Tracey?

The Deputy of St. John:

No. I heard about it.

Chairman, Public Accounts Committee:

It was consistently spoken about, how important it was to have a highly-trained, well-educated workforce, potentially of local people, particularly with the immigration restrictions that we are likely to begin to impose again. How can you achieve that objective if you are then not going to help fund or assist at least with loans your young people to get those good qualifications? One department is not talking to the other. Why have a policy whereby you want a highly-educated workforce and then not fund the highly-educated bit of it? It is not joined-up thinking, in my view.

Deputy J.M. Maçon:

From the States of Jersey? Never, no.

Chairman, Public Accounts Committee:

I do not think the public sector anywhere else is particularly different and there are competing demands on the funds. At the moment we have a relatively low-tax environment. Maybe that needs to change if you want to fund these sorts of things. If that does not change, then you need to think of innovative ways of doing it, one of which would be some kind of innovative loan fund, which if it went well - I know there is a high risk to it, but if it went really well - and the Government underwrote

it for the first 5, 10 years of its life, maybe you could open it to public subscription. Maybe it would never be a huge earner, but you might well be able to create interest from the public to invest in it. If it was guaranteed by the Government, why would they not? It is like a Government bond.

Deputy J.M. Maçon:

One of the final questions from me. I wonder, if things stay as they are, so we saw no change from just having the grant system and the tax allowance system, what do you think the implications would be, first, for students; secondly, for families; then thirdly for Jersey society as a whole?

Chairman, Public Accounts Committee:

If it stays as it is?

Deputy J.M. Maçon:

Yes.

Chairman, Public Accounts Committee:

You will have an increasing number of people that do not enter higher education. You will have some people that will try to do it and it will have an effect in 10, 15 years' time of people that had saved for their retirement, did have equity in their homes no longer have it, so will become a burden on the state later in life, when we end up having to house them or pay for their pensions because they have spent it all on their kids' education. That is the reality check, because some people will not accept they cannot afford for their children to better themselves with a degree or similar qualification and they will find a way of doing it. We are seeing that now. People are doing it. I know there has been high-profile stories about that, but there are other people who are very quietly beavering away, dipping into their pension pots, remortgaging their houses. Unfortunately, that may well bite them very hard later in life, which we will then have to help them out of that problem in the future. I think we are building up a problem for the future. If that is what people decide to do, it is their own choice, but at some point they might cry: "I need some help now." Are we going to help them? We are creating a problem for the future, I think, by allowing people to ... well, not allowing them, we cannot stop them, but if that is their only recourse, then that is what some people will do. Others simply will not go away and we will have an under-educated workforce in a developing economy that needs highly-educated people to achieve its economic growth objectives, which cannot be achieved unless you have well-educated people. I think 80 per cent of jobs in the Western world now are demanding people with graduate-level qualifications.

Deputy J.M. Maçon:

Have you seen the advert, the new supermarket where they will have no staff in there whatsoever? It is all done on your phone: you tap in, you buy all the groceries as you go in and tap out again and not a single person is employed.

Chairman, Public Accounts Committee:

There will be increased mechanisation, no doubt about it all, so you need to create higher-value jobs doing different innovative things. That is going to require people with high-level qualifications. Even our banking industry now, if you go back in banking 25 years ago - you have worked in banking, Deputy, you will know - there were a lot of process jobs. Those process jobs have gradually replaced by I.T. (information technology) or outsourced to lower-cost jurisdictions. We have already seen that happen, so the jobs that are left are for people with high-level qualifications. That is only going to continue with increased mechanisation, so the major corporations can extract greater profit. That is just going to happen. We cannot stop that. The only way you can mitigate it is by having a highly-educated workforce that will do the jobs that will still be there. Those people need degree level and above qualifications.

Deputy J.M. Maçon:

Anything further to ask?

The Deputy of St. John:

Can I ask on the tax credit side of things, do you think that assists parents?

Chairman, Public Accounts Committee:

My concern there is that we had some models demonstrated to us recently - I think it may have been the same presentation - whereby with the tax credit, one could then earn about £175,000 and only pay 19 per cent in tax, because that 1 per cent is your tax credit for higher education, if you have got a child in higher education. If your household income is £175,000, I think you can probably afford this situation, but if your household income is only £100,000 - I say "only" - and you have got a big mortgage and you have got 3 children, you are going to struggle to afford that higher education. Yes, you do get the tax credit and that will help you. I think at the moment it is pitched for everybody gets it and I wonder if it is going too far up the income scale, because I would struggle ... if you are a family with 2 children in higher education and your household income is £175,000, I think you are probably in a much better place than somebody in that lower cohort of £100,000. I think we need to review the way we deliver tax credits. Personally, I would prefer that money put into a fund to either increase the grant scheme, or you would get much more out of it if you put it into a loan scheme in terms of administration and cost rather than the money itself being ...

