

Policy Options for New Student Contributions in Higher Education

Report to Minister for Education and Science

1 July 2009

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Chapter 1

Introduction and Overview

1. The Government's *Framework for Sustainable Economic Renewal- Building Ireland's Smart Economy*, launched by the Taoiseach in late 2008, establishes Ireland's ambition to become internationally renowned as an Innovation Island. At the core of achieving this ambition will be our capacity for producing highly skilled graduates and fostering a climate of creative thinking and advanced research and development. This relies on the quality of undergraduate provision right across the sciences, arts and humanities in our third level institutions.
2. The development of a new national strategy for higher education is now underway. The strategy will aim to identify a vision and objectives for the development of the sector over the next twenty years. Leading higher education systems internationally are characterised by wide revenue sources that, in many cases, include a form of direct student contribution through a tuition fee or student loans system. If Ireland's higher education system is to develop and meet future demands in an environment of increasingly tight public resources, then it is appropriate that the sector's level of dependence on Exchequer funding should come under review.
3. There are strong equity arguments that those who benefit from higher education and who can afford to contribute to the costs of their higher education should be asked to do so. This is a well established principle internationally and an important element of funding strategies for leading higher education systems around the world. Future funding of the Irish system is an important issue in the context of our attempts to ensure that Ireland's capacity for generating knowledge and skills is sufficiently well developed to support our future social and economic ambitions.
4. It is also important to recognise that the higher education system forms part of a broader public and private infrastructure for the development of human capital. This includes other Departments like Enterprise, Trade and Employment, through their investments in training. It is particularly important in that context, that the systems of incentives for training, and the contributions required of students should be coherent. While it is not within the parameters of this Group to consider such overarching issues, it is important to highlight this need for integration. It may be considered further as part of the National Strategy on Higher Education
5. Against this background, the Minister for Education and Science, has sought a report on the policy options that are open to the Government on possible forms of student fee contribution in higher education.
6. This report is presented to the Minister, based on the following terms of reference:

To examine the range of available options for introducing a form of increased student contribution in Irish higher education having regard to existing international models, the revenue impact of potential approaches, any associated implementation issues and the associated policy issues that arise in the Irish context.

7. Chapter 2 of this report describes our current system of higher education funding and student support. It considers the impact of the decision to introduce 'free fees' in the mid-1990s on participation rates in the key target groups. It also identifies some of the policy considerations associated with current arrangements and the rationale for possible change.
8. Chapter 3 identifies some of the key characteristics of a range of example models that operate internationally. Drawing on these, Chapter 4 sets out possible fee contribution scenarios that could be applied in the Irish context, involving possible combinations of student supports, free fees, tuition fees and student loans. The potential revenue yields associated with various options, loan repayment schedules and other associated implementation and policy considerations arising are identified.
9. Chapter 5 identifies possible options for the introduction of a system of deferred student contribution and considers the practical and policy issues associated with these. Finally, Chapter 6 identifies a number of general implementation issues for consideration by the Government.

Chapter 2

Current Arrangements and Policy Issues

2.1 Current Arrangements

1. Subject to certain qualifying criteria, undergraduate students attending full-time programmes in publicly funded higher education institutions can be broadly categorised under two headings. They either qualify for means-tested student supports (maintenance grant and other forms of targeted financial assistance) or for 'free fees' (non-means tested), under which the State pays tuition fees on their behalf. Irish or EU/EEA/Swiss nationals will only pay tuition fees in certain defined circumstances (e.g. in respect of a repeat year or where residency requirement is not met – extracts from the fee lists applied are contained at Appendix 1 while details of the criteria applied are contained at Appendix 2).

Free Fees

2. Since 1995/96, full time undergraduate students who meet certain eligibility criteria have no longer been required to pay tuition fees. The Free Fees Initiative was introduced on a phased basis, with tuition fees being halved for the 1995/96 academic year and abolished completely from the 1996/97 academic year. The introduction of the Free Fees Initiative was also accompanied by the abolition of tax relief on covenants in favour of children over 18 years of age, which was being used by families on higher incomes to offset the cost of fees and had come to be viewed as a cause of unfairness in the system.
3. Under the terms of the Free Fees Initiative the Exchequer meets the tuition fees of eligible students attending full-time courses in approved institutions in the State of not less than two year duration. The main conditions are that students must be first-time undergraduates, hold EU/EEA/Swiss nationality or official refugee status (or be the family member of an official refugee with permission to reside in the State) and have been ordinarily resident in the EU/EEA/Switzerland for at least three of the five years preceding their entry to an approved third level course.
4. The residency requirement applies to all E.U. nationals, including Irish nationals in accordance with the judgement of the European Court of Justice that access to vocational training must apply equally to all E.U. nationals. Students in receipt of 'free fees' are liable for an annual student services charge, intended to meet registration, administrative and other student service costs. The level of this charge was €900 in 2008/09 and it will rise to up to €1,500 in 2009/10.
5. The Third-Level Trainee Scheme covers Level 6 and Level 7 courses (previously certificate and diploma) in Institutes of Technology (IoTs) which were previously aided by the European Social Fund (ESF). Trainees were already in receipt of free tuition when the Free Fees Initiative was introduced in 1995/96. The ESF aid for this scheme was discontinued in 1999. Since then the full cost has been met by the Exchequer.
6. Under the Third-Level Trainee Scheme the Exchequer meets the tuition fees of eligible students, who do not already hold a Degree qualification or have not completed more than one year of a Degree course, attending full-time courses in the State. The main conditions are that students must hold E.U./EEA/Swiss nationality or official refugee

status (or be the family member of an official refugee with permission to reside in the State), or have humanitarian leave to remain in the State. There is no residency requirement. Trainees who are pursuing or who have completed more than the first year of a degree level course are not eligible.

Student Maintenance Grants

7. The Department operates three means-tested grant schemes for students in higher education. The Higher Education Grants Scheme is administered by the local authorities, while the Vocational Education Committees administer the VEC Scholarship Scheme and the Third-Level Maintenance Grants Scheme for Trainees. The three schemes have been increasingly aligned in recent years and are now broadly similar. Table 2.1 shows overall expenditure on third level student supports in 2008.

Table 2.1 Expenditure on Third-Level Student Supports in 2008

Student Supports	Expenditure in 2008	%
Non means-tested ('free') tuition fees	€357 m	59%
Means-tested Maintenance Grants	€231m ¹	38%
Targeted supports under the Third-Level Access Fund	€17.2m	3%
Overall Expenditure	€605.2m	100%

8. It is Government policy to introduce a unified scheme of grant. The Student Support Bill was published in February 2008 and provides the legislative framework for the reform of the administration of student grants and the unification of the existing four student grant schemes (including PLC grants) into a single unified scheme which will be provided for by way of regulation.
9. In addition to standard maintenance grants, a special rate of maintenance grant is payable to those in the lowest income category and a Student Assistance Fund operates to support students who experience severe financial hardship while in college. A Special Fund for Students with Disabilities is also in place. Full details of eligibility, income thresholds, grant levels and numbers of recipients of the schemes are set out in Appendix 2. Details of the available supports are also provided online through www.studentfinance.ie.

2.2 Impact of the free-fees policy introduced in 1995/96

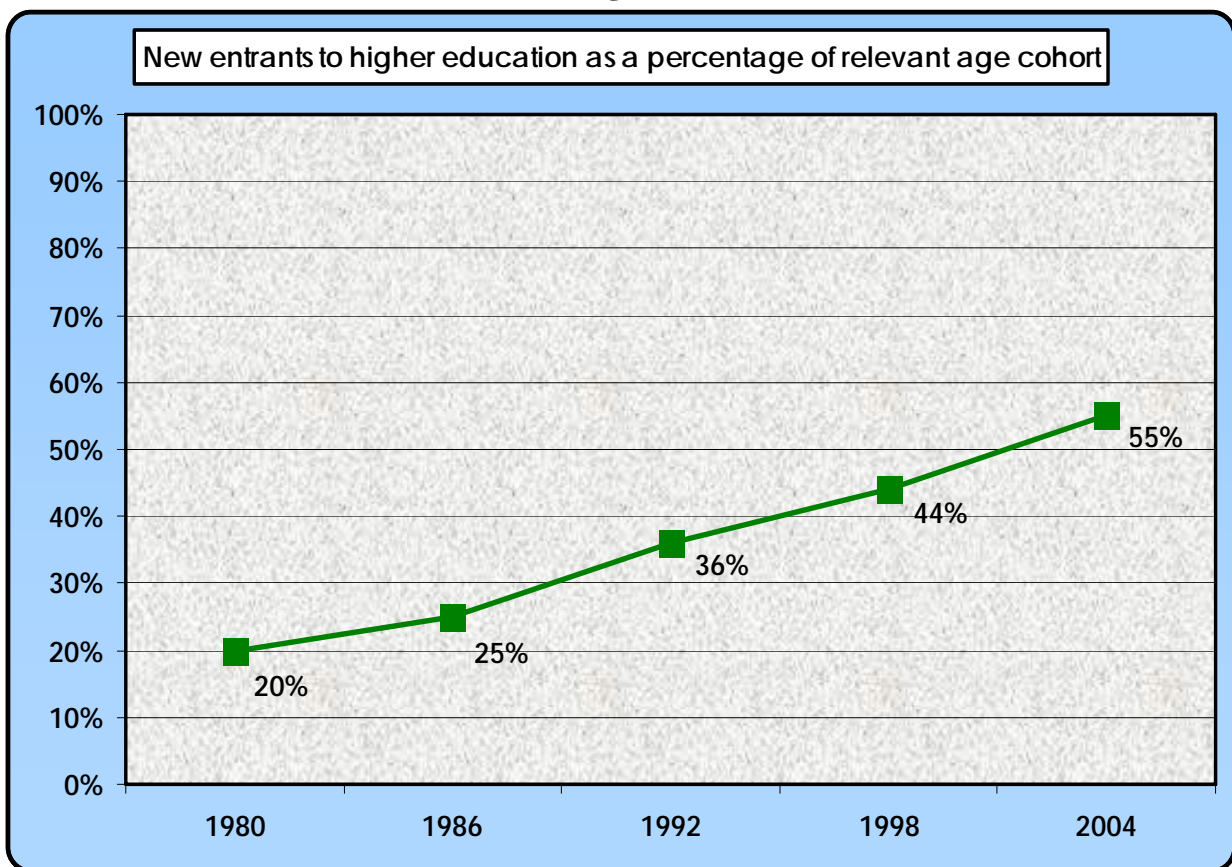
Introduction

10. The remarkable expansion of participation in Irish higher education is well documented² The OECD have commented favourably on the rate of expansion of higher-education opportunities in Ireland, which is among the highest across all OECD countries.

¹ The figure covers Maintenance, Student Service Charge and Tuition Fees for students attending third-level institutions.

² See for example, Higher Education Authority (2008) *National Plan for Equity of Access to Higher Education*; Department of Education & Science. (2007) *Sé Sí - Gender in Irish Education*; Organisation for Economic Co-operation and Development (OECD) (2004) *Review of National Policies for Education – Higher Education in Ireland*; Department of Education and Science (2003) *Supporting Equity in Higher Education: A Report to the Minister for Education and Science*.

Figure 2.2³



11. The young adult population of Ireland compares favourably with international benchmarks in terms of the attainment of higher-education qualifications. The reverse is the case among older adults who compare poorly with international benchmarks in terms of the attainment of higher education.⁴

Impact on overall participation rates

12. The statistic that captures the expansion of higher-education opportunities best is the number of new entrants per annum. This information is outlined in Table 2.3 and also in Figure 2.4

³ Data sources: O'Connell, P., McCoy, S. & Clancy, D. (2006) *Who Went to College in 2004? A National Survey of New Entrants to Higher Education*. Dublin: Higher Education Authority & Clancy, P., (2001) *College Entry in Focus: A Fourth National Survey of Access to Higher Education*. Dublin: Higher Education Authority.

⁴ Upper secondary attainment levels are also low by international standards among older Irish adults and upper secondary completion remains a challenge among the younger age cohorts. Upper secondary completion rates improved steadily from the late 1960s to the early 1990s but they have stalled in the intervening years. The social and economic prospects for early school leavers have deteriorated over that period.

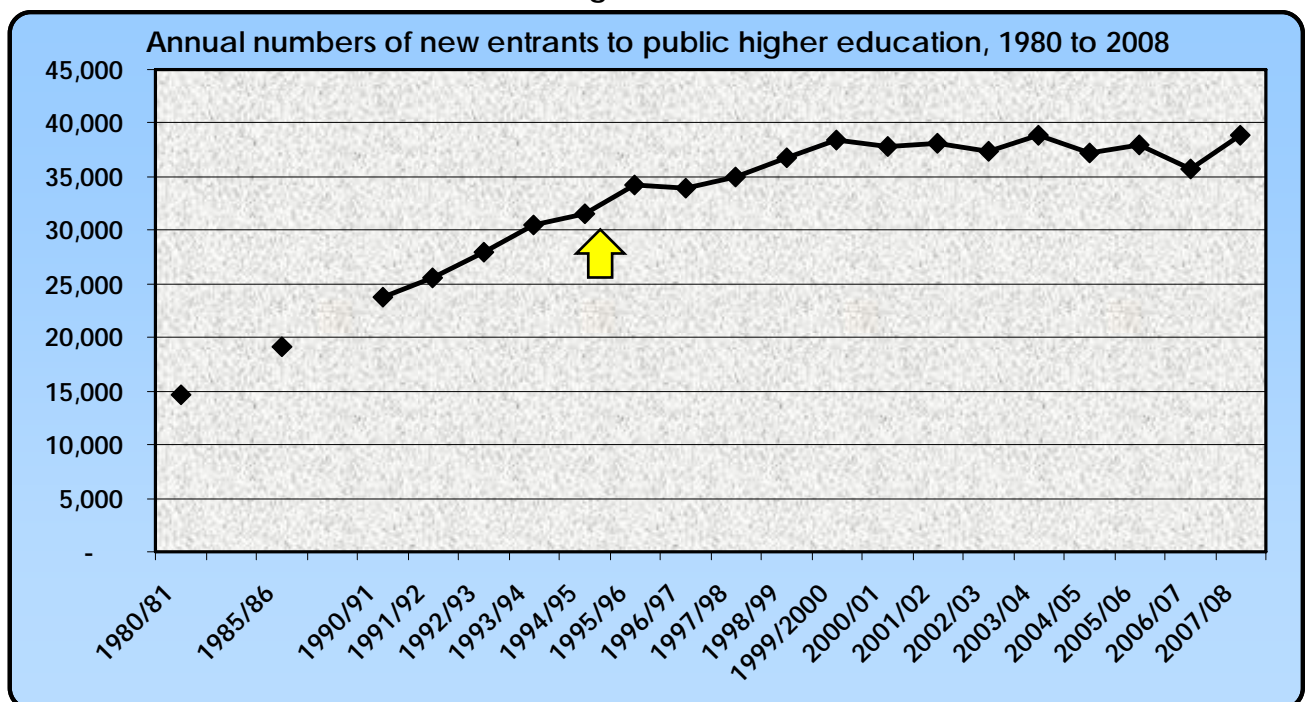
Table 2.3

Number of new entrants to higher education in selected years between 1979 and 2007			
Year	New entrants (in reference year)	Actual increase compared with 5 years earlier	Percentage increase compared to 5 years earlier
1979/80	13,256	-	-
1984/85	17,929	+ 4,673	+ 35%
1989/90	22,521	+ 4,592	+ 26%
1994/95	31,618	+ 9,097	+ 40%
1999/00	38,475	+ 6,857	+ 22%
2004/05	37,257	- 1,218	- 3%
2007/08	38,891	+ 1,634	+ 4%

13. The Free Fees Initiative was announced in February of 1995 and phased in over a two-year period. Tuition fees for full-time undergraduate students were halved for the 1995/96 academic year and removed from the 1996/97 academic year onwards.

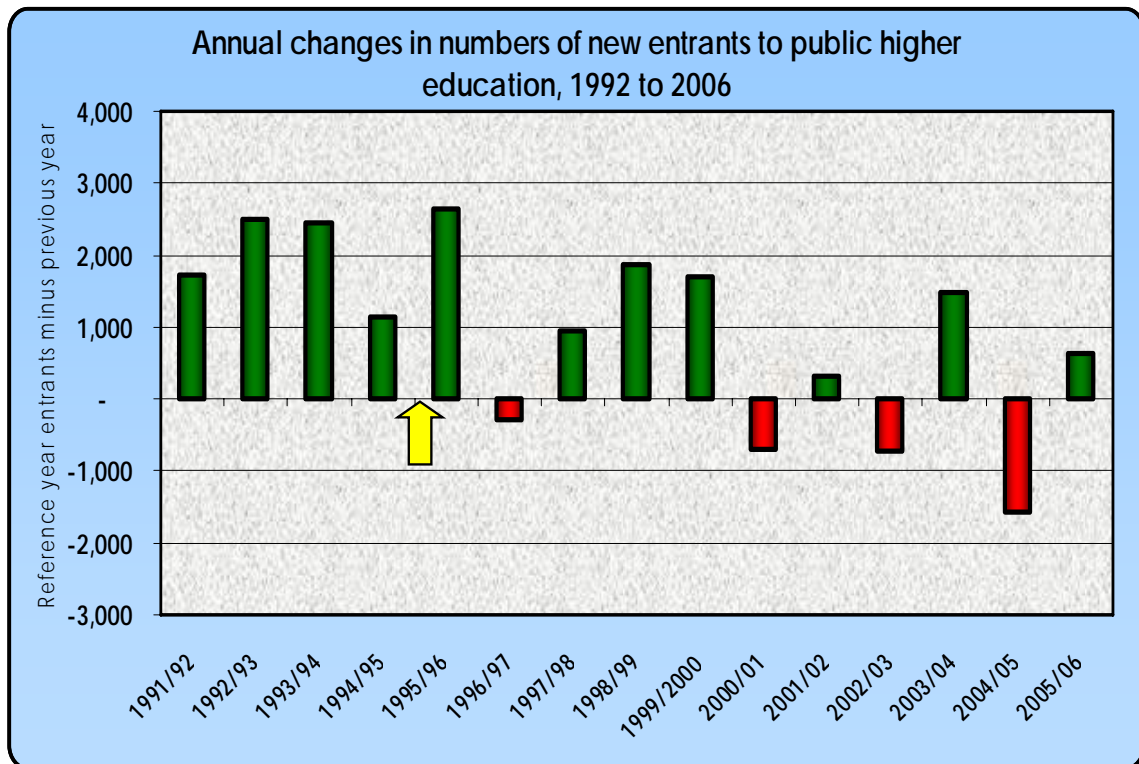
14. The introduction of ‘free fees’ did not result in an increase in the rate of expansion of higher education opportunities. The period of most rapid growth in the numbers of new entrants preceded the introduction of ‘free fees’ in 1995. In the ten years prior to the reform, the numbers of new entrants increased by 13,689. The increase in the decade after the reform was 5,639.

Figure 2.4



15. Figure 2.5 provides an analysis of the changes in the numbers of new entrants year-on-year since 1991. The green bars represent increases over the previous year’s intake and the red bars represent decreases. The biggest year-on-year increase in new entrants followed the announcement of the Free Fees Initiative in 1995. But the period of most sustained increase was the early 1990s.

Figure 2.5

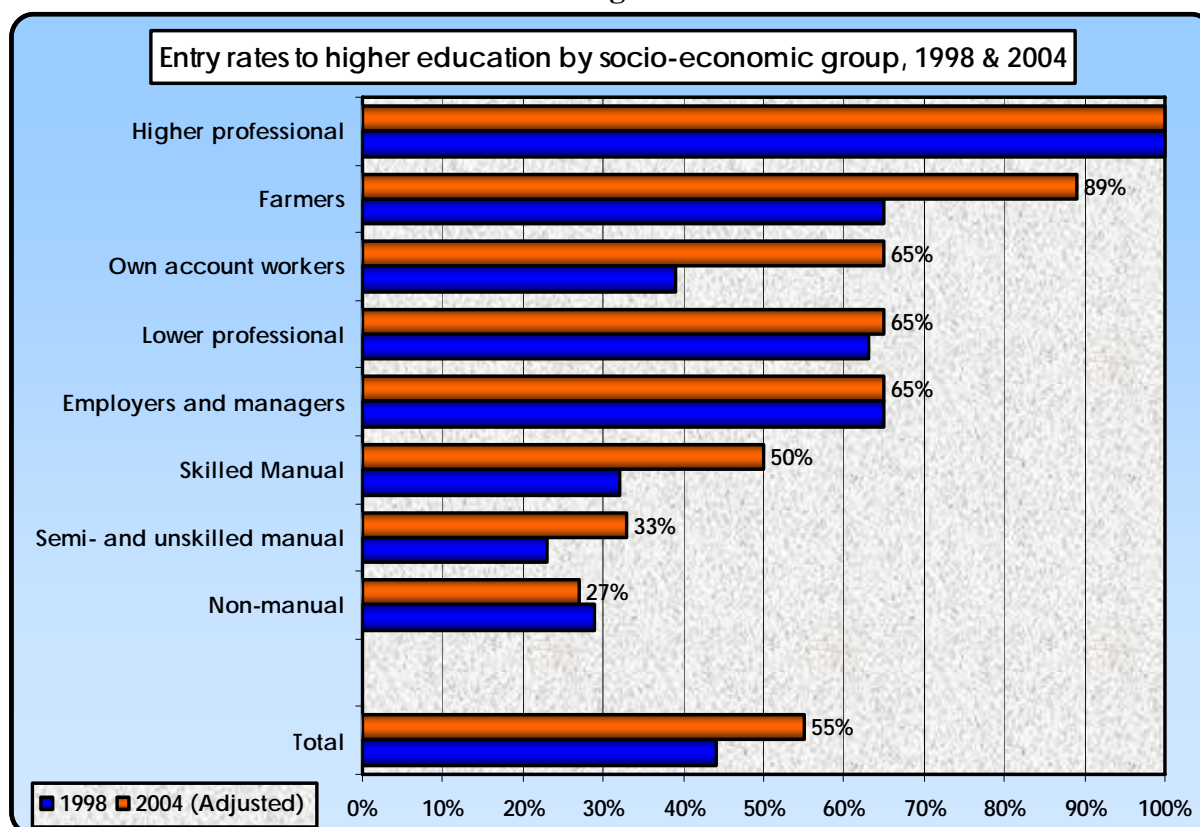


16. It is very difficult to assess the impact of the introduction of 'free fees', because it is impossible to know what participation rates would have been like otherwise. Although the rate of expansion was highest in the early 1990s, the Free Fees Initiative has helped to sustain entrant numbers through the demographic slump in the numbers of 17-18 year olds that has been underway since 1998. This has led to increased access to higher education for higher proportions of the school leaving population. This demographic decline in traditional entrants is soon ending and there will be a steady increase in the numbers of 17-18 year olds in the Irish population over the next two decades.

Impacts on equality in higher education

17. Figure 2.6 presents data on the proportions of potential students from each socio-economic group who entered higher education in 1998 and in 2004. Between 1998 and 2004, the largest increases in participation were achieved by (children of) farmers and other self-employed people (own-account workers). The participation levels of students from the traditional working classes (manual socio-economic backgrounds) also increased significantly, particularly among those from the skilled manual background.
18. The semi-and unskilled manual group, who have been a priority target group in Irish higher-education policy, increased their participation by 10 percentage points between 1998 and 2004. An estimated one-third of children from these backgrounds now enter higher education.
19. At present, the low and lower-middle income households (the non-manual group) have the lowest levels of participation. This group currently accounts for one fifth of all households in Ireland. Only one quarter of children from these households currently access higher education opportunities.

Figure 2.5⁵



20. The removal of fees reduced the financial barriers to participation in higher education for all socio-economic groups. Subsequent to the removal of tuition fees, maintenance accounts for almost all of the direct costs of participation in full-time undergraduate studies. Maintenance costs are currently estimated to average approximately €9,000 per student per academic year.⁶ *The actual costs of participation vary considerably according to the circumstances of the individual learner. For example, parents of young children face very high costs of participation in terms of childcare and transport costs can be significant for people living considerable distances from higher-education institutions.*⁷

21. It is important to appreciate the complexities of educational disadvantage and particularly the social and cultural barriers which accompany the financial barriers to higher education. The main barrier for entry to higher education affecting students from lower socio-economic groups is their lower levels of school completion and lower levels of attainment in the Leaving Certificate. This highlights the importance of actions to raise levels of attainment throughout the school system. For those students from lower socio-economic groups, who do achieve the necessary prior levels of attainment, credit constraints can affect participation.⁸ These financial barriers, which can be significant,

⁵ Data sources: O'Connell, P., McCoy, S. & Clancy, D. (2006) *Who Went to College in 2004? A National Survey of New Entrants to Higher Education*. Dublin: Higher Education Authority & Clancy, P., (2001) *College Entry in Focus: A Fourth National Survey of Access to Higher Education*. Dublin: Higher Education Authority.

⁶ This figure refers to the average costs of living for students living independently. It is based on ESRI updates of Eurostudent data for Ireland. (~~delete - It is consistent with other surveys conducted by the Union of Students of Ireland and by the Bank of Ireland. [FULL REFS TO BE ADDED]~~

⁷ Higher Education Authority (2008) *National Plan for Equity of Access to Higher Education 2008-2013*, p.36.

⁸ The work of Nicholas Barr (from the London School of Economics) highlights the importance of prior-attainment as the binding constraint in understanding the under representation of students from lower socio-economic groups in

are amenable to direct intervention through the student support framework for higher education. *For the lower socio-economic groups, economic considerations, especially the short-term opportunity costs of staying in education, become highly significant at the point of transition to third level.*⁹

22. The importance of financial barriers is evident in the fact that the socio-economic groups that have gained most from the Free Fees Initiative are those that have most access to the available maintenance grants, i.e. manual workers, self-employed and farmers.
23. For the academic year 2008/09, some 42,800 undergraduate higher education students qualified for maintenance grants at combined gross household income thresholds ranging from c€39,700 to c€9,300. The opportunity costs of participation are highest for households headed by a parent in lower middle-income salaried employment. *The income thresholds that currently apply disqualify large numbers of salaried employees within the lower-middle income group (non-manual) from financial supports. This is likely to be a significant factor in their very low rates of participation. Many families within the non-manual sector have an income level that disqualifies them from accessing grants..... Addressing the situation of children from lower-middle income households is an emerging and significant challenge.*¹⁰
24. These issues were clearly outlined in the 1993 report of the DeBuitléir group.¹¹ The difficulties centre on our approach to means assessment, which focuses primarily on income and takes little account of assets and other forms of wealth.
25. In addition to the costs of participation, the limited opportunities to combine work and study contributes to the current low levels of participation in higher education by low to middle income working families.

Impact of the Free Fees Initiative on the mode of participation in higher education

26. Tapping into the potential demand for higher education among adults who are unemployed or in vulnerable employment will present both challenges for the higher-education sector and opportunities to build on the strengths of the Irish education system within a lifelong learning framework. Our performance to date in reaching out to adults has been undermined by the limited availability of part-time and flexible learning opportunities at NFQ levels 6 to 8 (undergraduate level). In the 2007-08 academic year, less than 11 per cent of entrants to undergraduate programmes were part-time students.
27. The Free Fees Initiative has had a strong impact on the mode of study in undergraduate higher education. The fact that it applies only to full-time undergraduate education diminished the demand for and the supply of part-time study opportunities in the Irish higher education system since the mid-1990s. This has left the system less well equipped to address the increasing education and skills needs of the workforce.
28. *Expanding part-time and flexible learning opportunities in our higher-education institutions will require reflection on the extent to which institutions are incentivised to*

higher education. This has wide-ranging policy implications for actions to raise prior attainment in schools. Barr also identifies the impact of credit constraints (on those who do overcome the prior attainment barriers) and believes that these are best addressed through income-contingent loans accompanied by targeted access measures. See for example: Barr, N. (2004), Higher Education Funding, in *Oxford Review of Economic Policy*, Vo. 20, No. 2, 2004 pp. 264-283.

⁹ Department of Education and Science (2003), *Supporting Equity in Higher Education*, p.2.

¹⁰ Higher Education Authority (2008) *National Plan for Equity of Access to Higher Education 2008-2013*, p.36.

¹¹ Government of Ireland (1993) *Report of the Advisory Committee on Third-Level Student Support*

*deliver flexible courses within the policy and funding framework.*¹² Some work on addressing the deficiencies in supply is currently being supported through the Strategic Innovation Fund introduced as part of the current National Development Plan.

29. The student support framework and the issue of student contributions are central measures in addressing the broader demand-side issues around part-time study. This will require an examination of the student support implications of lifelong learning and the development of strategies to support access to part-time higher education.
30. The effectiveness of part-time courses in reaching out to mature students is evidenced by the fact that 86 per cent of current part-time undergraduate entrants are aged 23 and over and 60 per cent are aged over 30.
31. The current low level of part-time study opportunities limits the accessibility of higher education for working adults and adults with caring responsibilities. It also limits the study-options available to traditional school leavers, who may prefer to, or need to, combine work and part-time study.¹³

2.3 Policy Issues for Consideration

32. Any consideration of an increased student contribution should have regard to the policy objectives for higher education, and the impact that a new contribution regime might have on achievement of those objectives. Broadly speaking there are four main objectives that need to be considered in this context:-
 - Participation
 - Efficiency
 - Sustainability
 - Quality

Participation

33. Raising participation in higher education has been a consistent policy objective in Irish higher education. The 1995 Steering Group report on Higher Education, the 2001 Action group on Access to Higher Education, and most recently, the National Skills Strategy and the National Plan for Equity of Access to Higher Education have been part of a continuous series of policy documents stressing the need for higher overall participation in higher education, and for greater equity of representation within that.
34. The introduction of a new regime for increased student contributions would, if undertaken in isolation, with no accompanying change to student support, run counter to this objective. By increasing the cost to the individual student, some students who might otherwise have participated may decide to forgo higher education. This is likely to have most impact in relation to students from lower socio-economic groups.
35. However, there is some evidence that careful design of a system of student contribution with an associated scheme of student support can address this issue. For example, as part

¹² Higher Education Authority (2008) *National Plan for Equity of Access to Higher Education 2008-2013*, p.45.

¹³ Part-time options for traditional school leavers may be more attractive to young males and also to those from the 'non-manual' background, who are currently the most under-represented socio-economic group in Irish higher education.

of the reform of fees and student support policy in England and Wales in 2006, while the introduction of a student contribution alongside a loans and grants system saw an immediate initial decline in applications, that proved short lived as growth resumed the following year.¹⁴

Efficiency

36. An increased student contribution would facilitate a more efficient system in a number of ways.

Aligning the funding of higher education with those who benefit most from it

37. There is unambiguous evidence that higher education systems convey a benefit on the students who participate. The most recent OECD evidence suggests that on aggregate the premium is particularly high in Ireland. There are two ways in which this is measured.
38. Firstly the most recent OECD data available shows that in Ireland, the earnings of those with higher education are 84% higher than those with upper secondary education only.¹⁵ This premium is 7th highest of the 18 countries cited.
39. An alternative method of analysis measures the return on investment. This approach takes into account the cost to an individual of participating in higher education, both in financial terms, and in time, and hence foregone earnings. They relate this to the expected benefits from participation, and arising from these data, they calculate a rate of return on the investment made. The rate should at least equal the risk free real interest rate (i.e. the Government bond rate), but in most countries it exceeds that rate. The data for Ireland suggests that the rate is 10.2% for males and 11.8% for females, well in excess of the Government bond rate.¹⁶ This reinforces the earlier finding of the very substantial benefits to the individual who participates in higher education.
40. In such a context, where the Government decides to pay in full for the costs of participation, it is transferring a substantial benefit to these students, which will be realised over their future career. .

Inequities of access to higher education

41. The above point is compounded by the evidence that access to higher education is not uniform in all social classes. At present, only 30% of the population of working age (25-64), have benefited from a third level education – yet all contribute through taxation to the cost of current higher education provision.¹⁷ This represents a transfer from those who have not benefited in the past, to current students.
42. Furthermore, as described earlier, the chances of those who do participate of achieving higher earnings are greater than those who do not. In this context, pure public funding of these costs confers a benefit on a particular sector of society, and a corresponding penalty on others..

Incentivising better course selection and completion

43. In a system where students make a contribution to the cost of their participation, the State can use this regime to send signals about the value or desirability of certain types of

¹⁴ See Figure 2.6

¹⁵ OECD Education at a Glance pg 173, (based on 2004).

¹⁶ OECD Education At a Glance 2008 – year of reference 2003.

¹⁷ OECD Education at a Glance 2008 (refers to 2006 data).

courses. In particular the State could, via subsidised fees, provide incentives for certain skills needs.

Sustainability

44. A critical objective for any system is to ensure financial sustainability over the long term. This is particularly true of higher education. At a European level, the European Commission has noted

*“While there has been welcome growth in student enrolments, this has not been matched by growth in public funding, and universities in Europe have not been able to make up the difference from private sources. The average gap in resources for both research and education activities compared with their US counterparts is some €10,000 per student per year.”*¹⁸

45. This is of particular significance in Ireland, given our current economic structure. Current OECD data shows that Ireland is a country of relatively low taxation. In the OECD as a whole, taxation accounts for c. 36% of GDP, but in Ireland is 32.2%. This is the 5th lowest share of 30 OECD countries surveyed. (2007 figures, source OECD)¹⁹.
46. An obvious implication is that Ireland, cannot, short of significantly increased reliance on borrowing, match the levels of public investment that other countries allocate to public services, including higher education. Finland, for example often cited as a comparator for higher education has a tax take of 43%, Sweden and Denmark 48%.
47. Since the publication of the OECD data cited above, personal tax rates have increased in Ireland, and may increase further during the current recession. It would be unwise to assume that any increased tax revenues will be available for increased investment in higher education.
48. In any case, regardless of changes in taxation levels, the levels of private expenditure being dedicated to higher education remains low by international standards. In 2005, Irish private spend on higher education had reduced to 16% of overall investment (from 21% in 2000 and 30% in 1995). This compared with an OECD mean proportion of 27% in 2005.²⁰ (see figure 2.7).
49. This analysis strongly suggests that the balance of public and private funding of higher education in Ireland is markedly out of line with international norms, and will create long-term sustainability problems for higher education.

Quality of Higher Education

50. In the increasingly globalised environment in which higher education operates, it is essential that Irish higher education maintains and improves the quality of its provision. This is essential in both attracting resources to the system (students, staff and funding), and in ensuring that graduates of the system are equipped to meet the needs of modern society and the economy.
51. Ireland already operates a sophisticated quality assurance and improvement regime, which is underpinned by legislation, and currently being streamlined through a process of

¹⁸ Delivering on the modernisation agenda for universities: Education, research and innovation, European Commission 2006

¹⁹ Revenue Statistics 1965-2007, 2008 Edition, OECD.

²⁰ Source OECD Education at a Glance 2008.

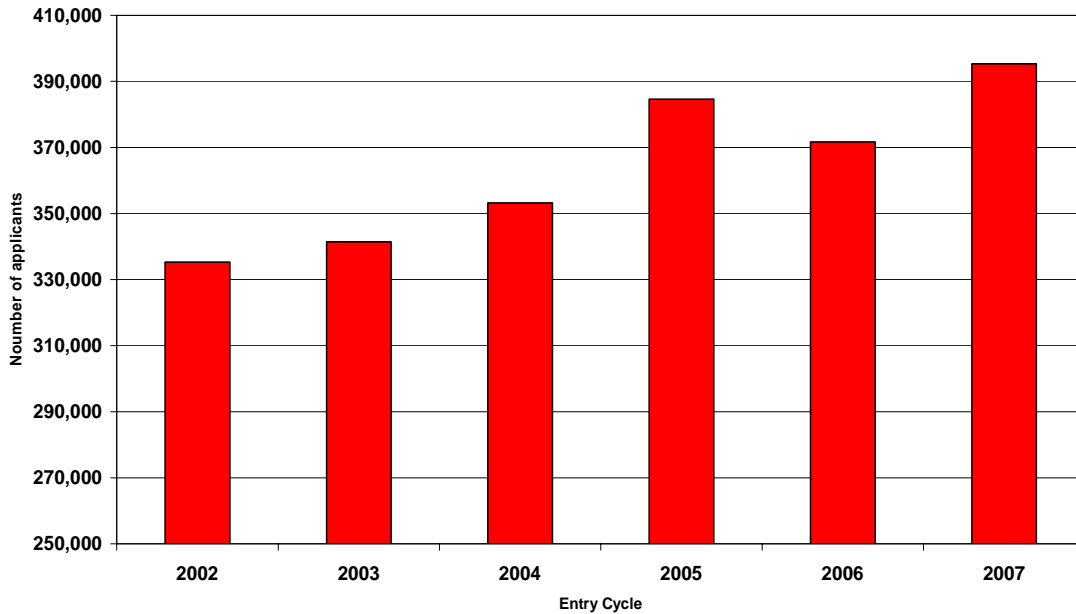
agency merger. That system is explicitly designed to take account of the views of stakeholders, including students, in the improvement of the system.

52. However, recent reviews of the quality assurance systems (both in the Universities and the Institutes of Technology) have highlighted the need for ongoing improvement, particularly to ensure that the views of students are given greater weight.²¹
53. It may be possible to create a more dynamic quality system through the introduction of a student contribution to the cost of higher education. This might be expected to lead to more active competition between institutions to attract students, leading to a greater focus on the quality of the provision for students, and a greater sense of expectation among students of high quality provision, driven by their direct contribution to the costs of that provision.
54. The introduction of a new regime for increased contributions could therefore assist in achieving this objective.

²¹ See HETAC self-evaluation report, pg 7, (2007), and Review of Quality Assurance Procedures in Irish Universities; Reflections document prepared by the high level reference panel, HEA, (2005) pg 8.

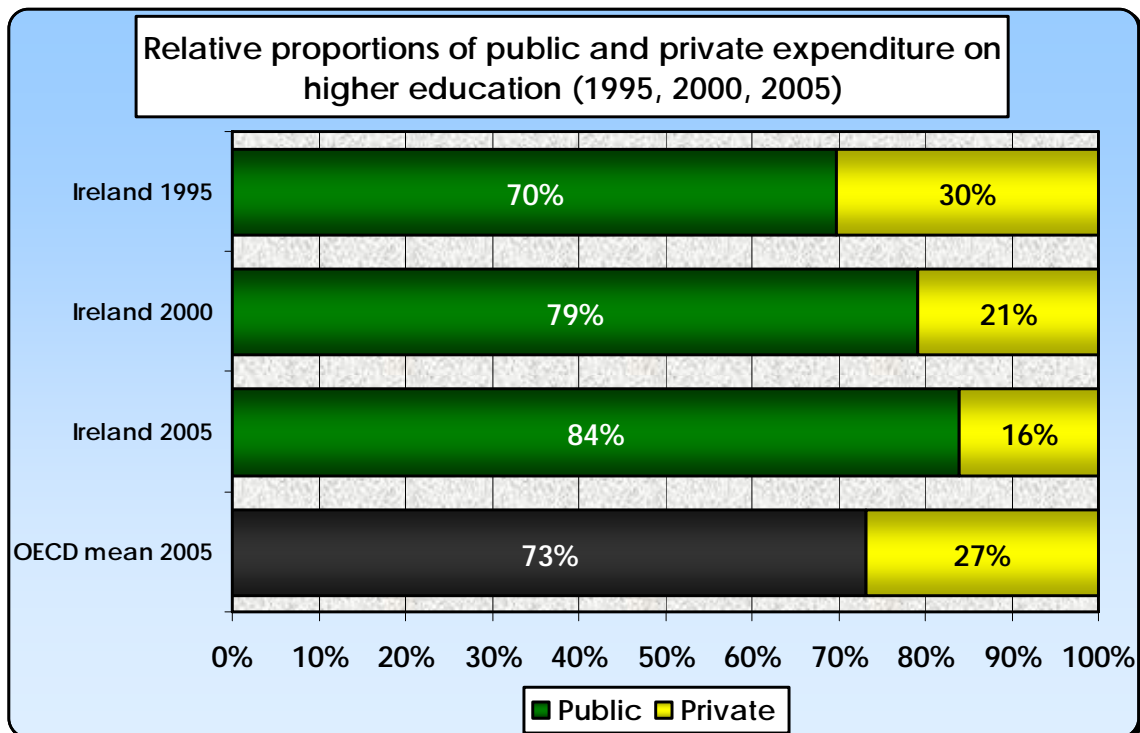
Figure 2.6

Applicants applying to UCAS by 15 January closing date
by entry cycle 2002 - 2007



Source UCAS data

Figure 2.7



Source

OECD 2008 – Education at a Glance 2008

Table B3.2b Relative proportions of public and private expenditure on educational institutions, as a percentage, for tertiary education (2000, 2005)

Chapter 3

Characteristics of International Systems

1. In examining the issue of a student contribution towards the costs associated with higher education, it is useful to examine the arrangements that have been put in place in other jurisdictions to support students in meeting those costs. Systems in place in a number of different countries have been examined and more detailed information on selected models has been included at Appendix 3.
2. However, it is useful to examine, as a context for the possible fee contribution scenarios outlined in chapter 4, the general characteristics of some of these systems. The supports provided to students can generally be categorised either as direct or indirect supports. Direct supports encompass benefits directly available to students, including grants, scholarships, loans and in-kind support such as meals and travel allowances. Indirect supports relate to the subsidies available to the parents of students – in Ireland, these would include child benefit and tax relief for fees.
3. In general, it is widely accepted that students qualifying for higher education should be able to participate in a third level programme regardless of their personal background or financial situation. As higher education is perceived as both a public and a private good, governments endeavour to achieve a balance between the costs associated with third level provision and the contribution that may be made by students or their families.
4. Given the costs involved and the potential income foregone, financial incentives are widely seen as necessary to ensure that all parts of society are attracted to participate in higher education. These financial incentives include support for the payment of tuition fees through direct government subvention, student loans or scholarships and non-repayable student grants for maintenance or other costs. These are used to influence the net costs of higher education for students and provide a way in which they can meet these costs.
5. In the ongoing debate on the possible introduction of a student contribution, the Australian system is, perhaps, the most often quoted. In this system, the Australian Government funds the cost of third-level education up to a point, with students making a contribution by paying a tuition fee. This contribution can be paid for by taking out a student loan under the Higher Education Loan Programme (HELP) which is repayable once the graduate commences work and their salary reaches a certain level, although it may be repaid up front. As payment arrangements are based on an individual's capacity to pay, this ensures that students are not prevented from participating in higher education by an inability to pay tuition costs up front. Students who access a HELP loan are not required to make repayments until their income in a financial year reaches a minimum threshold. The level of repayment required above the threshold depends on the extent of the graduate's income. Essentially, therefore, the government pays the student contribution amount on the student's behalf up front and the student only becomes liable to repay this sum to the Government through the tax system once he/she is earning an income over a minimum threshold. The loan is available without a means test. A maintenance grant is also available to less well-off students on the basis of a means test.

6. In the English system, the government still core funds third-level education, but variable tuition fees up to a determined limit are also charged to students. Two types of student loans are available - a loan to cover the cost of tuition fees, which is available to all students and a maintenance loan, part of which is means tested. Like the Australian system, these loans are repayable through the taxation system, via employer notification once the graduate commences work and their income reaches the government-determined limit. A non-repayable maintenance grant is also available on a means-tested basis to students from households with low incomes. Other means-tested supports include an adult dependant grant and supports for parent students and childcare costs.
7. In general, the Nordic countries provide for free tuition fees, with no defined student contribution. This is made possible on the basis of relatively high rates of tax in these countries and an expectation on the part of their citizens that services such as higher education will be paid for on this basis. Financial support for the living costs of students tends to be provided by way of a combination of student loans and non-repayable grants. Student loans are generally subsidised by the State and repayable when the graduate can afford to do so, although in Norway a proportion of the loan may be converted to a non-repayable grant, depending on living circumstances and academic performance. Grants are available to students from families on lower incomes and are means-tested, although in Denmark, all students receive a limited level of grant aid, which can be used as necessary over the course of their studies.
8. In the Netherlands, tuition fees are imposed and financial assistance is provided by way of a repayable loan to the student. However, if the student graduates within the prescribed timeframe, then the loan will be converted into a non-repayable grant. This provides a strong incentive for students to successfully complete their studies. In addition to this performance-related loan/grant, a means-tested supplementary grant is also available to further assist less well-off students.
9. One of the basic characteristics that can be identified from the systems outlined above is that they all provide the possibility of a “nil” cost to the student while pursuing a course of study in higher education. This is done either by way of the Scandinavian high-tax economy model where the state is in a position to bear the full costs or by way of deferring payment by the student towards the tuition cost where these have been introduced to subsidise the state’s contribution. This is undertaken by the state paying the cost of the fees up front on the basis that the student will repay the loan, but only when his/her income reaches a certain level.
10. In most cases, an additional repayable loan may be taken out for the purpose of subsidising the living or maintenance costs of the student. In most countries, a means-tested non-repayable grant is provided to assist less well off students in accessing higher education. It is instructive that, although such grants were initially withdrawn when loans were first introduced in England, it was subsequently found necessary to re-introduce them.
11. Although, due to local circumstances and purchasing power, the levels of fee and other charges payable are not directly comparable in the countries examined, it is useful to observe the differences in the following tables of rates:

Country	Tuition Fee (range)*
Germany	€14 – 1300 in 2007/08 plus student union charge of €30 – 40 per term
Hungary	Between HUF 50,000 (€65) and HUF 600,000 (€2,000)
Netherlands	Statutory fee €1,565 in 2008/09
Australia	Varies by subject band – e.g. Aus\$7,000 (€3,550) for B.A. in Environment (Commonwealth Supported Places)
Canada	\$9,000 (€5,522)
France	No tuition fee. €65 services charge
Sweden	No tuition fee. SEK 150 – SEK 400 (€13 - €36) per semester student union fee
United Kingdom	£3,145stg (€3,570) England and Northern Ireland 2006/07; Wales £1,200 - £3,000 (€1,361 - €3,400) Scotland – no tuition fee
United States	Private Institutions \$15,000 (€11,600) - \$25,000 (€20,000) State Institutions \$10,000 (€7,750) - \$20,000 (€15,500) (based on averages - the tuition fee is different for different universities and varies widely with courses. It can vary from as low as \$5000 a year for State universities to as much as \$30,000 per annum for some private universities.)