The Deputy of St. John:

So you prefer a direct funding model rather than indirect, is that what you are saying?

Chairman, Public Accounts Committee:

Yes. We are supposed to have a simple tax system, but you know as well I do, Tracey, that the marginal tax relief calculation, if you ask anybody how to do that and what it is about, they will not understand it. We are supposed to have a simple tax system, but it is not. The more things like tax credits you have in there, the more complex it becomes, so you cannot clearly see then what the real picture is. I do not think having all these allowances in there, which many have been phased out, help very much. I think it needs to be more transparent, to say: "You need help with funding. What is your income? You can have access either to the grant system or loan system." There is no reason why a loan system, if it is heavily subsidised by the Government in terms of defaults and so on, cannot be means tested as well.

The Deputy of St. John:

Just one final thing, on the actual report that was produced by Education last year, they suggested that students do not want to have the debt. What would you say to that?

Chairman, Public Accounts Committee:

I am not sure if you have had this, but I can give it to you. This was from a student and I read it out in the in-committee debate. This was a student from Jersey studying in a college in the U.K. He is surrounded by guys that have got student loans, and this was him saying his experience in meeting those guys. He was saying: "For most students, the student loan is revered as their golden ticket to a professional life. They consider it to be a positive arrangement that affords them independence and freedom to study what they want. This is evidence based on how my English friends talk of their student loans. They are aware that they face a large debt on graduation and some are daunted by it, but none would change having the debt if it meant they could not have received a higher education." Do you have that?

Deputy J.M. Maçon:

I think we have got it.

Chairman, Public Accounts Committee:

I think that says it all, really. People realise there are not many alternatives out there. We do not really want to raise taxes here, do we?

The Deputy of St. John:

Nobody wants to raise taxes, do they?

Chairman, Public Accounts Committee:

Nobody wants to raise taxes, and if we do, there is always somebody else that will have to pay for it. One of the ways of doing this without raising taxes would be to have a loan scheme. It still may have some cost and risk to the Government and they need to decide how they mitigate that, whether that is by raising taxes, and that is a debate we would have to have. But the loan scheme, properly run, properly managed, could be your lowest-cost way of doing this for all taxpayers, because let us face it, not everybody goes away and not everybody has got children, so why should everybody have to pay for it? Having said that, everybody pays for health, but not everybody claims. It is a moral responsibility here, I think, to provide health, education, law and order and so on, and we pay for it through our taxes. But we do not have to pay as much as some countries do in tax if we have a viable loan scheme that is, yes, underwritten by the Government, carefully well-managed. You can reduce your default rate. Yes, you would need to allow for that. Yes, the money has to come from somewhere. Whether that is from taxes or from the interest on our reserve funds is a matter for another day, but I do not think anybody would stand up and say: "We just should not do anything about this."

[15:15]

The Deputy of St. John:

I agree.

Deputy J.M. Maçon:

Anything else, panel? No. Is there anything else you would like to draw to the panel's attention perhaps you have not had a chance to say yet?

Chairman, Public Accounts Committee:

The only thing I have got is quite a few emails here that came in to me during the in-committee debate, which may have been copied to you as well, I am not sure. But if I get the permission of emailers, I will share them with you.

Deputy J.M. Maçon:

If you can send them on to Mick, that would be very helpful, yes.

Chairman, Public Accounts Committee:

Yes, because there are some quite interesting case studies there of professional people that are still struggling to meet the cost of higher education, and whether it is the high-profile case of the dentist - I am sure there is more to that than meets the eye - but there are other examples here of similar situations that I think might be useful to the panel. I just hope that your report convinces Government

that there is a problem, because there are Government officials in particular that do not believe there is a problem, and if there is a problem, it is up to individual households to solve it themselves. I think that is quite sad. I do not think we can let that carry on.

Deputy J.M. Maçon:

Okay, brilliant. In that case, thank you very much and I will close the hearing there.

[15:16]