*Euro conversions are approximate based on live market mid-rates 20 February 2009

Chapter 4

Possible Fee Contribution Options

4.1 Setting the Student Contribution Rate

1. Prior to the introduction of ‘free fees’ in the mid-1990s, the rate of tuition fee charged to students did not represent the full recurrent cost of participation on any given programme. The EU fee rate, charged to current Irish and EU students who are not eligible for free fees, similarly takes the form of a proportionate contribution to the full recurrent cost. Fees for non-EU students, on the other hand, are intended to relate to the full recurrent cost of programme provision.
2. In considering the setting of a student contribution rate for the future there are a number of discrete issues to be considered. There is also the need to consider changes as part of a process rather than an instantaneous change.

Linking the contribution to the student benefit

3. It is helpful in the first instance to set as a principle that the cost of higher education for any individual student should be shared between those who benefit. In this case, there are obvious benefits for both the State, in the form of for example improved productivity, greater future tax revenue and enhanced social inclusion, and for the individual who obtains improved chances of higher income over their life time along with other non-financial benefits.
4. On this basis it would seem appropriate that the cost of participation be shared between both State and individual. It is difficult if not impossible to optimise the nature of the balance of cost sharing between the individual and the State. What is clear from earlier discussions in chapter 2 is that at present Ireland is excessively weighted towards a position where the State meets the cost of participation.

Using the student contribution to foster greater competition between institutions

5. As outlined in chapter 2, several countries have sought to use student contributions as a way to enhance the quality of student experience, by fostering competition between institutions. This stems from a concern that in a situation where all institutions are compelled to charge the same fee level, the incentives for any institution to improve its services beyond the average is reduced as this will create costs, but will not allow for any increased financial return to the institution.
6. Changes to allow institutions some freedoms to set their fees can potentially change such a situation. Institutions can seek to offer students a particular package of services and tuition fees and will have to justify higher fees to their student through the provision of better services.
7. It is important to note that this is just one way to improve quality in the system and should not distract from the efforts made by institutions in recent years in implementing improved quality assurance systems.

8. It is also important to note that this approach can be complicated by other factors; for example the high propensity of Irish students to study close to home. Furthermore, given that most institutions trade on reputation and that reputations change relatively slowly in higher education, there is a real danger that if fee setting were to be completely liberalised, some institutions would be able to achieve excessively high fee rates perhaps resting more on reputation than on services.

International competition

9. It is also important in setting fees that regard be had to the fees in other jurisdictions that might be considered by Irish students. The UK is the most important country in this regard.²² Fees for England, Wales and Northern Ireland are set at a maximum of £3,145. Fees do not apply in Scotland.²³
10. It is understood that the UK is close to initiating a review of the fee levels in England Wales and Northern Ireland, with an expectation that they may increase rather than decrease.
11. In addition to the direct fee that may be charged by UK institutions, there is also a need to consider that Irish students studying in the UK would face somewhat higher living costs than if they stayed in Ireland. Given that a majority of Irish students live at home while in higher education, it is likely that these costs would be considerably higher.²⁴
12. It seems likely therefore that fees for Irish institutions could considerably exceed those in the UK without creating incentives to study in the UK.

Other State supported education and training

13. There will also be a need to consider the implications for other forms of State supported post-secondary training, such as apprenticeship and Fáilte Ireland. For example there is already a wide discrepancy between the costs of entering higher education, and entering apprenticeship. In the former the student faces a registration charge and the costs of living while in the latter the student is paid living expenses while studying and the registration charge is met by the relevant funding authority. The introduction of further fees for participation in higher education would possibly further reduce the attractiveness of higher education against apprenticeship.

Need for process for managed change

14. It is also important that in making changes that there be a managed process towards such change. This is important to provide stability for students and for higher education institutions, and to ensure that unintended consequences or perverse effects of change can be identified and corrected.
15. It is considered desirable therefore that in the initial stages of change, the introduction of fee regimes which would be equally applicable to all institutions within a particular sector would be the first phase.
16. Depending on the success of such a step, consideration may be given as a second step towards the provision of greater flexibility for institutions within a sector to vary their fees.

²² 2609 students accepted places in UK higher education in 2008.

²³ 714 of the 2609 accepted places in Scottish institutions

²⁴ According to Eurostudent findings (2006) 50% of all students lived in their own home or with parents/relatives and this figure is higher when younger students are considered.

Introducing a fee regime

17. In determining the rate of fee to be applied under any new tuition fee policy regime, it would be proposed that the fee level for eligible Irish/ EU students should take the form of a student contribution rather than a full recurrent cost fee.
18. In the university sector current fee rates for Irish/EU students who do not qualify for free fees, and on which the Exchequer's annual 'free fees' contribution to higher education institutions is based, tend to be set by institutions by annual agreement with the Department of Education and Science and Department of Finance. Details of current fee rates are set out at appendix 1 and account for between 23% and 60% of the full recurrent unit cost of programmes.
19. The Institute of Technology sector has no established history of widespread individual fee contributions. Prior to the introduction of 'free fees', European Social Fund support was widespread for students following programmes at level 6 and at level 7. However, there are fee rates for the institutes which tend to be considerably lower than those in the universities.
20. In re-introducing any form of student fee contribution, it would be reasonable to take the current EU fee rates for various programmes as a reference point.
 - They meet the principle of sharing the cost between student and state.
 - While the university fees are higher than those in the UK they are not so much higher as to create an expectation of significant shifts to study abroad.
 - There is a clear rationale to the levels chosen in that they simply reflect the rate at which Government has paid the grant in lieu of fees since 1995.
 - They provide a measure of stability to the system in that current funding arrangements already recognise these fee rates.
21. In taking the current EU fee rates as a reference point, it is also important to have regard to affordability issues for students. In this regard, it should be noted that the current fee rates in the universities would be well in excess of European rates, and would approach fee levels in some US public universities.
22. This would suggest that before finally deciding on the level of fees to be applied, it will be necessary to proof those fees against the impact on students and their families. For example, it would be more difficult to consider such fee levels in a context where students are required to pay fees upfront.
23. It would be proposed to develop standard fee rates to apply to different identified 'bands' of disciplines in universities and institutes of technology. These would be referenced to grouped averages of the individual fee rates currently applying within broad discipline bands. The prevailing average fee rates are set out at Table 4.1 below. These involve fee differentials between programmes in different broad discipline areas reflecting varying full economic costs of programme provision. They also involve differentials between programmes leading to awards at different undergraduate levels (i.e. levels 7 and 8 on the national framework of qualifications) and between programmes offered by different types of institutions.

Table 4.1 - Current tuition fee levels				
University NFQ Level 8 programmes				
<i>Arts</i>	<i>Commerce</i>	<i>Science</i>	<i>Engineering</i>	<i>Medicine</i>
€5,038	€5,062	€6,590	€6,590	€7,284
Institute of Technology programmes				
	<i>NFQ L6</i>	<i>NFQ L7</i>	<i>NFQ L8</i>	<i>NFQ L8 Arch/Engineering</i>
	€1,368	€1,454	€2,319	€2,950

24. A number of possible fee contribution scenarios are set out in the following section, based on possible combinations of grants, fees, free fees and loan facility arrangements. The basis of the revenue estimations are set out in the panel below.

4.2 General note on the costing of the options

25. **The figures provided are not exact forecasts of the costs of implementation.** They are estimates based on a revenue model constructed using 2007/08 student numbers, 2008/09 tuition fee levels and a student services charge set at the level that will likely be applied in the forthcoming academic year (i.e. up to €1,500).
26. Although they do not provide an exact implementation cost for 2010/11, the figures will provide useful estimates of total cost and a valid basis for assessing the relative costs of the various options.
27. While options 1, 3 and 4 can be calculated on the basis of known numbers of grant-holders and eligible students in 2007/08, the second set of options required us to make certain assumptions about the income distribution of relevant households above grant threshold levels in that year.
28. For option 2 (and also 3b), the income distribution of relevant households is inferred from an income distribution model initially developed in 2003. This model, designed by the ESRI, was based on comprehensive data on household income available, at the time, from the Living in Ireland Survey (now SILC) and on sample data from the School Leavers' Survey on the likelihood of participation in higher education by income group. This model accurately anticipated the costs of the extension of maintenance grants introduced in 2003/04.
29. The sub-sample examined at that time was all households with children between 10 and 20. Therefore the sub-sample remains valid today.
30. The income ranges have been updated on the basis of average increases in household income in the intervening years. The validity of the updated income distribution has been confirmed in the lower half of the household income spectrum because it can be tested against the known numbers of grant-holders at various income thresholds up to €47,205.
31. It is worth repeating that the figures are based on 2007/08 student numbers. Any increases or decreases in undergraduate participation rates will have direct revenue implications across all of the options.

32. The income distribution estimates also apply to the situation in 2007/08. It is very difficult to anticipate the impact that the current turmoil in the labour market will have on the patterns of household income distribution. This will impact most significantly in terms of the numbers qualifying for student grants and it also increases the margin of error for the estimated numbers under the various income thresholds modelled under Option 2. In the third set of options, which involve income contingent loans, this volatility will impact on the numbers of households that would opt to pay fees upfront.
33. The tables produced below apply the various reforms to all enrolments. A more graduated implementation of reform (e.g. new entrants only in year one) would yield a more graduated revenue stream. The revenue per individual cohort is calculated on the basis of the ratio of 3.3 full-time undergraduate enrolments for each new entrant.

4.3 Fee Regime Options

The range of options for re-introducing a form of tuition fee contribution can be categorised under the following broad options.

Option 0: No Change to Current Arrangements

34. This option would involve a continuation of the existing system of means tested student grants; ‘free fees’ based on meeting the current broad eligibility criteria and a Student Services Charge payable by all those who do not qualify for grants. Chapter 2 has outlined in detail the policy issues that arise in relation to these arrangements.

Option 0 – Summary	
<i>Pros</i>	<i>Cons</i>
<i>No immediate implementation issues</i>	<i>Continuing high level of sector funding dependence on Exchequer with associated sustainability and future system development questions</i>
<i>Stability of current participation incentives</i>	<i>Affordability of student services charge for those immediately above grant threshold</i>
<i>Easily explainable</i>	<i>Equity issues arising from absence of direct contribution from those who benefit from it</i>
	<i>Maintains disparity of treatment between full-time and part-time undergraduates</i>

Option 0 – Exchequer implications	
Exchequer Cost:	€95m (2009) per annum (H+I+J of detailed table)
GGB/ GGD impact	Impact of the order of €95m on GGB and GGD per annum
Long-term financial benefit/cost	Increasing call on Exchequer resources in proportion to the growth of the system

Option 0 – Financial overview			
(Current investment in undergraduate higher education)			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants (for undergraduate students)	€150.6	
D	Fees from students from outside EU		€2.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition fees for non-grantholders	€88.8	
K	Student service charge for non-grantholders		€2.2
L	BALANCE	€1,400.1	€32.9
M	PERCENTAGE	86%	14%
N	TOTAL	€1,633	


Option 1: Combination of Student Grants and Fees – no State Provided Loan facility

35. This option would involve a continuation of the existing system of means tested student grants and the introduction of a basic fee contribution for anyone above the maximum qualifying threshold for student support eligibility (based on household income). In essence, this would revert to the position in the university sector prior to the introduction of free fees.
36. Possible policy modifications to this approach would include adjusting the upper qualification threshold for student grant eligibility on the basis of re-investing revenue generated by fees. In this regard, the introduction of a capital assets test as part of the eligibility criteria for student grants would have, in addition to providing for greater equity in the assessment of means, the potential for releasing resources over time that could be re-invested in raising income thresholds.
37. The distinction between those above a particular income cut-off point (who would pay fees) and those below it (who would qualify for student grants), could also be softened somewhat by the application of limited tapering arrangements on both sides of the income eligibility threshold. For example, this could involve extending the qualification threshold for a fee only grant (where the student has fees paid on their behalf but does not receive maintenance support) and providing for liability for part-fee only up to a certain higher income threshold. Differing eligibility categories could also be introduced for those below the student grant qualification threshold – with those on lower incomes receiving a full grant and those closer to the qualifying income threshold receiving a part-grant only. The level of tapering envisaged here relates to adjustments at the margins. Significant alleviation of the impact of thresholds could only be achieved through the use of more significant income bands as envisaged at option 2.
38. This model would not involve any substantial extension of the current means testing regime for student grants (the tapering variation would involve means testing a wider cohort of students – however, this would be on a manageable scale). It would involve a more significant income yield than option 2 below. Tax relief at the standard rate could be offered in respect of undergraduate fee payments (as applies currently in respect of those who do not qualify for free fees).
39. Given the absence of any student loan facility arrangements, this model would be administratively simple to introduce and operate. However, the introduction of this model would be likely to have significant impact on those in income groups just above the student grant eligibility threshold. While such students do not currently qualify for student grants, the absence of a tuition fee is an important affordability consideration in the decision to go to third level. These students are currently liable for the Student Services Charge, which will stand at up to €1,500 in 2009/10.
40. While students in this income category would be expected to have benefited most from the introduction of free fees in the mid-1990s, the participation rate evidence available would indicate that the impact was not as significant as might be anticipated. Factors other than liability for fees may therefore be influencing participation decisions in this socio-economic group. This needs further analysis.

41. Notwithstanding this, the imposition of a further fee contribution requirement over and above the expected €1,500 charge would raise affordability issues for some students, particularly in an environment of tightening labour market opportunities for part-time work. It could be considered likely that higher education participation decisions among these students would be impacted by the re-introduction of an additional fee requirement. Any adverse impact on participation in this group raises significant wider social and economic issues.

Option 1 – Summary	
<i>Pros</i>	<i>Cons</i>
<i>Administratively simple</i>	<i>Affordability issues for middle income groups</i>
<i>Immediate revenues maximised as fees paid on an upfront basis</i>	<i>Likely detrimental impact on participation rates in middle income groups</i>
<i>Easily explainable</i>	<i>Impact on student migration</i>
	<i>Very high financial costs for those just above grant eligibility threshold</i>
	<i>Additional administrative burden of growth in tax relief claims (c. 55,000 u/graduates)</i>
	<i>Higher stakes may lead to growth in grant applicant numbers with administrative burden</i>
	<i>Difficulty in achieving broad acceptance</i>

Option 1 – Exchequer implications	
Exchequer Cost:	€253m (2009) per annum
GGB/ GGD impact	Annual impact of €253m equivalent to a reduction of €42m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to option 0 of the order of €42m per annum – greater cost sharing into the future

Option 1 – Financial overview			
Fees for all above grant threshold (€17,205)			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€150.6	
D	Fees from students from outside EU		€22.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders	€142.5	
I	Student services charge for grantholders	€63.7	
J	Tuition fees for non-grantholders		€188.8
K	Student service charge for non-grantholders		€82.2
L	BALANCE	€1,211.3	€21.7
M	PERCENTAGE	74%	26%
N	TOTAL	€1,633	
UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€188.8
Y	Additional revenue - net of tax relief on fees		€142.2
Z	Phased implementation - net revenue for first full academic year		€43.1

Technical Notes:

In 2007/08, 56.3% of all full-time undergraduate Irish and EU students were above the grant threshold. As a proportion of the total full-time student population, grant holders currently account for approximately 37-38%.

Estimating the revenue implications of the existing tax relief on tuition fees

At present, tax relief of 20% is available on the first €5,000 paid in tuition fees. To account for fees in excess of €5,000, the net effect of tax relief is anticipated to reduce the overall revenue from fees by 17.2%. Because, the re-introduction of fees proposed above would amount to a composite fee, the additional revenue – net of tax relief (Row Y) – reduces the gross additional revenue by 17.2% of the €188.8m (in Row J) and 17.2% of the €82.2m (in Row K). This arises because the introduction of a composite fee would render the money currently paid as a student services charge eligible for tax relief.

Option 2: Combination of Student Grants, Free Fees and Fees

42. This option would involve upfront fees to apply only to those above a certain household income threshold. In addition to retaining student grants for lower socio-economic groups, free fee eligibility would be maintained for those above the student grant eligibility threshold. The latter cohort would continue to be liable for the student services charge (up to €1,500 in 2009/20). Limiting fee contribution liability to those above an income threshold that implies an ability to pay has an inherent fairness. This would be the least likely of all options to have any negative impact on participation rates.
43. This option is less favourable than other available options in terms of Exchequer savings or revenue benefits, as the income scenarios in the following section demonstrate. However, by confining fee liability to those deemed to have an ability to pay, it would be possible to introduce this without an allied loan facility. This would have the effect of avoiding the administrative costs of a loan facility and ensuring that the revenue dividend is achieved upfront.

Administrative cost of means testing

44. This option would involve a significant additional administrative cost associated with means testing. Currently, only those students who believe themselves to be eligible for student supports will submit to a means test. Under this option, a considerable widening of the student cohort who are subjected to detailed household income mean-testing would be required, as there would be a need to determine those who qualify for free fees as well as those who qualify for student grants. In practice, this would involve charging a fee as default, with those considering themselves exempt either on basis of student grant eligibility or free fees eligibility applying to be means tested.
45. In essence, this would mean that over 106,000 students could potentially apply to be means tested. Under the existing student maintenance grant schemes, some 48,000 full applications (both new and reassessed) are processed annually by the 66 grant awarding bodies. These grant awarding bodies (local authorities and VECs) employ some 175 staff in processing grant applications, the bulk of which work involves requesting, checking and authenticating the information required for means testing and verification of grant eligibility. This work is resource intensive due to the extent of documentation required and the fact that it is not only the student's means that must be assessed, but that of his/her parents (or spouse) also.
46. On the basis of the increase in current caseload that would be involved, significant additional administrative resources would be required. This could be alleviated to some extent by the achievement of new administrative efficiencies in the arrangements for processing of student grant applications.
47. The programme of legislative and administrative reform of student grants currently under way envisages significant savings from reducing the number of grant awarding bodies from 66 to 33 by transferring all schemes to the VEC sector and from the introduction of improved IT facilities that should automate and speed up much of the work currently involved in means testing. Furthermore, it has been argued that the establishment of a central means testing facility, as mooted in the recent report of the Task Force on the Public Service, *'Transforming Public Services – Citizen Centred – Performance Focused'*

would enable much greater efficiency and automation in the area of means testing for all relevant public services. An interdepartmental working group on means information is already working on the report's commitment to examine mechanisms to simplify the provision of means information to public bodies. These initiatives would be likely to significantly reduce the cost of administering this option.

Option 2 – Summary	
<i>Pros</i>	<i>Cons</i>
<i>Depending on income threshold, impact on affordability can be minimised by confining fees to higher income groups</i>	<i>Limitations on the levels of additional revenue generated</i>
<i>No impact on those students (middle income bracket) who continue to qualify for free fees (and pay student services charge only)</i>	<i>Significant administrative cost of requirement to means test much wider cohort of students; however, means testing system reforms could achieve enhanced efficiencies over time</i>
<i>Additional revenues are upfront</i>	<i>Retention of separate Student Services Charge would involve administrative complexity re tax relief eligibility</i>
<i>Reduces disparity between full-time and part-time students for a limited range of students</i>	<i>Possible impact on student migration to UK in particular</i>


This option has been costed using four different income thresholds, which are each outlined below:

Option 2A – Income threshold for fees of €60,000 Exchequer implications	
Exchequer Cost:	€267m (2009) per annum
GGB/ GGD impact	Annual impact of €267m equivalent to a reduction of €128m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to Option 0 of order of €128m per annum – some cost sharing into the future

Option 2B – Income threshold for fees of €80,000 Exchequer implications	
Exchequer Cost:	€316m (2009) per annum
GGB/ GGD impact	Annual impact of €316m equivalent to a reduction of €79m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to Option 0 of order of €79m per annum – some cost sharing into the future

Option 2C – Income threshold for fees of €100,000 Exchequer implications	
Exchequer Cost:	€53m (2009) per annum
GGB/ GGD impact	Annual impact of €53m equivalent to a reduction of €42m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to Option 0 of order of €42m per annum – some cost sharing into the future

Option 2D – Income threshold for fees of €120,000 Exchequer implications	
Exchequer Cost:	€72m (2009) per annum
GGB/ GGD impact	Annual impact of €72m equivalent to a reduction of €3m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to Option 0 of order of €3m per annum –some cost sharing into the future

Option 2a – Fees for all above €60,000 Financial Overview			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€8.0	
C	Maintenance grants	€50.6	
D	Fees from students from outside EU		€2.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€6.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition fees for households between €47,205 and €60,000	€34.1	
K	Student service charge for households between €47,205 and €60,000		€5.2
L	Tuition fees for households above €60,000		€54.7
M	Student service charge for households above €60,000		€7.0
N	BALANCE	€1,245.4	€387.6
O	PERCENTAGE	76%	24%
P	TOTAL	€1,633	
W UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€54.7
Y	Additional revenue - net of tax relief on fees		€28.1
Z			
Z	Phased implementation - net revenue per (academic year) cohort		€38.8


Technical Notes:

In 2007/08, an estimated 45.9% of full-time undergraduate students came from households with gross household income in excess of €60,000.

In the various scenarios under option 2, it is envisaged that students above the grant threshold but below the income threshold for fees will continue to pay the student services charge.

The estimate provided in row Z is the net revenue per individual year cohort. The figure should be doubled if estimating revenue under a scenario in which both first and second years became liable from year one of implementation.

At aggregate level, the tax relief is assumed to amount to 17.2% of the additional revenue from tuition fees (Row L).


Option 2b - Fees for all above €80,000 Financial Overview			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€50.6	
D	Fees from students from outside EU		€2.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€6.9
G	Fees from part-time students		€2.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition fees for households between €47,205 and €80,000	€3.9	
K	Student service charge for households between €47,205 and €80,000		€1.5
L	Tuition fees for households above €80,000		€4.9
M	Student service charge for households above €80,000		€0.7
N	BALANCE	€1,305.2	€27.8
O	PERCENTAGE	80%	20%
P	TOTAL	€1,633	
UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€4.9
Y	Additional revenue - net of tax relief on fees		€78.6
Phased implementation - net revenue per (academic year) cohort			
Z	Phased implementation - net revenue per (academic year) cohort		€23.8

Technical Notes:

In 2007/08, an estimated 27.9% of full-time undergraduate students came from households with gross household income in excess of €80,000

In the various scenarios under option 2, it is envisaged that students above the grant threshold but below the income threshold for fees will continue to pay the student services charge.

The estimate provided in row Z is the net revenue per individual year cohort. The figure should be doubled if estimating revenue under a scenario in which both first and second years became liable from year one of implementation.


Option 2c - Fees for all above €100,000 Financial Overview			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€50.6	
D	Fees from students from outside EU		€2.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€6.9
G	Fees from part-time students		€2.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition fees for households between €17,205 and €100,000	€38.3	
K	Student service charge for households between €17,205 and €100,000		€0.7
L	Tuition fees for households above €100,000		€0.5
M	Student service charge for households above €100,000		€1.5
N	BALANCE	€1,349.6	€83.4
O	PERCENTAGE	83%	17%
P	TOTAL	€1,633	
UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€0.5
Y	Additional revenue - net of tax relief on fees		€1.8
Phased implementation - net revenue per (academic year) cohort			
Z	Phased implementation - net revenue per (academic year) cohort		€2.7

Technical Notes:

In 2007/08, an estimated 14.7% of full-time undergraduate students came from households with gross household income in excess of €100,000

In the various scenarios under option 2, it is envisaged that students above the grant threshold but below the income threshold for fees will continue to pay the student services charge.

The estimate provided in row Z is the net revenue per individual year cohort. The figure should be doubled if estimating revenue under a scenario in which both first and second years became liable from year one of implementation.

Option 2d - Fees for all above €120,000 Financial Overview			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€8.0	
C	Maintenance grants	€50.6	
D	Fees from students from outside EU		€2.8
E	Fees from second timers		€8.5
F	Fees from repeaters		€6.9
G	Fees from part-time students		€2.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition fees for households between €17,205 and €20,000	€60.8	
K	Student service charge for households between €17,205 and €20,000		€0.4
L	Tuition fees for households above €20,000		€8.0
M	Student service charge for households above €20,000		€1.8
N	BALANCE	€1,372.1	€60.9
O	PERCENTAGE	84%	16%
P	TOTAL	€1,633	
W UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€8.0
Y	Additional revenue - net of tax relief on fees		€3.2
Z			
Z	Phased implementation - net revenue per (academic year) cohort		€7.0

Technical Notes:

In 2007/08, an estimated 8.0% of full-time undergraduate students came from households with gross household income in excess of €120,000

In the various scenarios under option 2, it is envisaged that students above the grant threshold but below the income threshold for fees will continue to pay the student services charge.

The estimate provided in row Z is the net revenue per individual year cohort. The figure should be doubled if estimating revenue under a scenario in which both first and second years became liable from year one of implementation.

Option 3 – Introduction of Fees based on a Student Loan Facility

48. The complex implementation and policy issues associated with a loan facility are considered in more detail in Chapter 5. A significant range of approaches and implementation options are outlined in the chapter. For overall costing and revenue purposes, three broad models of eligibility approach are described here.

3a: Combination of Student Grants and Fees –Allied to a Student Loan facility




49. This option is based on the same basic eligibility categories as options 0 and 1 (i.e. grant holders and non-grant-holders), the difference being that this option involves the introduction of a student loan facility. All students would be liable for a fee payment including those in receipt of student grants, on the basis that upfront payment would not be required and payment could be contingent on future income (as is the case under the Australian model). This would enhance the future revenue yield associated with the option.

50. The availability of a loan facility would relieve the affordability issues for students just above the income threshold for student grants and would be an important factor in ensuring that this option would not impact adversely on participation in this group. Indeed, the inclusion of the current student services charge (up to €1,500 in 2009/10) in the loan based fee would remove the upfront payment currently required by students/ families and may encourage enhanced participation. The principle of payment liability being determined on the basis of a student's own future earnings rather than their current parental income has been successfully established in other international systems.

51. The concept of a loan system and the practical considerations arising are addressed in detail in Chapter 5.

Option 3a – Summary	
Pros	Cons
<i>Higher education free for students at the point of use. Inclusion of Student Services Charge under loan removes all upfront payments – bringing significant wide benefits for students/families</i>	<i>Significant administrative complexity and collection costs (including potential default)</i>
<i>Future revenues enhanced by making all students (including those in receipt of grants) liable for tuition fee repayment on basis of future income</i>	
<i>Can be designed to avoid upfront current Exchequer costs and to yield longer term significant reduction in Exchequer spend</i>	<i>Loan system could involve rolling Exchequer borrowings and debt servicing costs with significant time-lag before scheme becomes self-financing</i>
	<i>Personal debt burden on graduates</i>
<i>Can become self-financing over longer term</i>	<i>Potential debt aversion in lower income groups may have some impact on participation</i>
	<i>Higher stakes may lead to growth in student grant applicant numbers</i>
	<i>Very significant communication challenges</i>
<i>Additional Potential Advantages</i>	
<i>Income contingent loans allow all students to be treated on same basis, i.e. based on their own future income rather than current parental income</i>	
<i>Inclusion of Part-Time Students under loan scheme reduces current disparity</i>	

Option 3A – Exchequer implications	
Exchequer Cost:	This option involves retaining the €95m currently expended on free fees and issuing approximately €455m as student loans plus €15m in administration and tax relief costs. Therefore, in the early years (until the loan repayments begin to impact), this will cost an additional €75m per annum. These additional costs arise largely because the proposal involves absorbing the student services charge into a composite fee and also includes a loan facility for part-time students. Alternatively the scheme could be established on a wholly or partially private funding basis which would release some element of the existing Exchequer commitment.
GGB/ GGD impact	Depending on source of funding, the net annual costs will be approximately €15m per annum (for administration and tax relief on upfront fee payments), or could yield immediate reductions in Exchequer commitments in this area.
Long-term financial benefit/cost	A potential additional €80m revenue per annum, albeit on a deferred basis.

Option 3a – Financial Overview			
Fees for all, with income-contingent loan facility			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€150.6	
D	Fees from students from outside EU		€22.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders		€142.5
I	Student services charge for grantholders		€63.7
J	Tuition fees for non-grantholders		€188.8
K	Student service charge for non-grantholders		€2.2
L	BALANCE	€1,005.1	€27.9
M	PERCENTAGE	62%	38%
N	TOTAL	€1,633	
UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€232.9
X	Additional revenue (when loans are fully repaid)		€95.0
Y	Estimated revenue from upfront payments (if all enrolments become liable for fees)		€50 to €60m
Z	Estimated revenue net of tax relief		€40 to €50m

Notes:

This table should be read in conjunction with the next table, which sets out the finances of the accompanying income contingent loan facility for fees.

Model assumes change applies to all enrolments

The figure provided in row Z is the estimated revenue from upfront payments in a scenario where all enrolments would become liable for fees from year one of implementation. If fees were applied only to first and second-year students, the revised estimate of revenue from upfront payments would be in the order of €30m (€25m net of tax relief).

Tax relief

As in option 1, the net effect of the tax relief (20% on the first €5,000 of the fee) is estimated to reduce the overall revenue from fees by 17.2%.

Margin for error

The current volatility in the labour market makes it particularly difficult to estimate the likely revenue from upfront payments (Rows Y and Z).

Option 3a - Revenue implications of a loans facility (for all fees)			
Note: minus figures are in (brackets)		Cashflows - In/(Out)	
		Ultimate revenues	Year 1 - revenues and costs
A	Revenue/Savings	€m	€m
B	Tuition fees for grantholders	142.5	142.5
C	Student services charge for grantholders	63.7	63.7
D	Tuition fees for non-grantholders	188.8	188.8
E	Total revenue/savings [B+C+D]	395.0	395.0
F	Financing the loan facility		
G	To cover new fees and charges [B+C+D]	(395.0)	
H	To cover existing student services charge	(82.2)	
I	To cover existing tuition fees for part-timers	(32.6)	
J	Total [G + H + I]	(509.7)	
K	Less upfront fee payment	55.0	
L	Loans issued	(454.7)	(454.7)
M	Loan repayments	454.7	
N	Costs		
O	Loans issued [Row L]		(454.7)
P	Administration costs	(5.0)	(5.0)
Q	Tax relief on upfront fees payment	(9.5)	(9.5)
R	Total additional cost [O plus P plus Q]	(14.5)	(469.2)
S	Additional Revenue/(Cost) [E less R]	380.5	(74.2)

Technical Notes:

The terms revenue and cost are defined relative to current practice in this table

The “Additional Revenue/ (Cost)” figures presented at row R are revenues and costs relative to a continuation of current policy (Option 0).

Loan repayments – row M

The estimated full repayment set out in row M is based on a presumed default rate of 10 per cent and an interest rate equal to the sovereign rate of interest plus one percentage point.

Additional explanation

Section 4.4 provides additional explanation of the financing of income contingent loans and gives a clearer sense of the revenue implications into the future.





3b: Combination of Student Grants and Fees – with a restricted access Student Loan facility

52. This option is the same as that described at 3a, with the important difference that access to a loan facility would be limited to students beneath a certain qualifying income threshold only. The purpose of this would be two-fold: to maximise the upfront revenues generated by the payment of upfront fees from those who can afford it; and to reduce the cost of borrowing, debt servicing, default and administration associated with a loan scheme by restricting the size of the scheme.
53. The exclusion of access to a loan scheme for those above a certain income threshold would introduce a further layer of administrative complexity by virtue of the need to establish a student's loan eligibility on the basis of means. This would either involve an expansion of the current student support means testing regime or adding a means test element to the loan scheme application process.
54. As with 3a all students would be liable for a fee, including those in receipt of student grants. Upfront payment would not be required from those below the determined threshold for eligibility for a loan scheme.

Option 3b – Summary	
<i>Pros</i>	<i>Cons</i>
<i>Achieves an upfront revenue stream from those not eligible for loan (i.e. above certain income threshold)</i>	<i>Significant administrative complexity and collection costs (including potential default)</i> <i>Additional administrative requirement to means test for loan eligibility</i>
<i>Future revenues enhanced by making students in receipt of grant also liable for tuition fee repayment on basis of loan scheme</i>	<i>While loan scheme would be of lesser scale than envisaged under 3a or 3c, would still involve rolling Exchequer borrowings and debt servicing costs with significant time-lag before scheme becomes self-financing</i>
<i>Higher education free at the point of use for students eligible for loan facility</i>	<i>Personal debt burden on graduates</i>
<i>Loan scheme can become self-financing over longer term</i>	<i>Potential debt aversion in lower income groups may have some impact on participation</i>
	<i>Higher stakes may lead to growth in student grant applicant numbers</i>
	<i>Communication challenges</i>
<i>Additional Potential Advantages</i>	
<i>Combination of Fees and inclusion of Part-Time Students under loan scheme reduces current disparity between full-time and part-time students</i>	

Option 3b – Exchequer implications [at sample scenario of €80,000 cut off]	
Exchequer Cost:	This option is the same as Option 3a except that the loans facility is restricted to those from households under a certain income threshold and students from households above that

	limit become liable for upfront fees. A sample income threshold of €80,000 is used for illustrative purposes. In this scenario, the fee income is estimated at €135m. The student loan facility proposed will require approximately €75m to issue as loans. Administration and tax relief costs are anticipated to amount to €3m, reflecting the costs of tax relief and the high administration costs associated with extending means-testing and simultaneously introducing an income-contingent loan facility. Relative to option 0, in the early years (until the loan repayments begin to impact), this would cost an additional €2m per annum. Again, if some or all of the funding is sourced from the private sector some or all of the existing Exchequer commitment could be released.
GGB/ GGD impact	The net annual costs will be approximately €3m per annum - for administration (€10m) ~ and tax relief on upfront fee payments (€3m); this can be reduced by private sector funding for the loans scheme.
Long-term financial benefit/cost	A potential additional €62m revenue per annum, albeit on a deferred basis (if exchequer funded).

Option 3b – [Sample scenario of €80,000]			
Fees for all above €80,000; Income-contingent loans for all below €80,000			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€150.6	
D	Fees from students from outside EU		€22.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders		€42.5
I	Student services charge for grantholders		€63.7
J	Tuition fees for households between €47,205 and €80,000		€93.9
K	Student service charge for households between €47,205 and €80,000		€41.5
L	Tuition fees for households above €80,000		€94.9
M	Student service charge for households above €80,000		€40.7
N	BALANCE	€1,005.1	€627.9
O	PERCENTAGE	62%	38%
P	TOTAL	€1,633	
UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€322.9
X	Additional revenue (when loans at H, I, J and K are fully repaid)		€95.0
Y	Additional revenue - net of tax relief on fees		€71.7
Z	Of which, net revenue from upfront fee payments (rows L & M minus tax relief)		€12.2

Option 3b - Revenue implications of a loans facility (available to students from households with income under €80,000)			
Note: minus figures are in (brackets)		Cashflows - In/(Out)	
		Ultimate revenues	Year 1 - revenues and costs
A	Revenue breakdowns	€m	€m
B	Tuition fees for grantholders	142.5	142.5
C	Student services charge for grantholders	63.7	63.7
D	Tuition fees for households between €47,205 and €80,000	93.9	93.9
E	Student service charge for households between €47,205 and €80,000	41.5	
F	Tuition fees for households above €80,000	94.9	94.9
G	Student service charge for households above €80,000	40.7	
H	Total revenue/savings [B+C+D+F]	395.0	395.0
I	Financing the loan facility		
J	To cover new fees and charges for households below €80,000[B+C+D]	(300.1)	
K	To cover existing student services charge for those below €80,000 [E]	(41.5)	
L	To cover existing tuition fees for part-timers	(32.6)	
M	Loans issued [J+K+L]	(374.2)	(374.2)
N	Loan repayments	374.2	
O	Upfront fee payments from households above €80,000 [F&G]	135.5	
P	Costs		
Q	Loans issued [M]		(374.2)
R	Administration costs	(10.0)	(10.0)
S	Tax relief on upfront fees payment	(23.3)	(23.3)
T	Total additional cost [Q(in year one) + R + S]	(33.3)	(407.5)
U	Additional Revenue/(Cost) [H less T]	361.7	(12.5)




3c: Fees and Loans for all (without Student Grants)

55. Under this option, the current student grant system would be discontinued. All students, irrespective of means, would be liable to a tuition fee contribution payment. This would be allied to a system of deferred payment or student loan facility (the options in relation to loan models are considered further in Chapter 5). In the absence of student grant arrangements, the loan facility would cover maintenance costs for students, where required, as well as the cost of the tuition fee contribution.
56. This system would have the benefit of reducing costs associated with the administration of means testing for student grants. Transferring the cost burden of student supports to the individual also has clear Exchequer benefits. Future fee revenues, albeit on a deferred basis, are maximised by categorising all students as eligible for fee payment irrespective of means.

57. All students would be treated on the same basis insofar as both tuition and living cost loans would be available on a deferred re-payment basis (preferably related to future income). However, students who do not have sufficient means of meeting their living costs would be required to take on a more significant future debt burden than those who could afford to meet their own living costs. Possible debt aversion among students in lower socio-economic groups, who would have to acquire significant loans in the absence of student grants, would be likely to impact significantly on participation rates in these groups under this model (this is considered further at Appendix 4). This would have major downside consequences in terms of equity of access and wider human capital development. The levels of personal debt, the overall borrowings required to finance a loan system on the required scale to support this model and the costs of administering a loan system on the required scale would also give rise to issues.

Option 3C – Summary	
<i>Pros</i>	<i>Cons</i>
<i>Significant saving on current administration costs of student grant means test</i>	<i>Significant administrative complexity and collection costs (including potential default)</i>
<i>Maximises future fee revenues and upfront savings for Exchequer on current costs of student support</i>	<i>Loan system on scale required (to cover living as well as tuition costs) would involve substantial rolling Exchequer borrowings and debt servicing costs with very significant time-lag before scheme becomes self-financing</i>
<i>Higher education free for students at the point of use Inclusion of Student Services Charge under loan removes all upfront payments – bringing significant wide benefits for students/families</i>	<i>Personal debt burden on graduates</i>
<i>Loan scheme can become self-financing over longer term</i>	<i>Potential debt aversion in lower income groups may have some impact on participation</i>
	<i>Lack of targeted support for lower income students raises equity issues</i>
	<i>Very significant communication challenges</i>
<i>Additional Potential Advantages</i>	
<i>Income contingent loans allow all students to be treated on same basis, i.e. based on their own future income rather than current parental income</i>	
<i>Inclusion of Part-Time Students under loan scheme reduces current disparity between full-time and part-time students</i>	

Option 3C – Exchequer implications	
Exchequer Cost:	This option involves retaining the €95m currently expended on free fees plus the €160m currently expended on maintenance grants and administration of associated means assessment. The money issued as student loans amounts to €55m plus €15m in administration and tax relief costs. Therefore, in the early years (until the loan repayments begin to impact), this will cost an additional €15m per annum. These additional costs arise largely because the proposal involves a loan facility for maintenance in addition to absorbing the student services charge into a composite fee and including part-time students.
GGB/ GGD impact	Assuming full exchequer funding, the net annual costs will be approximately €15m per annum (for administration and tax relief on upfront fee payments); again this can be reduced, or provide for immediate release of some Exchequer funding if private funding is used.
Long-term financial benefit/cost	A potential additional €380m revenue per annum, albeit on a deferred basis (more immediate gains if private funding is used)

Option 3C – Financial Overview			
Fees for all, no grants – loans for fees and maintenance			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€0.0	
D	Fees from students from outside EU		€22.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders		€142.5
I	Student services charge for grantholders		€63.7
J	Tuition fees for non-grantholders		€188.8
K	Student service charge for non-grantholders		€2.2
L	BALANCE	€54.5	€27.9
M	PERCENTAGE	58%	42%
N	TOTAL	€1,482.4	
UNDER EXISTING POLICY			
V	UNDER EXISTING POLICY	€1,400.1	€32.9
W	Additional revenue from students		€95.0
X	Reduction in State investment (from discontinued maintenance grants)	€150.6	
Y	Estimated revenue from upfront payments (if all enrolments become liable for fees)		€0 to €0m
Z	Estimated revenue net of tax relief		€0 to €0m

Notes:

This table should be read in conjunction with the next table, which sets out the finances of the accompanying income contingent loan facility for fees.

Option 3C - Revenue implications of a loans facility (for all fees and maintenance)			
Note: minus figures are in (brackets)		Cashflows - In/(Out)	
		Ultimate revenues	Year 1 - revenues and costs
A	Revenue/Savings	€m	€m
B	Tuition fees for grantholders	142.5	142.5
C	Student services charge for grantholders	63.7	63.7
D	Tuition fees for non-grantholders	188.8	188.8
E	Discontinued maintenance grants	150.6	150.6
F	Administration savings - no more means testing	10.0	10.0
G	Total revenue/savings [B+C+D+E+F]	555.6	555.6
H	Financing the loan facility		
I	To cover new fees and charges [B+C+D]	(395.0)	
J	To cover existing student services charge	(82.2)	
K	To cover existing tuition fees for part-timers	(32.6)	
L	Loans for maintenance	(400.0)	
M	Total [I+J+K+L]	(909.7)	
N	Less upfront fee payment	55.0	
O	Loans issued	(854.7)	(854.7)
P	Loan repayments	854.7	
Q	Costs		
R	Administration costs	(5.0)	(5.0)
S	Tax relief on upfront fees payment	(9.5)	(9.5)
T	Total additional cost	(14.5)	(869.2)
U	Additional Revenue/(Cost) [G less T]	541.1	(313.6)
V	Additional Revenue/(Cost) with continuation of maintenance grants [B+C+D less T]	380.5	(474.2)

Notes:

The “Additional Revenue/ (Cost)” figures presented at row U and row V are revenues and costs relative to a continuation of current policy (set out under Option 0).

Option 4: Combination of Student Grants and Fees – Based on Simple Increase of Current Student Services Charge and no State provided Loan Scheme

58. This is a variation on option 1 above, involving the same basic eligibility categories (i.e. grant holders and non-grant-holders). Under this option, rather than differentiated fee levels relating to current fees (as considered in section 4.1) a simple across the board increase would be applied to the current Student Services charges to introduce a new flat rate fee of €2,500 for all those non-grant holders who would currently qualify for ‘free fees’. This would be administratively simple to introduce, could be introduced quickly and would involve less significant affordability issues than the introduction of a fee based on current rates.
59. To avoid net revenue losses under this option, students currently paying fees (repeat students, second degree students, part-time students, those that do not meet the current residency requirement for free fees) would continue to pay fees at current rates – rather than at the new ‘discount rate’ of fee. Revenues generated would nonetheless be less significant than other available options and it would be less equitable in its application than available options 2 or 3.

Option 4 – Summary	
<i>Pros</i>	<i>Cons</i>
<i>Administratively simple – no expansion of means testing administration</i>	<i>Affordability issues for middle income groups</i>
<i>Immediate revenues available as fees paid on an upfront basis</i>	<i>Likely detrimental impact on participation rates above grant thresholds</i>
	<i>Revenue benefits relatively limited particularly in view of tax relief</i>
	<i>Significant difference of status between those below eligibility threshold (receive grant) and above (pay fee)</i>
	<i>Disparity between part-time and full-time students maintained (differential fee rates)</i>
	<i>Higher stakes may lead to growth in grant applicant numbers with administrative burden</i>
	<i>Challenge in achieving broad acceptance</i>

Option 4 – Exchequer implications	
Exchequer Cost:	€368m (2009) per annum
GGB/ GGD impact	Annual impact of €368m equivalent to a reduction of €27m relative to Option 0
Long-term financial benefit/cost	Annual savings relative to option 0 of order of €27m per annum.

Option 4 – Financial Overview			
Increase student charge to an across the board fee of €2,500 for those above the grant threshold			
		State €m	Student €m
A	Core funding for undergraduate higher education	€36.5	
B	Third-level access schemes	€18.0	
C	Maintenance grants	€50.6	
D	Fees from students from outside EU		€22.8
E	Fees from second timers		€78.5
F	Fees from repeaters		€16.9
G	Fees from part-time students		€32.6
H	Tuition fees for grantholders	€42.5	
I	Student services charge for grantholders	€3.7	
J	Tuition contribution of €2,500 for non-grantholders		€136.9
K	Balance of current grant in lieu of fees	€34.1	
L	BALANCE	€1,345.4	€287.7
M	PERCENTAGE	82%	18%
N	TOTAL	€1,633	
W UNDER EXISTING POLICY			
W	UNDER EXISTING POLICY	€1,400.1	€32.9
X	Additional revenue		€4.7
Y	Additional revenue - net of tax relief on fees (@ 20% of €136.9m)		€7.4
Z			
Z	Phased implementation - net extra revenue for first full academic year		€3.3

Notes:

In 2007/08, 56.3% of full-time undergraduate students were above the grant threshold

Row K explained

The unit of resource paid in respect of grantholders is assumed to remain consistent with existing practice in this model. Because the tuition contribution of €2,500 from non-grantholders in this scenario is substantially lower than the fee levels underpinning the current State grant in lieu of fees, row K is necessary to maintain the unit of resource for the delivery of higher education at existing levels. The fee contribution of €2,500 is estimated to yield revenue of €137m which will cover approximately half of the existing grant in lieu of free fees. The balance in row K will continue to be paid by the State. In simpler mathematical terms, the figure in row K above is set to ensure that the sum of rows J and K in the table above equal the sum of rows I and J in the first table outlining current levels of investment in higher education (page 28).

Eligibility for the reduced fee contribution of €2,500

In modelling the revenue implications of this scenario, the student contribution of €2,500 is available only to those who currently qualify under the free fees policy. Existing fee levels continue to apply for non-EU students, second-timers and repeaters.

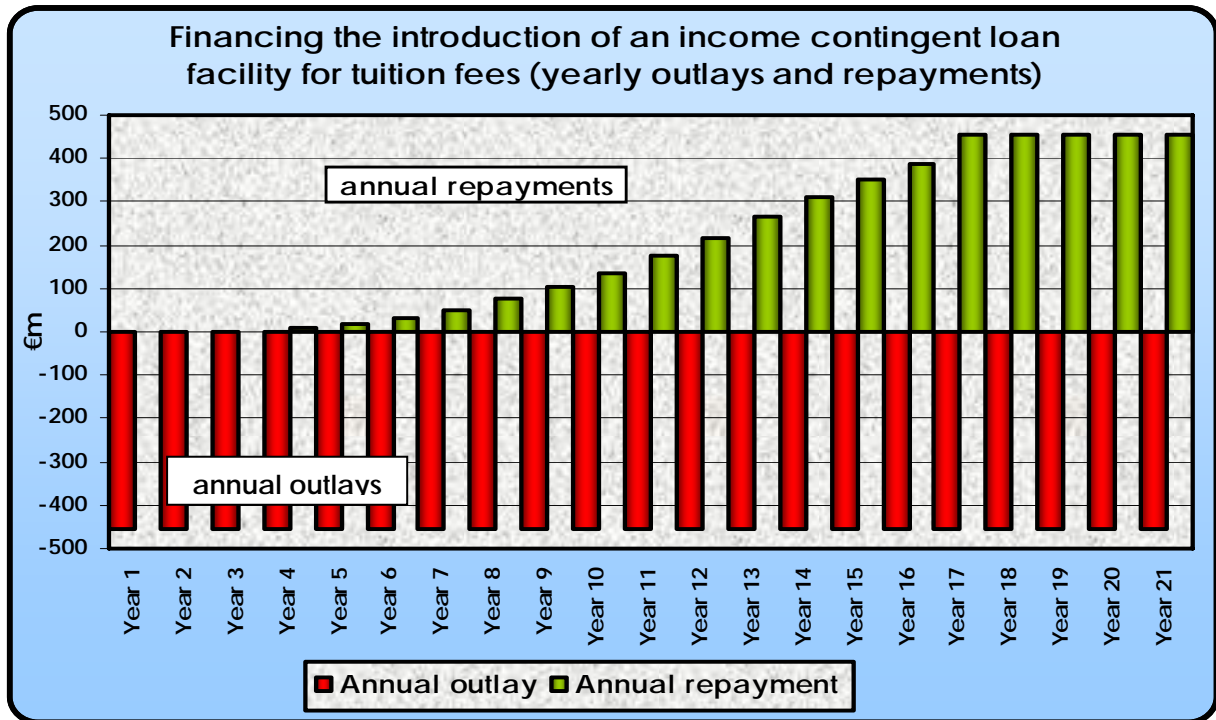
Significant impact of tax relief – row Y

Moving from a Student Services Charge to an official fee renders the entire €2,500 eligible for tax relief of 20%. This significantly reduces the net additional revenue generated under this scenario.

4.4 Additional explanation of the financing of income contingent loans

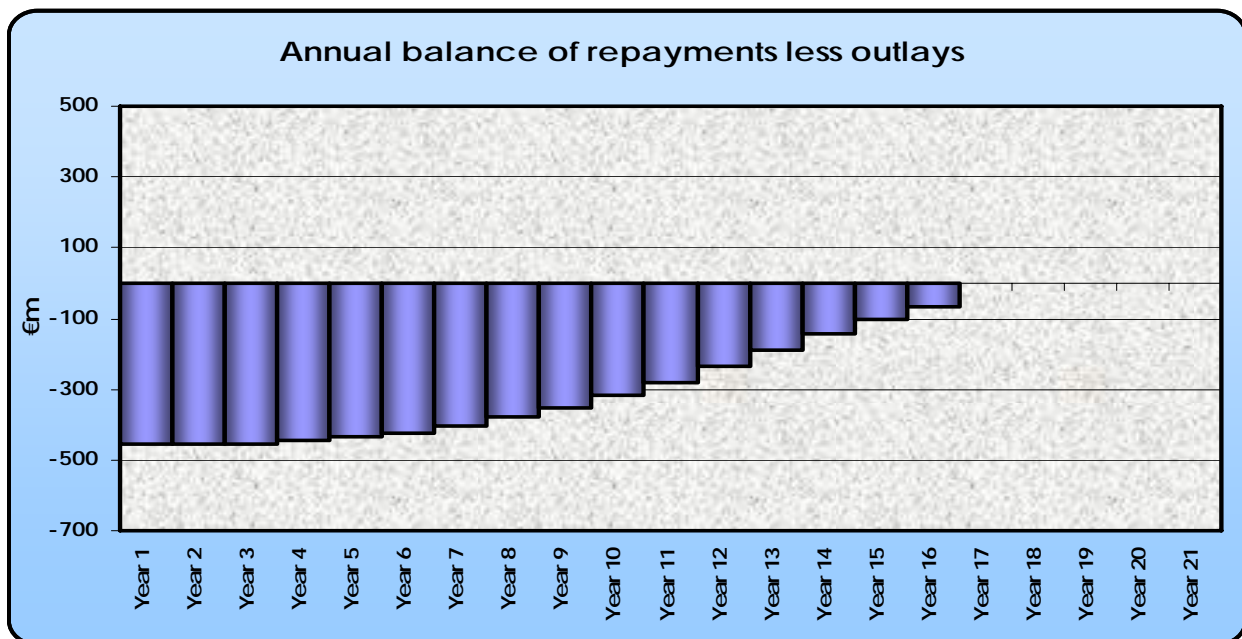
Figure 4.1 presents a visual overview of the annual costs of introducing an income contingent loan facility for tuition fees (as proposed in Option 3a). The introduction of such a loans facility requires substantial outlays in the early years which are offset over time with the repayments coming back from graduates in the labour market.

Figure 4.1 ²⁵



The annual balance of the outlays and repayments is illustrated in Figure 4.2. This anticipates a breakeven point in year 17, after which the loan facility becomes self-financing.

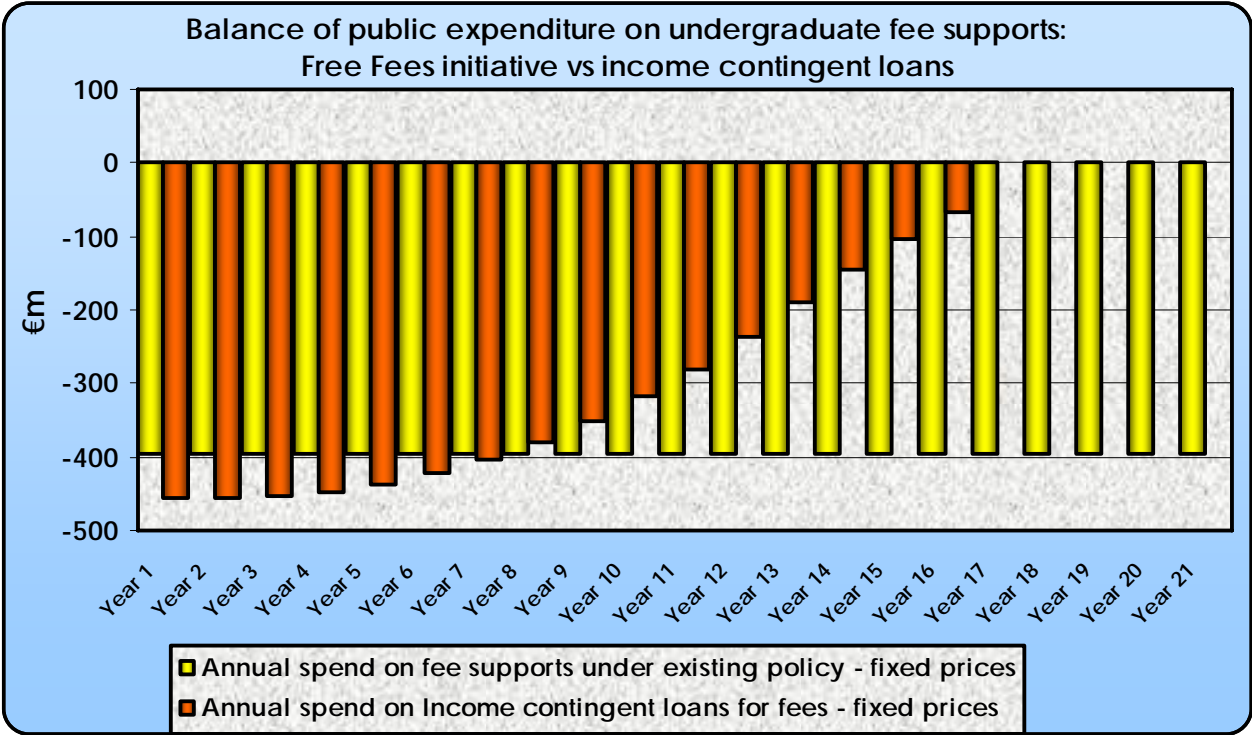
Figure 4.2



²⁵ The repayment schedule used in the above modelling is estimated to re-coup 60% of the loan in the first twelve years and a further 30% in the subsequent four years. A 10% default rate is assumed, which, in this model, has been offset by applying an additional 1% interest over and above the government cost of borrowing.

The cost of introducing an income contingent loans facility for tuition fees has to be considered in the context of the costs of a continuation of the existing policy of ‘free fees’. This comparison is illustrated in Figure 4.3.

Figure 4.3 ²⁶



Although the income-contingent loans facility is anticipated to take 17 years to become self-financing on its own terms, it becomes more cost effective than the existing ‘free fees’ arrangement within a relatively short period. Graduate contributions grow substantially from year 5 onwards and steadily relieve the demands on the State to cover the upfront costs of fees (the Exchequer burden can also be reduced through borrowing for upfront funds outlay - possible arrangements are addressed in Chapter 5). This enhances the sustainability of higher-education funding and will facilitate a continuing expansion of higher-education opportunities into the future in Ireland.

In order to illustrate the impact of income contingent loans from the individual student/graduate perspective, the following pages present a table on sample repayment schedules for selected careers and a final table explaining the impact of loan repayments on take-home pay.

²⁶ Growth in student numbers would increase the required level of investment over and above that modelled in Figure 4.3 for both the existing and the reformed scenario.

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Analysis of repayment schedules for sample graduate careers						
	Sample grades	Study programme	Debt at point of graduation	Paid off in Workyear	Total Repaid	Total interest paid
A	SAMPLE GRADUATE CAREERS					
B	Secondary Teacher	€5,715*3 (Arts)	€18,194	9	€21,697	€4,552
C	<i>Primary Teacher</i>	€5,715*3 (Arts)	€18,194	9	€21,270	€4,125
D	Staff Nurse	€7,272 (Nursing)	€23,151	14	€29,201	€7,385
E	<i>Engineer (Grade III civil service)</i>	€7410 * 4 (Eng)	€31,931	14	€40,915	€11,275
F	CIVIL SERVICE SCENARIOS					
G	Executive Officer (EO)	€5715 * 3 (Arts)	€18,194	11	€22,020	€4,875
H	<i>Executive Officer (EO)</i>	€5715 * 4 (Arts)	€24,627	15	€31,462	€8,602
I	Administrative Officer (AO)	€5715 * 3 (Arts)	€18,194	9	€21,183	€4,038
J	<i>EO for 4 years, then HEO</i>	€5715 * 3 (Arts)	€18,194	10	€21,586	€4,441
K	PRIVATE SECTOR SCENARIOS					
L	Private Sector Scenario 1	€5715 * 3 (Comm)	€18,194	14	€23,447	€6,302
M	<i>Private Sector Scenario 2</i>	€5715 * 3 (Comm)	€18,194	12	€23,160	€6,015

Notes:

Repayments are calculated at a rate of 9% of gross earnings in excess of €18,300 per annum. An interest of 3% per annum is applied to the debt from day 1 in the scenario modelled above. This is assumed to be the real interest rate on the loan as the model does not make adjustment for wage inflation over the period of repayment.

Details of the salaries for primary teachers are available at <http://www.into.ie/ROI/WorkingConditions/Salaries/>. Details of salaries for second-level teachers are available on the web at <http://www.asti.ie/pdfs/Info%20Leaflets/SalaryScalesJan07.pdf>. In the samples outlined above, both the primary and the second-level teachers are in receipt of the academic allowance for an honour primary degree. The sample graduates are assumed to obtain employment soon after graduation (or soon after the additional year taken to complete a Higher Diploma in the case of second-level teachers). The 9 year estimated period of repayment for teachers is a lower estimate, as delays in obtaining employment will add additional time to the overall period of repayment.

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The estimated repayment schedule for nurses is based on the basic pay-scale only. As almost all nurses also receive additional allowances in respect of their academic and professional qualifications, the 14 year estimate of repayment above is an upper limit for nurses and the typical period of repayment is likely to be shorter when account is taken of additional allowances that are typical for nurses in their early careers.

Details of civil service salaries are available at http://www.publicjobs.ie/downloads/Circular_18_2008_payscale_210808.pdf.

Private sector scenario 1 is modelled on a starting salary of €27,000 which increases by 5% per annum. Scenario 2 starts at €25,000 and increases every three years by one third. These scenarios commence at or just below the average starting salaries for graduates (estimated on the basis of the HEA surveys of graduates in the First Destinations Reports). Comprehensive data on the typical earnings of graduates in the private labour market are not readily available.

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The impact of loan repayments on take home pay (Updated post April 2009 Budget)								
		€	€	€	€	€	€	€
A	GROSS PAY	25,000	35,000	45,000	55,000	65,000	75,000	85,000
B	Pension contribution/levy (@15%)	3,750	5,250	6,750	8,250	9,750	11,250	12,750
C	PAY FOR INCOME TAX PURPOSES	21,250	29,750	38,250	46,750	55,250	63,750	72,250
D	Income tax	590	2,290	4,379	7,864	11,349	14,834	18,319
E	PRSI	586	2,116	2,796	3,476	4,156	4,836	5,516
F	Income levy	500	700	900	1,100	1,300	1,500	1,900
G	Net	19,574	24,644	30,176	34,311	38,446	42,581	46,516
H	TAKE HOME PAY							
I	Annual take home pay	19,574	24,644	30,176	34,311	38,446	42,581	46,516
J	Monthly	1,631	2,054	2,515	2,859	3,204	3,548	3,876
K	LOAN REPAYMENT COSTS (9% of gross pay above €18,300)							
L	Annual cost	603	1,503	2,403	3,303	4,203	5,103	6,003
M	Monthly	50	125	200	275	350	425	500
N	TAKE HOME PAY AFTER LOAN REPAYMENT							
O	Annual take home pay	18,971	23,141	27,773	31,008	34,243	37,478	40,513
P	Monthly	1,581	1,928	2,314	2,584	2,854	3,123	3,376
Q								

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Notes:

This is a single employed person (or a person whose partner/spouse makes full use of the tax reliefs against his/her own salary) who benefits from the PAYE Tax Credit of €1,830.

Chapter 5

Student Loan Schemes

Introduction

1. The broad options for introducing fees that are described in chapter 4 may or may not be accompanied by a form of student loan facility, depending on the option pursued. This chapter sets out more detailed information on student loans systems and sets out some of the key features for consideration in the design of the system. While the essential architecture of a student loans system is similar in any country, there are a range of options by which countries can modify the approach to fit national circumstances, and these options are also discussed.

Concept

2. The concept of a loans scheme is relatively simple. It is designed to overcome the high initial costs to the student of participating in higher education, by spreading those costs over all, or more likely, the initial part of a working career.
3. The concept is generally, though not necessarily, further developed to address the concerns that arise from the fact that while investment in higher education tends to produce strong private returns in general, there is uncertainty in individual cases that this will be so. This uncertainty would imply high risk premia for commercial lenders, and diminish the attractiveness of participation for students. There is thus a public good in Government intervening to provide some form of support to overcome this uncertainty, on the basis that the costs if any will be outweighed by the wider benefits to society of higher participation (e.g. more employment, higher wage levels and taxation receipts, better social inclusion etc).
4. Finally, there have also been successful international examples of Government intervening to provide an additional insurance type role to support students. This is based on the problem that while the majority of students graduating will consistently earn incomes allowing the steady repayment of loans, a small number may not. Furthermore, all students face uncertainty, in advance of their participation, as to whether they will fall into this latter category and accordingly some students may choose not to participate. For those students, Government can, by linking repayments to income levels, remove the risk that repayments will become a substantial burden on disposable income, and allow for a repayment schedule that only activates once a certain minimum income has been reached.

Student loans as part of the introduction of a fees regime

5. Student loans have worked well in facilitating the introduction of a fee regime in higher education in countries such as Australia, and the UK. It means that higher education is free at the point of use for the individual student. In fact, while in college, students neither pay a fee, nor repay loans; it is only students who have left higher education who repay loans. Student loans ensure that

those who benefit from higher education make a direct contribution, through their loan repayments, to the costs of that education. Student loans can also help address equity of access issues that arise when introducing fees to higher education.

6. Student loans do not of themselves end issues of under-representation in higher education (there are significantly wider issues involved here) but they do contribute by removing the upfront costs as a barrier to higher education, and, in systems where consumption smoothing is in place (see sections 7 – 10 below), they ensure that only graduates who have reached, and stay above, certain income levels are obliged to repay the loans.

Income contingent vs mortgage type loans

7. Income contingent loans operate by linking repayments to the level of income of the borrower. This ensures that at any time, the amount that a borrower has to repay is a small portion of disposable income. This is achieved by varying the length of the loans.
8. A mortgage loan is set for a fixed period, and as such regular fixed repayments are required, regardless of income.
9. The great advantage of the income contingent loan for higher education loans is that they can reduce the risks faced by students. In particular, students starting higher education face uncertainty as regards future income. While many will be very high earners, and some will be so relatively quickly after leaving higher education, some may be low earners or unemployed for periods of their working life, and some may not earn at all, for example due to illness. A mortgage type loan is indifferent to these factors and requires ongoing repayments, potentially exposing the student to severe future financial pressures. This risk of itself may put some potential students off applying for higher education, and it may leave some facing debt with very little ability to repay. Income contingent loan repayments will relieve both of these issues.
10. The Australian system, which is one of the longest income contingent schemes in operation, has an additional design feature which is an acceptance that income contingency means that some low or non-earners never repay their debt. Rather than this being a system failure, it is in fact a policy objective; the Australian system does not in principle want to recover debts from those who earnings never exceed the minimum income limit set.

Examples of income contingent repayment schedules – what borrowers have to repay

11. The Australian system incorporates a progressive repayment rate, using the following schedule. The average duration of repayment is 8 years.

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HELP repayment income (Taxable income*)	Repayment rate	Actual dollars weekly
Below \$41,595	Nil	0
\$41,595–\$46,333	4% of Taxable income	€32 -€35
\$46,334–\$51,070	4.5% of Taxable income	€40 - €44
\$51,071–\$53,754	5% of Taxable income	€49 - €52
\$53,755–\$57,782	5.5% of Taxable income	€57 - €61
\$57,783–\$62,579	6% of Taxable income	€67 - €72
\$62,580–\$65,873	6.5% of Taxable income	€78 -€82
\$65,874–\$72,492	7% of Taxable income	€89 -€98
\$72,493–\$77,247	7.5% of Taxable income	€105 -€111
\$77,248 and above	8% of Taxable income	at least €118

12. The UK scheme is simpler in that, while no repayments are made until earnings are at £15,000, any balance above £15,000 is levied at 9%.

Income	Income for debt payment purposes	Rate of repayment	Annual repayment	Weekly repayment
£15,000	£0	9%	£0	£0
£18,000	£3,000	9%	£270	£5
£20,000	£5,000	9%	£450	£9
£25,000	£10,000	9%	£900	£17
£30,000	£15,000	9%	£1,350	£26

13. The average duration of repayment is currently estimated to be 11 years for male graduates but 16 years for female.

Student loans vs. a graduate tax

14. It is relevant at this point to consider the role of a graduate tax, which shares some of the same characteristics of a student loan.

15. As the name suggests, a graduate tax is a tax specifically applied to the earnings of a graduate. It describes a form of payment that would be applied over the lifetime of the graduate.

16. Like an income contingent loan, the tax only comes into effect once the graduate starts earning, and can be adjusted so that it only comes into effect at a certain earnings levels.
17. Unlike a loans scheme, the tax bears no relationship to the cost of the higher education provision, and the amount ultimately paid by the graduate relates purely to their personal earnings. In this way very high earners pay far more than the cost of their higher education provision. The fact that contributions are unrelated to costs raises questions of fairness and possible poor incentive effects. There would typically be no option for upfront repayments and there would also be collection issues with graduates who work outside Ireland.
18. Any decision to introduce a graduate tax in Ireland would have to consider whether this would have retrospective effect. This would be complicated by the fact that many graduates in the work force already paid fees for their higher education provision. It would further be complicated by the problem of how past graduates could be identified – and verified. There is no reliable national database with such information.

Key features of a loans scheme

What is the purpose of the scheme?

19. In general, schemes can be designed with two goals. The first is to make possible greater cost-sharing in financing higher education. The second is to facilitate greater access by groups whose financial disadvantages mean they are less likely to access higher education.
20. In Ireland, the introduction of a loans scheme in parallel with a student contribution for full time students would significantly enhance cost-sharing in higher education.
21. In addition, a loans scheme could, if extended to part-time higher education, also have significant positive impacts. At present part-time students face upfront costs. While costs are not the only barrier to part-time participation, they are of considerable importance. This barrier would be significantly reduced by designing a loans system that would facilitate greater part-time access. This is of particular importance given the emphasis in “Building Ireland’s Smart Economy” on the importance of up-skilling to position Ireland to take advantage of the future global economic recovery.

Who will fund the scheme?

22. Ultimately, students themselves should fund the scheme. A loans scheme should create a flow of income from loan repayments which would be used to either repay all debt, (in the event that the scheme had a set life span) or more likely service the interest and debt repayment obligations on the outstanding debt (in the event that the scheme is perpetual).
23. However, in the short to medium term an upfront investment will be required to pay the fees that students are deferring until post graduation. This period of

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deferral varies according to repayment arrangements, in particular if an income level must be met before repayments commence.

24. The scale of the upfront investment required depends on the scale of the loans scheme. The greater the number of students eligible (e.g. including part-time as well as full-time), and the greater scope for students to borrow (e.g. including living costs as well as fees), the greater the initial fund required.
25. That upfront financing can be met by
 - Government meeting the costs
 - Borrowing from the private sector

In either case, there is a need to consider the implications for the General Government Balance (GGB) and General Government Debt (GGD) which are dealt with in Section 30 - 35 below.

If a scheme were to be based partially or exclusively on borrowed funds, how would this be managed?

26. In principle, this would involve the use of the international capital markets to raise such initial sums as are equivalent to the reduction in the State grant in lieu of fees, for such period as until student loan repayments generate a sustainable income to end the need for borrowing, and to pay the interest on the accumulated borrowings. This scheme could be State led, (through the NTMA, or through the European Investment Bank, which has already commenced an involvement in the Hungarian equivalent), or led through private banks.

Role of the NTMA

27. Preliminary discussions with the NTMA indicate that there would be no difficulty in principle to the NTMA playing a role to facilitate borrowing some or all of the funding required to start a student loan fund. They have also indicated that this model could work with either Government borrowing directly, or for the borrowing to happen on behalf of an agency or company.

Sustainability and Design

28. However, in addition to the administrative details of sourcing the funding, this option creates serious sustainability issues. If the funding for the loans is initially borrowed, then it follows that initial fund must be either repaid, or, more likely, sufficient income flows would need to be created from loans repayments to repay the interest accumulating on the initial borrowings. If not, Government could be called upon to make up the balance.
29. This places a greater emphasis on the design of the scheme. There is need to factor in consideration of the interest rate for students, and the default rate, so as to ensure a flow of funding ensues which will at the very least meet the interest obligations on the debt.

How would a scheme impact on General Government Balance (GGB) and General Government Debt (GGD)?

Background

30. The General Government Balance (GGB) and General Government Debt (GGDebt) are calculated according to the accounting rules laid out in the European System of Accounts 1995 (ESA95). All EU Member-States are legally obliged to report their GGB and GGDebt twice-yearly to the European Commission (Eurostat), which is the final arbiter of decisions about the accounting treatment of particular transactions.

GGDebt is gross debt of Government

31. GGDebt is a gross measure of the level of borrowings of all the entities making up General Government²⁷ at a given point in time. As it is a gross measure, it is not reduced by assets held by those entities (e.g. loans to students).

Calculating GGB –Financial transactions excluded, interest payments included

32. The GGB is the difference between receipts and expenditures of General Government for a particular year. Financial transactions are excluded in calculating the GGB, so that the granting by Government of a loan does not count as Government expenditure (so long as there is a reasonable expectation of repayment), and the repayment to Government of loan principal does not count as Government revenue. However, interest payments on a loan do impact the GGB – interest payments by Government count as Government expenditure, and interest received by Government counts as Government revenue.

Treatment of Government guarantees

33. In calculating GGB and GGDebt, the granting of debt guarantees by Government is ignored, unless it is clear at the time the loan guarantee is issued that a call on the guarantee is highly likely, in which case the debt is reassigned to Government from the date of issue.
34. When a Government debt guarantee is called, a capital transfer from Government to the original lender is recorded, and in the event of persistent default, the debt is moved onto the Government balance sheet. The capital transfer counts as expenditure, worsening the GGB, and the extra debt on the Government balance sheet worsens GGDebt.

Considering student loan schemes in the context of GGB and GGD

35. Three basic types of scheme can be distinguished, irrespective of administrative arrangements:

²⁷ The Exchequer, plus all the Extra-Budgetary Funds, the Non-Commercial Semi-States, the Local Authorities and the IoTs/VECs

I) Fully self-financing

A self-financing scheme is one where students' repayments reflect 'real' interest rates and an element to cover student default. Such a scheme will not impact on GGB/GGDebt.

(If the scheme provider is partly or wholly owned by Government, any profits from the operation of the scheme could potentially be transferred to Government in the form of dividends, improving GGB. If Government provides an initial capital injection, then this would increase GGDebt insofar as this capital injection must be funded by Government borrowing.)

II) Government-guaranteed

Great care must be taken in analysing a scheme with a Government guarantee. A 'normal' Government guarantee is granted to allow a – typically institutional – borrower to obtain funds on the market at a lower interest rate than they would otherwise face. There is a sound business case for the loan, and there is no a priori expectation of any default. In the case of a student loan scheme, it would be expected that such a 'normal' guarantee would apply to the borrowings of the scheme operator rather than those of individual students. The guarantee in the Hungarian scheme, which covers 'catastrophic student default' but not individual students' defaults, appears to be of this type.

A self-financing scheme with such a Government guarantee would have the same GGB/GGDebt impact as in (I) above – except that, if the guarantee should be called, GGB and GGDebt would be worsened at the time of the call by the amount of the default (see 'Treatment of Government guarantees' above).

A system of Government guarantees of loans to individual students, however, is more problematic, and is likely to cause a negative impact on GGB and GGDebt. This may occur in two ways:

a) Scheme is classified as part of Government

- The scheme as a whole must be classified as part of Government if –
1. Government absorbs all or most of the risk of student default – so that the scheme provider retains little or no risk, and if
 2. the scheme provider has very limited or no autonomy to operate the scheme on a commercial basis, for example, if interest rates and repayment schedules are determined by Government in advance, without regard to commercial realities.

This would apply even if the scheme is operated by a private bank: the borrowings and transactions of the scheme would be on the books of Government, even if administered by the bank.

In such a case, all borrowing to fund the scheme would increase GGDebt, and the GGB would be worsened by the difference between revenues (generally loan interest) and expenditures (generally interest payable plus administration charges) in any given year, as in (III) below. Also, write-offs of specific loans would worsen the GGB at the time of debt cancellation.

b) Scheme is classified outside of Government

If the scheme as a whole has sufficient autonomy and risk retention that it is not classified within Government, then GGB/GGDebt would be impacted (i) at the time of issue to students of obviously bad risk (though it would be difficult to see how such a classification could be made particularly where the repayment of the loan is to be on an income contingent basis), and (ii) for other loans, on an ongoing basis, as and when student loan defaults occur.

III) Subsidised

A non-self financing scheme is one where students' loans are effectively subsidised, generally by charging them an amount of interest too low to cover the debt service costs of the lender's own borrowing. This could be achieved in a number of ways:

- 'lower interest rates'
- 'more flexible repayment schedules' – in this case, interest is lost through requiring a smaller number of payments of interest at a given nominal rate
- 'reduced or zero expectations of security' – in this case, interest is lost through charging a rate of interest too low to compensate for bad debts (this may be covered by an explicit or implicit Government guarantee, as discussed in (II) above).

Whatever the details of the favourable terms offered to students, such a subsidised scheme can be expected to have a negative impact on both GGB and GGDebt.

In the case of a Government-run scheme, any extra borrowing to fund the student loans would be recorded as Govt borrowing, worsening GGDebt. The GGB would then be worsened in each year of the operation of the loan scheme by the difference between the interest payments on this extra borrowing (plus the scheme's administration costs) and the (uneconomic) interest – if any – paid in the same year²⁸ by loan recipients. Write-offs of specific loans would worsen the GGB at the time of debt cancellation.

In the case of a non-Government scheme, it is possible that Government would have to provide ongoing subsidies to the operator. This would worsen the GGB and (insofar as the subsidies would have to be funded through increased Government borrowing) GGDebt. Depending on the details of the scheme and the level of control exerted by Government, the whole scheme could potentially be brought within Government.

36. It can be seen therefore that this is a complex area. It is possible to develop a student loans scheme with little or no impact on GGB and GGD, but there are critical considerations to be borne in mind, relating to the level of guarantee

²⁸ The ESA95 system is accrual-based, so that – for a scheme classified inside of Government – interest from students would be recorded in the GGB account from the date the loan is issued rather than from the date repayments commence

and the commerciality of operation of the scheme.²⁹ This is discussed further in the options presented at the end of this chapter.

Who and what will the scheme cover?

37. The most comprehensive schemes cover all types of students, both their fees and some support for living costs and all types of institutions and courses within the higher education system. It is possible to develop any number of modifications to this approach, including restrictions such as

- only students attending publicly funded institutions will qualify
- only students attending a certain part of the HE sector will qualify
- only certain types of courses will be covered (e.g. courses whose graduates are likely to enter public service such as health courses)
- only national students/EU/EEA/Swiss nationals students
- only full time students will qualify
- only under-graduate students will qualify
- only tuition fees will be covered
- only a portion of tuition fees will be covered

38. Within Ireland, it is most likely that any loans scheme would accompany the introduction of a scheme for greater contributions by Irish/EU/EEA/Swiss full-time under-graduates attending public institutions, and it is therefore most likely that the scheme would initially be targeted at these students, with part-time undergraduate students to be included also.

Will there be an interest charge?

39. In general, it is desirable that there be some interest charge, or some other charge on a student loan. If a scheme was established with a zero interest rate, this would mean that the lender is in effect giving a subsidy to the borrower, to the value of the prevailing rate of interest. Accordingly, the longer the period of debt repayment, the greater is the subsidy. It can be demonstrated that under such conditions, and using constant prices, the repayments to the lender can add up to only a fraction of the original loan.

40. For example, if a borrower with a debt of €1,000 is allowed to repay that loan in one sum after 15 years, on a zero interest basis, where the real interest rate is 5%, the effective cost to the lender is a net €90. (See table 5.1 for details). If the interest rate is limited to the rate of inflation, the subsidy is diminished, but remains in existence.

41. However, given that policy is to encourage participation, it is also desirable that the interest rate should not be excessive. Accordingly, some countries have sought to base the interest rate on the sovereign rate at which the State borrows funds. In some cases, this is further increased through provision for administration costs, and for default risk.

²⁹ This advice is also borne out by the experience of Hungary. The borrowing undertaken by the student loan company for the purpose of funding student loans is not counted for either the current Government surplus/deficit or in considering Government's overall borrowing.

Will there be a discount for up-front payment of the fee?

42. The notion of a discount to encourage up-front payment is desirable in a context in which there is a priority attached to immediate revenue raising. However, it also creates problems through a perception that those who are able to pay upfront benefit from lower fees than others.
43. Discussions of discounts have been confused due to the practice prevailing in Australia, which is mistakenly called a discount.

The Australian scheme

44. In Australia, the only interest charged on student loans is to cover inflation. As previously discussed, the lender is effectively giving some element of subsidy to the student. Accordingly, it would be irrational for any student to pay upfront – even if they could afford it, they would be better advised to make a profit by saving that money privately, and earn interest, and maintain a student loan that carries no real interest charge.
45. In order to address this, the Australian system levies a surcharge on all who take on student debt. This surcharge of 25% is not an accurate proxy for the interest that would have been charged were a real rate of interest to be levied – this would be closer to 30%. However, it is reasonably close to that level.
46. It is in that context that the scheme provides that students paying the whole or part of the fee receive a discount of 20% on the upfront payment. In other words, after inflation is taken into account, the student who pays upfront and receives the discount, pays an amount roughly similar to the student who takes a loan and repays over a number of years. There is no “real” discount. There is no advantage to initial payment upfront.

A “real” discount

47. While Australian scheme does not therefore provide a real discount, it is of course possible to design a scheme which does provide a real discount. This can be achieved by setting a discount rate for those who pay upfront which is higher than the expected interest payment over the life of the loan. This will mean that the student benefiting from the discount will pay less in real terms than the student who repays a loan.
48. On balance, if there is a real rate of interest being charged, it would seem unfair to provide an additional discount to students who pay upfront. It will also ultimately reduce the revenue that can be collected from the student fee.
49. However if such a discount were to be provided, (in view of the urgent need for income generation), it might, on equity grounds, be balanced by a discount which would be offered to graduates who repay their loans earlier. Again, Australia offers an example where lump sum repayments ahead of schedule earn a 5% credit which is set against the outstanding loan. This however will of course further reduce the revenue that can be collected from the student fee and would have to be considered from a system sustainability perspective.

What level of default can be expected and how can it best be managed?

50. The level of default is dependent on the type of scheme put in place. Some general guidelines have emerged from international practice.

- ***Be clear as to whether all default is a problem***- the Australian system is explicitly designed on the premise that for reasons of equity, graduates with low income do not repay the loan. (Most graduates do achieve above average earnings; the Australian “problem loan” rate is c.15% of which c.10% is due to low earning graduates)
- ***Keep repayments to a manageable proportion of disposable income*** - a World Bank study reports that repayment schedules which require more than 18% of disposable income significantly increases default rates.³⁰
- ***Where systems are sufficiently developed link repayments to tax collection*** – this both facilitates reasonable levels of repayment by allowing repayment to be linked to income levels, and also ensures a simpler, and difficult to evade, collection system.
- ***Consider pricing some level of default risk into the cost of loan repayment*** – this protects taxpayers from becoming ultimately liable to default, and instead spreads the cost of default over all student borrowers. If the system has been designed to minimise default using the two guidelines above this should not greatly increase the cost of repayment.

The costs of default in context

51. It is helpful in considering the effect of default in a loans scheme, to set this on the context of the likely revenue gains that arise from the other, non-student loans, as described in Chapter 4.

	Options	Revenue
Option 4	Flat fee 2500	27 million
Otion 2D	fees for income>120,000	23.2 million
Option 2C	fees for income>100,000	41.8 million
Option 2B	fees for income>80,000	78.6 million
Otion 2A	fees for income>60,000	128.1 million
Option 1	fees for income>47,025	142.2 million

52. This analysis would suggest that any loans scheme, based on loans of €395 million, with administration costs estimated at €15 million, would need to achieve a default rate of less than 37% in order to exceed the returns that would be made from the fees scheme options above. As noted previously countries such as Australia face a default rate of 10 to 15%.

53. The reason for the potentially very significant return from a loans scheme is that all students face fees and have the ability to repay them using the loans scheme. In the case of the upfront fee options listed above, a significant cohort

³⁰ Pg 15, Student Loans in an International Perspective: The World Bank Experience Jamil Salmi

of students do not face fees (even if they benefit from high earnings later in life).

Emigration and student loans

54. It should be recognised that emigration can increase the risk that some element of student loans will not be repaid. This may be of particular relevance to Ireland, as an open economy in which some Irish graduates do emigrate, either drawn by opportunities abroad or because of a lack of opportunities at home. While in principle a repayment scheme can continue to operate regardless of the location of the graduate; in practice it is more difficult to maintain details for correspondence, and to operate any systems to enforce repayment.

55. There are two issues to consider

- Does the financial loss arising undermine the loan scheme?
- Does the loan scheme itself act as a driver to increase emigration of graduates?

Does the financial loss arising undermine the loan scheme?

56. International evidence does not suggest that a loans scheme has been seriously imperilled due to emigration. For example, Australia (since 1989), New Zealand (since 1992), and the UK (since 1998) have all operated loans scheme, and while all have changed since their introduction, and while all pay attention to emigration and measures to increase repayment of emigrants, in no case has the costs of loan default arising from emigration been an issue of fundamental importance.

57. In the UK, evidence to date also suggests that there has been little negative impact from emigration.

58. However, the cost of default due to emigration should not be underestimated. For example in New Zealand, it is understood that emigration has been an important feature of the system, and has led to some levels of under-repayment of student loans. While the situation is complicated by significant changes in policy on the rate of interest being charged by the Government, and while the Government have recently put in place new mechanisms to enhance repayment of overseas debt, the New Zealand case does indicate that emigration will have some costs in terms of unrepaid loans.

59. In Australia, of the roughly 15% of HECS debts that are considered doubtful, the majority are due to the borrower having failed to reach the appropriate income threshold.

60. These countries have employed a variety of measures to deal with emigration. These include

- a. A requirement to notify the lending agency before emigration, and agreement of a new schedule for repayments
- b. Penalties if scheduled repayments are not met

61. More recently Hungary in the design of its scheme has priced in a default risk to the interest rate charged to borrowers. In this way the costs of default are spread over the borrowing cohort, and not borne by the taxpayers.³¹
62. There is a further option to enhance repayment which is the transmission of defaulter debts to credit agencies. This would result in increased difficulties for such borrowers to attract other finance into the future. The UK Company has requested permission from the UK Government for such a role, but has not been granted to date.
63. The UK Company has also raised the possibility of a pan-European approach to student loan repayment, but there has been relatively little progress to date.

Does the loan scheme itself act as a driver to increase emigration of graduates?

64. There is relatively little evidence, in the cases of the UK, Australia and New Zealand to suggest that loans schemes of themselves cause emigration of graduates. The schemes are designed so that the repayment levels are so modest as to be negligible against the costs of emigration.
65. Within Ireland it should be noted that there is on an ongoing basis some emigration of graduates. Data from the HEA First Destinations Report is presented in Table 5.2 and shows that the rates of graduates who are employed abroad 9 months after graduation has varied from 13% to 5% between 1996 and 2006. However, it would appear likely that these rates may increase under current economic circumstances.

How will the scheme be administered?

66. Design of the administration of the scheme is a critical area as it can impact on acceptability of the scheme and the default rate. Effective design can also minimise the administration costs of the scheme.
67. An essential point in this regard is the fact that the main challenges of the system relate to the collection of debt, rather than the allocation of loans. In fact, the management of the allocation of loans can be achieved relatively easily, particularly if limited to the costs of tuition only; in that case there is a direct transfer to the institution concerned, which in effect already happens in the HEA for the grant in lieu of fees.
68. The collection of debt by contrast is far more arduous. It requires correspondence details for ultimately hundreds of thousands of borrowers. It also entails systems to pursue defaulters, and systems to deal with those who plead inability to pay.
69. The difficulties are more extreme if the objective is to allow for some form of income contingency. This would require the collection agency to have information that income had dropped below, or risen above, the income limits.

³¹ The Hungarian Student Loan System, pg 8, Diak Hitel.

These cases would have to be reviewed and changes applied to each individual account.

Component Collection Functions and Possible Roles

70. These difficulties have prompted a number of countries to look to building a role for their tax collection agency in designing optimal income contingent loan schemes. International practice would suggest that some involvement of the tax collection agency, with an employer role also, enhances the administrative effectiveness of a scheme.
71. The scale of Revenue agency involvement internationally varies from data exchange with the collection agency (providing details of the graduate's income, current employer, current address etc.) so as to allow the agency more effectively to manage the loan account (the US operates a model of this type) to fully integrating loan repayments with the equivalent of our "PAYE" system (Australia and New Zealand operate models of this type).
72. The central challenges in designing an effective Irish collection scheme relate to the need to optimise administrative efficiency; minimise default; achieve maximum clarity and administrative simplicity from the point of view of borrowers; ensure effective real time data is available to the collection agency on employment details and earnings of graduates.
73. The experience internationally appears to be inconclusive as to the relative success of the different models (data exchange versus full "PAYE" integration) of Revenue and employer involvement in this area. It also has to be borne in mind that the Irish system of PAYE is a cumulative system that has particular complexity and has few comparators internationally.
74. The advantages of at least some Revenue involvement from a system perspective include the fact that Revenue will have the current correspondence and employment details of the overwhelming majority of graduate borrowers, and their income details (from employer P35 returns and self-assessment returns), although income details will only be available after the end of the tax year. The involvement of the Revenue Commissioners can possibly also help to reduce potential default rates if, for example, they could be used as a "collector-of-last-resort" where the collection agency's recovery efforts failed.
75. Employers already manage a variety of payroll deductions and other deductions (e.g. health insurance, life assurance premia etc) and therefore may be willing to consider the deduction of an additional amount for student loan repayments.
76. It would be desirable that regardless of the option pursued below, the involvement of the Revenue Commissioners, with an employer role also, be seen as an essential requirement in the introduction of a loans scheme. This involvement can either be in a primary role – where Revenue is assigned responsibility for the collection of debt through the taxation system; or in a secondary role – where Revenue provides real time data on employment and

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earnings to another collection agent (e.g. a Student Loans Company) and retains a fall-back collection role in the event of default cases.

77. In the current Irish context, a number of problems can be identified with any scenario envisaging a direct role for Revenue and Revenue are strongly opposed to taking on a primary collection role in this area for the following main reasons:
- the Revenue Commissioners are facing major and critical challenges in the ongoing changes to the tax system, and the anticipated further change that will arise as part of the report of the Commission on Taxation; there are legitimate concerns that additional functions on top of those changes will compromise the capacity of the system in delivering core business;
 - substantial new systems investment would be required to operate a system of income-contingent repayments;
 - the current Revenue systems collect revenue on a monthly basis but not the breakdown of that money; that is collected annually. This would result in considerable time lags in the updating of an individual's loan account, and could result in overpayment and need for refund;
 - the additional functions imposed by the running of, and the skills needed to successfully run, a student loan scheme are not a core competence of Revenue and will stretch Revenue's resources to such a degree as to compromise the capacity of their systems in delivering on core tax and duty business;
 - the less than optimal performance of some other Revenue organisations around the world that have been tasked with collecting student loans;
 - while Revenue have particular powers to manage default, these powers in practice are generally exercised by Sheriffs and use of 3rd party solicitor firms.
78. In general a key consideration is the need for balance between the likely enhanced efficiency of the scheme with Revenue involvement versus the costs to the Revenue Commissioners of engaging in the scheme. Some of the costs to be incurred by Revenue such as systems developments would not be saved by excluding Revenue but would be faced by a Student Loans company or other assigned collection agency. However, it is recognised that the cost to the Revenue Commissioners goes beyond financial and includes changes of work practices, staffing constraints and other disruption.
79. In the context of the foregoing, the Revenue Commissioners have suggested that a better alternative might be that the Student Loans Company would directly manage the repayment with individual borrowers. This could be either via designated direct debit instruments or by mandating employers to make specified deductions from payroll – along the lines of health insurance, credit union or instalment savings deductions – and pay this over monthly to the Loans company. Revenue would be in a position to provide that company with current data on the individual's employer and current address, plus income details in arrears) so as to allow the Loans company to manage the income contingent element of the repayments. The Company could be assigned powers to mandate employer deductions and powers similar to Revenue in relation to debt collection (this would need primary legislation).

80. On the basis of the foregoing, if a decision was taken to proceed with an income contingent loan option, further detailed design work would be necessary on the debt collection system, and the possible role of Revenue in facilitating that collection. It would also be desirable that some further direct evidence of the operation of other international systems would be gathered to assist in this planning.

Possible administrative costs

81. It is difficult at this point to estimate the costs involved in the collection of student loan repayments.

82. For England and Wales, the following costs were identified

- One off revenue cost for systems development £16.25 million
- Annual recurring administrative costs £15.25 million
- Estimated annual costs for the business sector £20 million.³²

83. The HE system in England and Wales is, in purely student number terms, roughly 10 times bigger than the Irish system, so there will be some element of discount to scale if the above figures were to apply to Ireland. However, much of this cost may be of a fixed nature (particularly the IT systems).

84. Within Australia, it is understood that for 2003/04 the Australian Tax Office incurred costs of approximately \$25 million in the management of their student contribution collection function. The university function cost a further \$23 million to give a total of about \$48 million (c. €25million). The annual revenue was about \$1.4 billion.³³

Data Protection and information exchange

85. Before considering the options for different designs of loan schemes, it is important to note that any scheme will involve some transfer of student data between different agencies. The legislative basis for exchange between education agencies is already facilitated through provisions in the Education Welfare Act 2000, provides a basis for information exchange between education agencies for certain specific purposes. This may need to be further expanded for the purpose of exchange of information relating to the monitoring and management of loans. In addition, further exchanges, in particular with Revenue, would require a statutory basis.

Options for scheme design

Option 1 Private bank led

86. In this option, other than the initial policy decision to reintroduce fees for higher education, there is no role whatsoever for Government. Students take a loan with their local bank under normal commercial arrangements.

³² PQ reply, March 2007.

³³ Government Managing Risk: Income contingent loans for social and economic progress, Routledge, London, 2006 Bruce Chapman.

87. The scheme is administratively easy for Government. However, it may create serious difficulties for students

- Banks will wish to make a profit from the loan, so students will repay a commercial rate of interest, plus a likely risk premium.
- Banks will be cautious over default risks and so will probably restrict lending to those with some security. This will have an impact of availability and will especially affect those from low income backgrounds. In today's context banks are likely to be especially cautious.
- Banks will not have regard to income variation of a graduate, which may place particular burdens on low earning or unemployed graduates in repaying their loans.
- Students who fail to maintain repayments will have their credit rating affected which will make future borrowing more difficult.

Implications for GGB and GGD

- Implications for GGB – none
- Implications for GGD – none.

Option 2 Private bank led with State guarantees

88. This is as Option 1 but the State would also provide a guarantee for participating banks against every individual student default. This allows banks to offer greater access to students from all backgrounds.

89. However, international evidence shows that this guarantee provides banks with little incentive to encourage repayment. The burden of pursuing repayment instead passes to the State. Given that the State has only limited resources, it is obliged to tighten the availability of loans, as a means of controlling the possible defaults it will have to assume in the future, thus reducing participation.

Implications for GGB and GGD

- Implications for GGB – given the guarantee for individual debts, the GGB will be worsened if a bank calls in the guarantee, requiring the State to repay the loan
- Implications for GGD – in addition to assuming defaulting debts described above, because the guarantee is at the level of the individual student, it is likely that all borrowings will be classified as part of Government debt.

Option 3 Contract with a commercial provider

90. In this scenario, the State seeks tenders from the private sector for the administration of a loans scheme. The State could provide either a guarantee for all individual debts, or a system wide catastrophic guarantee. This requires the tenderer to assess applications from students, maintain details of the borrowings and any accruing interest, and to collect repayments. The initial funding can be provided by State funds, or by State borrowings, or by private sector borrowings. The tenderer could be an existing student loans company – e.g. Student Loans UK, or any organisation with competence in the management of data, and debt recollection.

91. This option allows for the removal of banks from the scheme, but then requires that the State provide or facilitate the provision of the upfront funding required. The State will also be required to pay the tenderer a fee which will cover both the costs of administering the service, and the tenderer's own profit. The fee to the State could be minimised by allowing the tenderer to charge overhead fees to students. This option removes the necessity for the State to take on staff or establish new structures to administer the scheme. The system would need to be designed so as to avoid the risk of default requiring further Government funding.

Implications for GGB and GGD

- Implication for GGB – The GGB will be worsened to the degree to which Government takes on the costs, provides for a risk premium and provides a profit margin to the tenderer. (Alternatively all of these costs could be shifted to the repaying students). If Government takes on any role in subsidising the loan repayments or meeting default costs this would also worsen the GGB.
- Implications for GGD – dependent on the arrangements for sourcing the funding. At the least, it would involve the State providing some form of guarantee to a private borrower. As discussed previously if this is at the level of individual student, it is likely to cause the whole debt to become part of GGD. If only at the level of catastrophic failure, this would avoid GGD effects. At the maximum, if the state provides the funding, it would be essential that the scheme be seen to operate at a fully commercial level, to avoid the entire borrowings impacting on GGD.

Option 4

92. A variant on this option would be to invite the universities, on behalf of the sector as a whole, to establish their own company to manage this service. This company could take on the role of borrowing to fund the loans scheme, or could receive Government support.

93. This approach would be similar to the CAO which provides such a service in respect of applications to higher education for all public higher education institutions. This would ensure that the State is not taking on liability for the employment of or pension liabilities for additional staff. In addition, by giving the institutions ownership of and direct involvement in the management of the service, there would be the potential to exploit synergies, i.e. much of the data needed, (student addresses, course and institution choice etc) is already easily available within the individual institutions, and/or CAO.

94. This should be quicker and more efficient than option 4 above given much of the supporting infrastructure is in place in the institutions.

Implications for GGB and GGD

- GGB - as with Option 4 above with the difference that it would run on a non-profit basis
- GGD – as with option 4 above.

Option 5 State led system

95. In this scenario, the State would provide or facilitate the provision of the initial funding required, (in the case of the latter through the NTMA, or the European Investment Bank). A State loans company would be established which would manage the administration of applications and monitoring the debt incurred. The loans company would arrange for the collection of repayments, according to an agreed schedule of repayment.

Implications for GGB and GGD

- Implications for GGB –as with option 4 above.
- Implications for GGD – the operation would have to operate on a clearly commercial basis to avoid the borrowing undertaken by the State to fund the system being added to the Government debt.

Table 5.1

Year	€Initial borrowing	Repayment required to meet real cost €	Notional Interest rate	Loan repayment as % of real cost of loan if full repayment made in this year
1	1000	1000	5%	100%
2	1000	1050	5%	95%
3	1000	1103	5%	90%
4	1000	1158	5%	86%
5	1000	1216	5%	82%
6	1000	1276	5%	78%
7	1000	1340	5%	74%
8	1000	1407	5%	71%
9	1000	1477	5%	67%
10	1000	1551	5%	64%
11	1000	1629	5%	61%
12	1000	1710	5%	58%
13	1000	1796	5%	55%
14	1000	1886	5%	53%
15	1000	1980	5%	50%
16	1000	2079	5%	48%
17	1000	2183	5%	45%

Table 5.2

FDR Honours Bachelor Degree Overseas Employment & Further Study											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Graduates	13045	13537	14549	15773	16339	17438	18771	19863	22058	21882	23237
Number of Respondents	10445	9985	11423	11691	11704	13081	13426	13330	13475	13307	13490
Employed Ireland	44%	45%	49%	49%	51%	51%	50%	50%	49%	52%	53%
Employed Abroad	11%	13%	11%	9%	9%	7%	7%	6%	7%	5%	5%
Further Study Ireland	36%	35%	31%	31%	30%	30%	31%	31%	30%	31%	30%
Further Study Abroad	3%	3%	3%	3%	2%	2%	3%	3%	3%	3%	3%

Chapter 6

Summary of Implementation Issues

1. As the preceding chapters outline, there is a range of available policy options on which the introduction of a form of student fee contribution can be based. In addition to the policy issues that arise, consideration of the various options needs to have regard to important issues of practical importance in seeking to implement any new model.
2. A number of these issues have been identified in the body of this report. Some of the principal implementation issues to be addressed are as follows:

Fee Level

3. Affordability considerations from the perspective of individual students and families will operate as a ceiling on the level of fee which could be applied under any new arrangement. It is proposed that the level of any new student contribution should be related to current fee levels for Irish/EU students who do not qualify for free fees. Fee bands on this basis will be based on averages of current rates within a programme band. This will involve fee differentials between different broad programmes of study (e.g. Medicine been more expensive than Arts), between programmes at levels 6, 7 and 8 on the framework of qualifications and, broadly, between programmes in different types of institutions (with University programmes broadly attracting higher fee rates than Institute of Technology programmes). These fee bands will be based on current fee levels which represent a proportion of the full recurrent costs of various programmes.
4. Consideration could also be given to providing for a premium or ‘top-up’ range within which individual institutions would be free to increase charges for particular programmes. This would allow individual institutions to incentivise participation on particular programmes or to generate additional revenue according to their ability to compete for students. Such an arrangement could have the benefits of promoting competition and quality within the system.

Stability of Institutional Funding

5. A related issue in managing any transition to a new student contribution regime is to ensure that any de-stabilising impact on institutional budgets is avoided. Under current arrangements, Exchequer funding to institutions involves a block grant including a grant in lieu of fees (i.e. relating to student numbers benefiting from ‘free fees’). In transitioning to new fee arrangements, it would be important to avoid any potential for immediate shortfalls in institutional budgets by pitching fees at levels that do not match current ‘free fee’ contribution rates. In this regard, the balance of borrowings against upfront Exchequer investment in financing any loan arrangement needs to have regard to considerations around the stability of institutional funding and would have to have regard to risk factors such as participation levels.

Status of current students

6. A policy decision will need to be taken in relation to the status of students who had already entered higher education prior to any decision to formally re-introduce a form of student contribution. In altering the eligibility of such students for ‘free fees’, there would be a duty to provide sufficient notice to allow them to re-organise their financial affairs. This would suggest that the introduction of an upfront fee would need to be implemented initially in respect of new entrants only or that adequate notice would have to be given to all current students in relation to the future introduction of a fee.

Administrative Costs

7. The administrative burden associated with any selected policy option will be an important consideration in the context of (i) the impact of additional administrative costs on the revenue benefits of the new arrangements; (ii) likely limitations on the employment of additional administrative staff in existing public sector bodies and the current policy position in relation to the creation of new State agencies; and (iii) the lead in time involved in putting in place any arrangements associated with the new administrative requirements.
8. Any extension of the current means testing regime, as required under Option 2 of Chapter 4 in particular, would involve issues in this regard, although ongoing developments in modernising the administration of student grants and initiatives under *‘Transforming Public Services’* may enable greater efficiencies and automation in the area of means testing in the future. Similarly, the available approaches for introducing a loans system (in conjunction with Option 3 of Chapter 4) involve significant considerations relating to the administrative burdens involved.
9. In addition to costs, the administrative complexity of any arrangement decided on will impact on the timeline for implementation, as illustrated in the consideration of the various loan system options outlined in chapter 5.

Role of Revenue Commissioners in collection of loan repayments

10. The involvement of the national tax collection agency has been identified as being a critical success factor for a number of income contingent student loan facility models that operate internationally. There are mixed experiences with a direct role for the national tax collection agency in administering repayments on behalf of the State/ lending agency internationally: the Australian model seems to work reasonably well but problems have arisen in, for example, New Zealand and United Kingdom. It is recognised, however, that there are significant operational pressures on the Revenue Commissioners in the current Irish context which would limit their capacity to take on a role of direct collection agent for an income contingent loan scheme. The Revenue Commissioners are strongly opposed to taking on such a primary role at this time but are very willing to provide secondary supporting roles. Possible secondary roles in providing income and employment data to a collection

agency and in providing a fall-back collection function have also been identified in this report. A secondary role, at a minimum, would be essential in achieving necessary administrative efficiencies for the operation of an income contingent collection system if that option were to be pursued.

Impact on GGB and GGD

11. In the current economic circumstances, it would be important that the introduction of a student loan facility would be designed to minimise any impact on the General Government Balance (GGB) or on General Government Debt (GGD). This informs consideration of the available implementation approaches to the introduction of such a facility on the basis of the summary of the GGB and GGD impacts of each of the policy options set out in chapter 5.

Tax relief

12. Tax relief at the standard rate is currently available on tuition fees paid in respect of students not eligible for ‘free fees’. The report of the Commission on Taxation later this year may make recommendations that impact on the current reliefs available in this regard. In the context of any introduction of a loan system, continuing tax relief for students who pay fees upfront would amount to a form of discount for upfront payment. From an equity perspective, this would need to be factored into any consideration of the appropriate rate of surcharge on those availing of a loan rather than paying upfront.
13. Also, under current arrangements, the Student Service Charge (up to €1,500 in 2009/10) does not attract tax relief as this is not a tuition fee. If this charge were to be re-classified as part of a new consolidated fee (incorporating the Services Charge and a tuition fee) the net Exchequer impact of continuing tax relief would need to be considered. Alternatively, as the Taxes Consolidation Act, 1997 allows the Minister to designate “qualifying fees”, it may be possible to exclude the first €1,500 from tax relief, in addition to the cap of €5,000 already in place.

Timeframe and revenue impact

14. The administrative complexity associated with the various policy options described in this document give rise to cost and other policy considerations (e.g. public service employment numbers) and also impact on the timeline for implementation. In this regard, the introduction of upfront fee arrangements in the absence of a loan facility can avoid much of the administrative complexity associated with the latter. Upfront fee arrangements also have the benefit of a direct upfront revenue yield as opposed to a deferred future income stream (based on future loan repayments).
15. These considerations need to be balanced against wider policy considerations of affordability, equity of access and possible participation rate impacts of the available options. In that regard, the availability of a loan facility offering free access at the point of entry and future repayments based on income is likely to involve lower barriers to entry to higher education.

Communications and Information Strategy

16. Any policy change in this area will impact on significant numbers of students or potential students. A number of the options being considered are complex in nature and would give rise to very significant demands for information and clarification. An information strategy will need to be in place to communicate the details of any changes and to provide user friendly access to relevant detail on how the changes impact on individuals. Managing the dissemination of timely and relevant information on a customer friendly basis will be resource intensive in the short-run.

Appendix 1:

**Extracts from Fees Listings
2008/2009**

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Coláiste na hOllscoile, Corcaigh
University College Cork

Fees Schedule 2008/2009

Undergraduate Programmes leading to a Primary Degree / Diploma

The State will pay the Tuition Fees (C) in 2008/2009 for students who satisfy the Free Fee criteria. The Registration / Capitation Fee (A) and (B) is payable by the Student. Tuition fees may be paid in two instalments by students not eligible for Free Tuition under the State's Free Tuition Fees scheme. (e.g. repeat students, previous degree holders) Unless stated all fees listed cover one academic year.

***Graduate Entry to Medicine is not covered under the Free Tuition Fees Scheme**

(A) Registration Fee euro	(B) Capitation Fee euro	(C) Tuition Fee euro	(D) Total Fee euro	(E) Two Instalments of euro
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College

Arts, Celtic Studies & Social Science

Arts, Social Science	900	145	4070	5,115	2,558
Arts (Music), Music	900	145	4725	5,770	2,885
Bachelor of Social Work	900	145	4695	5,740	2,870
BA Early Childhood Studies	900	145	4695	5,740	2,870
B Soc Sc Youth & Community Work	900	145	4695	5,740	2,870
B Ed Sport Studies	900	145	7000	8,045	4,023

Commerce & Law

Commerce	900	145	4235	5,280	2,640
BSc Government & Public Policy	900	145	4735	5,780	2,890
BSc Accounting, BSc in B.I.S. , BSc in Finance	900	145	5765	6,810	3,405
Law	900	145	4070	5,115	2,558

Science, Engineering & Food Science

BSc (Architecture)	900	145	5765	6,810	3,405
Engineering	900	145	5765	6,810	3,405
Science	900	145	5765	6,585	3,293
Food Science & Technology	900	145	5765	6,585	3,293
Food Business	900	145	5765	6,585	3,293

Medicine and Health

BSc (Occupational Therapy), BSc (Speech and Language Therapy)	900	145	5765	6,810	3,405
Medicine I; Dental I	900	145	5765	6,810	3,405
Medicine II & III	900	145	7150	8,195	4,098
Dentistry II & III	900	145	7930	8,975	4,488
Medicine (Subsequent Years)	900	145	7060	8,105	4,053
Dentistry (Subsequent Years)	900	145	7835	8,880	4,440
*Graduate Entry to Medicine			12780	12,780	6,390
BPharmacy	900	145	5840	6,885	3,443
BSc in Public Health & Health Promotion	900	145	5765	6,810	3,405
BSc in Nursing Degree(General, Psychiatric, Intellectual Disability, Integrated Children's/General Nursing, Midwifery)	900	145	5750	6,795	3,398
Dip. in Dental Hygiene	900	145	7200	8,245	4,123

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

University College Dublin

Provisional Fees List Session 2008/9

Undergraduate - Free tuition degree programmes

Students who qualify for 'free' fees pay only **€1,050**

Unless indicated all fees listed cover one academic year. Fees listed are inclusive of tuition and levies

DN Code	Major	EU Fees	Non EU
DN020	Actuarial & Financial Studies	5,176	14,850
DN010	Agricultural Science - Omnibus	6,870	20,000
DN044	Agri-Environmental Sciences	6,870	20,000
DN045	Animal & Crop Production	6,870	20,000
DN046	Animal Science	6,870	20,000
DN049	Animal Science - Equine	6,870	20,000
DN090	Archaeology & Geology	6,870	20,000
DN001	Architecture	6,870	20,000
DN012	Arts - Omnibus	5,176	14,850
DN056	Arts BA Liberal Arts	5,176	14,850
DN057, DN058, DN059	BA International	5,176	14,850
DN028	BCL/ Maitrise	5,176	14,850
DN039	Biochemistry & Molecular Biology	6,864	20,000
DN037	Biomedical, Health & Life Sciences	6,864	20,000
DN079	Bioprocess Engineering	6,864	20,000
DN076	Biosystems Engineering	6,864	20,000
DN013	Business (Chinese Studies)	5,176	14,850
DN021	Business and Law	5,176	14,850
DN071	Chemical Engineering	6,864	20,000
DN072	Civil Engineering	6,864	20,000
DN038	Climate & Earth System Science	6,864	20,000
DN015	Commerce	5,176	14,850
DN016, DN017, DN018, DN019	Commerce (International)	5,176	14,850
DN030 and DN050	Computer Science	6,864	20,000
DN051	Economics	5,176	14,850
DN062	Economics & Politics	5,176	14,850
DN026	Economics and Finance	5,176	14,850
DN073	Electronic Engineering or Electrical Engineering	6,870	20,000
DN077	Engineering - Omnibus	6,870	20,000
DN080	Engineering Science	6,870	20,000
DN047	Engineering Technology	6,870	20,000
DN055	English	5,176	14,850
DN043	Food & Agribusiness Management	6,870	20,000
DN040	Food Science	6,870	20,000
DN042	Forestry	6,870	20,000
DN515	Foundations of Buiness (Mature)	5,176	14,850
DN063	Geography, Planning and Environmental Policy	5,176	14,850
DN096	Health and Performance Science	6,870	20,000
DN052	History	5,176	14,850
DN061	History, Politics & International Relations	5,176	14,850
DN048	Horticulture, Landscape & Sportsturf Management	6,870	20,000
DN093	Human Nutrition	6,870	20,000
DN041	Landscape Architecture	6,870	20,000
DN009	Law	5,176	14,850
DN067	Law with Economics	5,176	14,850
DN029	Law with French Law	5,176	14,850
DN060	Law with History	5,176	14,850
DN066	Law with Philosophy	5,176	14,850
DN065	Law with Politics	5,176	14,850
DN032	Mathematical Science	6,870	20,000
DN074	Mechanical Engineering	6,870	20,000
DN035	Medicinal Chemistry & Chemical Biology	6,870	20,000
DN002 and DN002.1	Medicine	8,254	29,000
	Medicine - Graduate Entry 08	12,780	38,500
	Medicine- Special entry 06	11,050	n/a
DN118 and DN119	Midwifery	6,870	20,000
DN036	Neuroscience	6,870	20,000
DN116 and DN117	Nursing (Children's & General)	6,870	20,000
DN110 and DN111	Nursing (General)	6,870	20,000
DN120 and DN121	Nursing (Psychiatric)	6,870	20,000
DN034	Pharmacology	6,870	20,000
DN053	Philosophy	5,176	14,850
DN033	Physics with Astronomy & Space Science	6,870	20,000
DN006	Physiotherapy	8,254	29,000
DN054	Psychology	5,176	14,850
	Psychology - Stage 2	5,740	16,400
DN004	Radiography	8,254	29,000
DN008	Science - Omnibus	6,870	20,000
DN007	Social Science	5,176	14,850
DN024	Sports Management	6,870	20,000
DN078	Structural Engineering with Architecture	6,870	20,000
DN031	Theoretical Physics	6,870	20,000
DN005 and DN105	Veterinary Medicine	9,300	28,200

* Note: The following programmes and students are co-funded under the ESF and NDP:- BA/BSc Computer Science, BSc - additional students taking Chemical, Biological or Computer Science subjects, BEngSc - additional students taking Chemical Engineering.

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

Trinity College Dublin

UNDERGRADUATE DEGREE FEES 2008/2009

There is a conferring fee of €114 payable by all students when they apply for commencements

FT=Full Time PT=Part Time

COURSE TITLE	FT/ PT	TCD Internal Course Code	Annual EU Fee 2008/2009	Annual Non EU Fee 2008/2009
			€	€
One term lectures	PT	452	716	716
B. Ed Home Economics	FT	81	891	2,800
Human Nutrition ¹	FT	69	5,016	16,993
Therapeutic Radiography ¹	FT	410	7,771	29,000
Philosophy & Political Science ¹	FT	414	5,081	15,459
Psychology ¹	FT	12	5,081	15,459
Sociology & Social Policy ¹	FT	413	5,081	15,459
Theology ²	FT	52	5,081	15,459
Two Subject Moderatorship ¹	FT	82	5,081	15,459
Nursing Part-time (October)	PT	444	5,104	15,699
Bachelor Midwifery Studies	PT	448	5,104	15,699
B.Ed Year 4 ¹	FT	98	5,081	15,459
Business Economic and Social Studies ¹	FT	46	5,081	15,459
Business Studies & Language ¹	FT	405	5,081	15,459
Business Studies ¹	FT	80	5,081	15,459
Classics ¹	FT	5	5,081	15,459
Computer Science Linguistics & Language ¹	FT	57	5,081	15,459
Drama & Theatre Studies ¹	FT	27	5,081	15,459
Early & Modern Irish ¹	FT	31	5,081	15,459
English Studies ¹	FT	48	5,081	15,459
European Studies ¹	FT	53	5,081	15,459
Germanic Studies ¹	FT	49	5,081	15,459
Hebrew, Biblical & Theological Studies ¹	FT	23	5,081	15,459
History & Political Science ¹	FT	26	5,081	15,459
History ¹	FT	40	5,081	15,459
Honors course in Music ¹	FT	41	5,081	15,459
Honors Course in Law ¹	FT	51	5,081	15,459
Law & French (LL.B) ¹	FT	408	5,081	15,459
Law & German (LL.B) ¹	FT	409	5,081	15,459
Mental & Moral Science ¹	FT	6	5,081	15,459
Music Education B.Ed ¹	FT	55	5,081	15,459
Nursing - Access programme	PT	423	5,104	15,699
Business & Information Technology (Hons)	PT	419	5,780	20,629
Financial Information Systems	PT	401	5,779	20,629
Financial Information Systems (Transition Year)	PT	426	5,779	20,629
Pharmacy ¹	FT	16	6,732	19,020
Physics & Chemistry of Advanced Materials ¹	FT	440	6,732	20,256
Theoretical Physics ¹	FT	404	6,732	20,256
Nursing B.Sc ²	FT	446	6,652	17,994
Computer Science (Day) ¹	FT	19	6,732	20,256
Engineering ¹	FT	70	6,732	20,256
Management Science & Industry Systems Studies ¹	FT	18	6,732	20,256
Manufacturing Engineering With Management Science ¹	FT	439	6,732	20,256
Mathematics ¹	FT	89	6,732	20,256
Moderatorship in Computational Chemistry ¹	FT	428	6,732	20,256
Moderatorship in Computational Physics ¹	FT	429	6,732	20,256
Moderatorship in Medicinal Chemistry ¹	FT	436	6,732	20,256
Moderatorship in Natural Sciences (Human Genetics) ¹	FT	420	6,732	20,256
Moderatorship Information & Communications Technology ¹	FT	430	6,732	20,256
Natural Science ¹	FT	15	6,732	20,256
Computer Science (Honours)	PT	412	6,725	20,256
Occupational Therapy ¹	FT	54	7,771	29,000
Physiotherapy ¹	FT	17	7,771	29,000
Social Studies ¹	FT	85	7,771	20,256
Radiation Therapy	FT	451	7,771	29,000
One year (Arts) ¹	FT	434	5,081	15,459
One year (Science) ¹	FT	435	6,732	20,256
Chemistry with Molecular Modelling	FT	456	6,732	20,256
Children's and General Nursing	FT	457	6,652	17,995
Midwifery	FT	458	6,652	17,995
Dental Technology	FT	459	4,173	12,606
One Term	PT	93	1,928	6,292
Information Systems (Honours)	PT	454	5,779	20,629
Theatre Studies ¹	FT	415	8,086	17,340
Clinical Speech & Language Studies ¹	FT	37	7,771	29,000
Dental Science ¹	FT	67	8,739	29,000
Acting Studies ¹	FT	443	8,086	17,340
Medicine ¹	FT	066/455	7,771	29,000
Religions and Theology ¹	FT	462	5,081	15,460
Irish Studies ¹	FT	463	5,081	15,460
Engineering with Management ¹	FT	464	6,732	20,256
Philosophy, Political Science, Economics & Sociology ¹	FT	470	5,081	15,459
Philosophy ¹	FT	472	5,081	15,459

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

Dublin City University
Undergraduate Degree Fees 2008/2009

Programme	Tuition Fee	Registration Fee	EU Fee Status	Non EU Fee
DC111 - Bachelor of Business Studies DC112 - B.A. in European Business (French) DC113 - B.A. in European Business (German) DC114 - B.A. in European Business (Spanish) DC115 - B.A. in Accounting & Finance DC116 - B.A. In European Business (Transatlantic Studies)	4379	938	5317	10,653
DC125 - B.Sc. in Mathematical Sciences DC126 - B.Sc. in Actuarial Mathematics DC127 - Common Entry into Actuarial, Financial and Mathematical Sciences DC146 - B.A. in International Business & Languages (French/German) DC147 - B.A. in International Business & Languages (French/Spanish) DC148 - B.A. in International Business & Languages (German/Spanish) DC149 - B.A. in International Business & Languages (Japanese) DC155 - B.A. in Applied Language and Intercultural Studies (Common Entry) DC156 - B.A. in Languages for International Communication (English Studies) DC236 - B.Sc. in Quantitative Finance DC240 - B.Sc. in Marketing, Innovation and Technology	4707	938	5645	11,243
DC118 - B.A. Gnó & Gaeilge (Business and Irish, Irish Medium) DC120 - B.Sc. in Enterprise Computing DC121 - B.Sc. in Computer Applications DC131 - B.A. in Communication Studies DC132 - B.A. in Journalism DC133 - B.Sc in Multimedia DC161 - B.Sc. in Analytical Science DC162 - B.Sc in Chemical & Pharmaceutical Sciences DC165 - B.Sc. in Science International DC166 - B.Sc. in Environmental Science and Health DC167 - B.Sc. in Physics with Astronomy DC168 - B.Sc. In Genetics & Cell Biology DC171 - B.Sc. in Applied Physics DC173 - B.Sc. in Physics with Biomedical Sciences DC181 - B.Sc. in Biotechnology DC191 - B.Eng. in Electronic Engineering DC192 - B.Eng. in Information and Communications Engineering DC193 - B.Eng. in Mechatronic Engineering DC194 - B. Eng/M.Eng in Electronic Systems (European) DC195 - B.Eng. Mechanical & Manufacturing Engineering DC196 - B.Eng. Manufacturing Engineering with Business Studies DC197 - B.Eng. in Biomedical Engineering DC198 - Common Entry in Engineering (Mechanical and Manufacturing) DC199 - B.Eng. in Digital Media Engineering DC200 - Common Entry to Engineering (Electronic) (Undemoniated Entry) DC201 - Common Entry into Science DC202 - B.Sc in Sport Science & Health DC203 - B.Sc. in Science Education DC230 - B.A. in Economics, Politics & Law DC231 - B.A. in International Relations DC235 - B.Sc. in Education & Training DC238 - B.A. in Contemporary Culture and Society DC239 - B.A. Gaeilge agus Iriseoireacht (Irish and Journalism, Irish Medium) Open Opportunities in Engineering Course Open opportunities in Engineering Course (Extended)	5136	938	6074	12,014
DC205 - B.Sc. in Physical Education and Biology DC215 - B.Sc. in Nursing (General) DC216 - B.Sc. In Nursing (Psychiatric) DC217 - B.sc. in Nursing (Intellectual Disability) DC218 - B.Sc. in Children's and General (Integrated) Nursing DC204 - BSc. In Athletic Therapy and Training	5752	938	6690	13,127
	6872	938	7810	15,145

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

Overview of recent expenditure under the free fees initiative in the university sector

Aggregate details of expenditure under the Free Fees Initiative, 2002/03 to 2007/08

	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08	
	Fees Claim	Students	Fees Claim	Students	Fees Claim	Students	Fees Claim	Students	Fees Claim	Students	Fees Claim	Students
UCD	€8,843,684	11,273	€1,977,048	11,283	€4,437,313	11,191	€7,119,718	11,046	€0,082,559	11,058	€1,965,319	10,774
UCC	€0,037,179	8,645	€2,653,985	8,869	€5,687,485	9,049	€8,873,389	9,223	€2,547,044	9,406	€6,026,516	9,506
NUIG	€25,547,623	7,492	€7,569,708	7,626	€0,287,860	7,776	€2,063,760	7,765	€3,776,661	7,608	€5,464,439	7,511
NUIM	€1,455,130	3,589	€2,690,682	3,743	€4,292,350	3,814	€6,796,025	4,051	€1,771,070	4,011	€0,252,585	4,341
TCD	€7,288,541	7,603	€8,967,846	7,542	€0,629,490	7,448	€2,243,618	7,364	€4,076,109	7,276	€6,026,300	7,236
UL	€2,051,978	6,305	€3,119,000	6,246	€3,794,508	6,061	€6,332,614	6,254	€8,476,584	6,359	€0,947,621	6,476
DCU	€4,930,116	4,363	€5,416,165	4,250	€5,935,749	4,085	€6,471,943	3,960	€8,222,720	4,040	€9,885,437	4,139
	€170,154,251	49,270	€182,394,434	49,559	€195,064,755	49,424	€209,901,067	49,663	€224,894,747	49,758	€240,568,217	49,983

	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08	
	Fee Per Student		Fee Per Student	Increase	Fee Per Student	Increase	Fee Per Student	Increase	Fee Per Student	Increase	Fee Per Student	Increase
UCD	€446		€720	8.0%	€971	6.7%	€1,266	7.4%	€1,529	6.2%	€1,823	6.5%
UCC	€475		€682	6.0%	€944	7.1%	€1,215	6.9%	€1,523	7.3%	€1,842	7.0%
NUIG	€410		€615	6.0%	€895	7.7%	€1,129	6.0%	€1,440	7.5%	€1,722	6.4%
NUIM	€192		€391	6.2%	€747	10.5%	€1,146	10.6%	€1,416	6.5%	€1,665	5.6%
TCD	€589		€841	7.0%	€1,112	7.1%	€1,379	6.5%	€1,683	7.0%	€1,979	6.3%
UL	€498		€701	5.8%	€926	6.1%	€1,211	7.3%	€1,478	6.4%	€1,779	6.7%
DCU	€422		€627	6.0%	€901	7.5%	€1,160	6.6%	€1,511	8.4%	€1,804	6.5%
	€433		€654	6.4%	€928	7.5%	€1,215	7.3%	€1,511	7.0%	€1,802	6.4%

2008/09 Fee levels in the Institute of Technology Sector

**Extract from letter circulated by HEA to all Presidents,
Institutes of Technology in August 2008**

**Tuition Fees and Charge to defray the costs of Registration, Examinations and
Student Services 2008/2009**

As previously advised an increase of up to 2.6% has been agreed in the level of undergraduate tuition fees for the academic year 2008/2009 over those applying in 2007/08. The charge for registration, examinations and students services will increase to €900.

The cost of the increase in tuition fees will be met by the Higher Education Authority only in respect of eligible students pursuing approved courses at the Institute.

The recurrent grant split of the Student Services Charge is to rise from €30 to €95 for the academic year 2008/09. The institute's recurrent grant remains as notified in the letter dated 13th August 2008.

In line with the above, the following rates will apply in the technological sector for the 2008/09 academic year.

➤ Higher Certificate (Level 6)	€1,368
➤ Ordinary Degree (Level 7)	€1,454
➤ Pre-Registration Nursing Degree	€5,752
➤ Architecture or Engineering Degree (other than Ordinary Degrees)	€2,950
➤ Honours Degree (Level 8)	€2,319
➤ Charge to defray the costs of Registration, Examinations and Student Services	€900

Part-time course fees should be adjusted on at least a pro-rata basis.

Appendix 2: Current Student Support Schemes

Maintenance Grants

The Department funds four maintenance grant schemes for students proposing to attend further and higher education: three for third level education and one for post leaving certificate education: -

1. The Higher Education Grant Scheme
2. Vocational Education Committees' Scholarship Scheme
3. Third Level Maintenance Grants Scheme for Trainees
4. Maintenance Grants Scheme for Students attending post-leaving certificate courses

The main conditions to be eligible for a grant

Students who are entering approved courses for the first time are eligible for grants where they satisfy the relevant conditions, mainly: -

- ✓ residence;
- ✓ means;
- ✓ nationality;
- ✓ age;
- ✓ Previous academic attainment.

Are grants available for tuition fees?

Under the Department's Free Fees Initiative the Exchequer meets the tuition fees of eligible students who are attending approved full-time undergraduate courses in the State. The Free Fees Initiative does not extend to postgraduate study.

If a candidate qualifies for the means-tested maintenance grant he/she could have their tuition fees paid up to a maximum fee limit - for the 2008/09 academic year that limit was €6,270.

Are there grants available for the Student Services Charge?

Where a candidate qualifies for a maintenance grant, and is pursuing an undergraduate course, the Local Authority or VEC may award the candidate a grant in respect of the Student Services Charge. This grant - of up to €900 in 2008/09 - is paid directly to the college or institution by the Local Authority or VEC.

Special Rates of Maintenance Grant

The report of the Action Group on Access to Third Level Education made detailed recommendations concerning the introduction of special rates of maintenance grants for disadvantaged students.

The target group of "those most in need" was defined in terms of the dependants of people receiving long-term welfare payments, where the necessary conditions are fulfilled.

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

To qualify for the Special Rate of maintenance grant, an applicant must qualify for the ordinary maintenance grant in respect of the relevant academic year. In addition, total reckonable income must not exceed a specified amount. Finally, on the operative date, the reckonable income must include one of the eligible long-term Social Welfare payments prescribed under the scheme.

INCOME LIMITS

Reckonable Income Limits for the purposes of the Standard Rate of Maintenance Grant for the 2008/09 academic year:

No. of Dependent Children	Full Maintenance and Full Fees	Part Maintenance (75%) and Full Fees	Part Maintenance (50%) and Full Fees	Part Maintenance (25%) and Full Fees	Part Tuition Fees (50%) only*
Less than 4	€39,760	€42,235	€44,720	€47,205	€49,690
4-7	€43,680	€46,415	€49,145	€51,880	€54,605
8 or more	€47,430	€50,400	€53,360	€56,320	€59,280

*Full Student Service Charge is paid where income is at or below this level.

+In the 2008/09 academic year, where 2 or more children (or the candidate's parent) are pursuing approved courses of study, the reckonable income limits may be increased by €4,815 where there are 2 such children, €9,630 where there are 3 such children and so on, by increments of €4,815.

Reckonable Income Limits for the purposes of the Special Rate of Maintenance Grant for the 2008/09 academic year: €20,147

+The candidate's reckonable income must include one of the qualifying social welfare payments listed in the schemes.

RATES OF GRANT

Standard Rates of Maintenance Grant applicable for 2008:

	Non-Adjacent Rate	Adjacent Rate
Full Maintenance	€3,420	€1,370
Part Maintenance (75%)	€2,565	€1,030
Part Maintenance (50%)	€1,710	€685
Part Maintenance (25%)	€855	€345

Special Rate of Maintenance Grant applicable for 2008:

	Non-Adjacent Rate	Adjacent Rate
Full Special Rate	€6,690	€2,680
Of which top-up represents	€3,270	€1,310

+The adjacent rate of maintenance grant applies to a grantholder whose normal residence is 24 kilometres or less from the college which s/he is attending. The non-adjacent rate of maintenance grant is payable in all other cases, including in the case of all mature candidates who qualify, having been assessed either as a dependent or independent mature candidate.

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List of eligible payments for the special rate of maintenance grant are as follows:-

1. SOCIAL ASSISTANCE PAYMENTS

New Name	Old Name
Blind Person's Pension	
Carer's Allowance	
One Parent Family Payment	Deserted Wife's Allowance Lone Parent's Allowance Prisoner Wife's allowance
Disability Allowance	
Farm Assist	
Jobseeker's Allowance (where held for 391 days or more)	Unemployment Assistance
State Pension (Non-Contributory)	Old Age (Non-Contributory) Pension
Guardian's Payment (Non-Contributory)	Orphans (Non-Contributory) pension
Pre-retirement allowance	
Widow's/Widower's (Non-Contributory) Pension	

2. SOCIAL INSURANCE PAYMENTS

New Name	Old Name
Carer's Benefit	
One Parent Family Payment	Deserted Wife's Benefit
Invalidity pension	
Incapacity Supplement	Unemployability Supplement
Occupational Injuries Death Benefit (Orphan's pension)	
Occupational Injuries Death Benefit (pension for a widow or widower)	
State Pension (Contributory)	Old Age Contributory Pension
Guardian's Payment (Contributory)	Orphan's (Contributory) Allowance
Jobseeker's Benefit (continuous for at least 12 months)	Unemployment Benefit
Widow's/Widower's (Contributory) Pension	
State Pension (Transition)	Retirement Pension

3. FAMILY INCOME SUPPLEMENT (FIS)

4. DESIGNATED PROGRAMMES

Back to Education Allowance (Second Level and Third Level Option)
Back to Work Allowance (Employees)
Back to Work Enterprise Allowance
Community Employment Scheme
Rural Social Scheme
FÁS Training Programmes, including Apprenticeships
Part time job incentive scheme
Vocational Training Opportunities Scheme (VTOS)

5. OTHERS

- a) In receipt of payments under the Fáilte Ireland Skills Programme equivalent to a social welfare payment;
- b) In receipt of payments under the FIT (Fastrack to IT) initiative equivalent to a social welfare payment;
- c) Participants on a training course approved by a Government Department, State Agency or Area Partnership and who were in receipt of an eligible payment prior to progressing to the programme;
- d) Grant aided employees in social economy enterprises;
- e) In receipt of payments under the Senior Traveller Training Centre programmes.

Other Supports

Programmes Funded by the ESF Third-Level Access Fund:

i) The Student Assistance Fund

The objective of the Fund, which was established in 1994, is to assist students in a sensitive and compassionate manner who might otherwise, because of financial reasons, suffer severe hardship or be unable to continue their third-level studies.

The Fund is devolved to the third level institutions. The allocation to the approved Third Level Institutions is made by the National Office in two instalments. The allocations are based on the total full-time enrolments in the previous academic year. A gross allocation of €6.219m was approved for the fund in 2007/2008.

All registered undergraduate and postgraduate students who are attending approved third level courses in the relevant third level institutions are eligible to apply for assistance from the Fund.

ii) Millennium Partnership Fund for Disadvantage

The Millennium Partnership Fund for Disadvantage was introduced with effect from 2001. The Fund provides assistance to Partnership Companies and Community Groups to develop their support schemes for students from disadvantaged families. An allocation of €70,000 was provided for the Millennium Partnership Fund for 2007/2008. 56 community and area partnerships benefited from this allocation. Pobal has continued to administer the Fund on behalf of the National Access Office.

CONFIDENTIAL DRAFT – FOR GOVERNMENT CONSIDERATION

Following careful consideration a decision has been made to re-orientate the Millennium Partnership Fund on the basis that it represents the most efficient and strategic use of the resources available. Currently, the Department, the National Office for Equity of Access (HEA) and Pobal are in discussions with the various stakeholders, including local area partnerships and other relevant government agencies on the best way forward in this regard.

iii) Special Fund for Students with Disabilities

This Fund assists third-level students who have special needs. Grants are provided for the purchase of special equipment, special materials, technological aids, targeted transport services and sign language assistance/interpreters. There are standard amounts payable from the fund for specific services. The provision for the Fund amounted to €9.332m in 2007/2008 with 3,099 the number of beneficiaries who were approved for funding.

Tax Relief

The Revenue Commissioners provide tax relief, at the standard rate of tax, for tuition fees paid in respect of approved courses at approved colleges of higher education including certain approved undergraduate and postgraduate courses in E.U. Member States and postgraduate courses in non EU countries.

Tax relief at undergraduate level extends to approved full/part-time courses in both private and publicly funded third level colleges in the State and any other EU Member State and approved full/part-time courses operated by Colleges in any EU Member State providing distance education in the State.

Tax Relief on tuition fees is claimed directly from the Tax Office using an I.T. 31 Form. Details of approved colleges and courses are also available on Revenue's Internet site at www.revenue.ie.

Approved undergraduate courses must be of at least two years duration, and both the college and the course must satisfy the Codes of Standards as laid down by the Minister for Education and Science with the consent of the Minister for Finance.

In 2005 (latest available figures) the estimated cost to the Exchequer of Third Level Fees tax relief was €14.3m with an estimated 29,900 claimant cases.

Back to Education Allowance

The Department of Social and Family Affairs operates the Back to Education Allowance Scheme which allows people in receipt of certain social welfare payments to retain those payments whilst participating in approved full-time courses in further and higher education.

Criteria of the Free Fees Schemes

There are two free fees schemes in operation – (1) Third Level Trainee Scheme and (2) the Free Fees Initiative.

The Third Level Trainee Scheme was in existence prior to the Free Fees Initiative and was funded through the European Social Fund. It originally covered National Certificate and National Diploma courses which are now categorised as Level 6 and Level 7 courses. Funding from the European Social Fund for this scheme ceased in 1999 and since then full funding costs have been met by the Exchequer.

The main eligibility criteria are that students must:-

- a. Not hold a Degree qualification, be studying for a degree or have completed more than the first year of a degree level course, and
- b. Hold EU/EEA/Swiss nationality or
- c. Be Non EU Nationals, who, (a), have been granted official refugee status or (b), have been granted humanitarian leave to remain in the State.

Under the terms of the Free Fees Initiative the Exchequer meets the tuition fees of eligible students who are pursuing full-time undergraduate courses of study which are a minimum of two years duration in an approved institution. The main eligibility criteria are that students must:-

- a) Be first-time undergraduates; and
- b) Hold EU/EEA/Swiss nationality, and
- c) Have been ordinarily resident in an EU/EEA/Swiss state for at least three of the five years preceding their entry to an approved third level course.

Students with official refugee status in the State, and their family members who have three years residency in the State (from official date of lodgement of application for refugee status) may also be considered for 'free fees' once the student meets the other criteria of the Free Fees Initiative.

The residency requirement applies to all EU nationals, including Irish nationals in accordance with the judgement of the European Court of Justice that access to vocational training must apply equally to all EU nationals.

Third level institutions are autonomous bodies and, as such, may determine the level of fees to be charged in any case where the Free Fees Initiative does not apply.

Both 'free fees' schemes are funded under the National Development Plan.

Appendix 3: Description of Selected International Models

Many countries now have a form of student contribution that involves student support facilities in the form of student loan or grant elements. However the actual mechanics of the models in place vary. Some generic models, are described below which, while similar in some aspects, have different components.

1.0 Australia³⁴

The Australian system is made up of a student contribution. This contribution can be paid for by taking out a student loan under the Higher Education Loan Programme (HELP) which is repayable once the graduate commences work and their salary reaches a certain level. A key equity feature of HELP is that payment arrangements are based on an individual's capacity to pay. This ensures that students are not prevented from participating in higher education by an inability to pay their tuition costs upfront. Students who access a HELP loan are not required to make repayments until their repayment income in a financial year reaches the minimum threshold. The level of repayment required above the threshold depends on the graduates income

A means tested grant is also available to students.

1.1 Student Contribution:

The Government funds a set number of Commonwealth Supported Places (CSP) each year. Students on CSP courses are required to pay a part of the cost of tuition, called the "student contribution", while the Commonwealth pays the balance (the student contribution depends on the course studied and range from \$4,077 for Nursing to \$8,499 in 2008 for Law, Dentistry, Medicine etc.)

Higher education providers may offer places to undergraduate students above the number of CSP places. Such students are known as domestic students and are charged fees by their institution. Providers may determine their own tuition fees for domestic fee-paying students. Such fee-paying students must be charged an amount equal to, or more than, the student contribution amount charged under CSP. All fee paying students (non CSP undergraduates and all postgraduate) can avail of a FEE-HELP loan from the Government.

1.2 Financial Assistance:

1.2.1 Student Contribution Loan

CSP students (which are the majority of students) are eligible for a loan called a HECS-HELP loan. Where a student takes out a HECS-HELP loan, the

³⁴ Source: Department of Education, Employment and Workplace Relations website Australia

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Government pays the student contribution amount on the student's behalf and the student becomes liable to repay a loan to the Government

A CSP student has three options with regards to the payment of their student contribution:

- pay up-front and receive a 20% discount
- defer payment of student contribution and pay it later through the Australian Tax Office once their yearly wage reaches a government determined level
- make a partial up-front payment of \$500 or more and receive a 20% discount.

There is no loan fee charged on HECS-HELP loans however the loan is indexed linked to CPI each year.

A Domestic fee paying student can:

- pay the full tuition fee up front
- receive a FEE-HELP loan for the full tuition fee
- pay some of the tuition fee up front and receive a FEE-HELP loan for the balance of the tuition fee.

A loan fee of 20% applies to FEE-HELP loans for undergraduate courses of study. No loan fee applies to FEE-HELP loans for postgraduate courses.

There is no means test relating to either the student contribution or loans.

1.2.2 Grant

A Youth Allowance (YA) is a means-tested grant for students under 25.

The YA seeks to:

- ensure eligible young people receive income while studying, looking for, or preparing for, paid employment;
- encourage young people to choose further education or training over job search if they do not have sufficient skills to obtain long-term employment; and
- encourage young people to undertake a range of activities that will promote entry into employment.

A parental means test applies unless the young person is assessed as independent, or the parent receives income support or a payment under the exception circumstances provisions of the Farm Household Support Act 1992. The parental means test has three parts: parental income, family assets and family actual means tests (FAMT).

Maximum YA is paid if combined parental income is under \$28,150 per annum. This threshold increases by between \$1,230 and \$7,585 for other

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dependent children in the family, depending on ages and circumstances. Payments reduce by 25 cents in the dollar for parental income above the threshold.

The maximum fortnightly YA amounts (in 2008) were as follows:

under 18 years and living at home	\$194.50
under 18 years and not living at home	\$355.40
18 years and over and living at home	\$233.90
18 years and over and not living at home	\$355.40
single with children	\$465.60
partnered with no children	\$355.40
partnered with children	\$390.20

1.3 Repayment of loans

Once a student takes out a HELP loan a HELP debt is recorded for the student with the Tax Office. The student must then repay the HELP debt by making:

- compulsory repayments, when working, through the tax system when their HELP repayment income is above the minimum repayment threshold; and / or
- voluntary repayments directly to the Tax Office.

Each student must complete a form by a certain date which is a legal document which sets out the payment requirements for the student. There is a legal obligation on the student for the repayment of the loan debt. Where students commence work overseas after their study they arrange to repay their debt via EFT or can receive booklet of official HELP loan lodgement slips for repayment of their debt.

All debts accrued under HELP are indexed to the Consumer Price index (CPI).

1.3.1 Compulsory repayments

Compulsory repayments are made when the former student commences work and lodges their tax return and the HELP repayment income is above the minimum threshold (\$41,595 in 2008/09).

The compulsory repayment amount depends on the HELP repayment income for each income year e.g. for 2008/09 a person earning less than \$41,595 is not obliged to repay any of their loan. A person earning between \$41,595 - €46,333 must repay 4% which rises to 8% for those earning over \$77,248.

1.3.2 Voluntary repayments

Students can make voluntary repayments towards their HELP loan directly to the Tax Office. If this repayment is \$500 or more, the student receives a bonus of 10% of the repayment they make.

These repayments:

- are made in addition to the students compulsory repayments
- help to reduce the students HELP debt immediately

2.0 England, Wales & Northern Ireland³⁵

Variable tuition fees (up to a Government determined limit) are charged. Two types of student loans are available - a student loan to cover the cost of tuition fees (**tuition fee loan**) which is available to all students; and a loan to help towards accommodation and other living costs (**maintenance loan**) which is part means tested. Loans are repayable through the taxation system, via employer notification once the graduate commences work and their income reaches Government determined limit. Maintenance grants are also available.

In Scotland, tuition fees were abolished for Scottish students in 2000. Since 2001, such undergraduate students have been required to pay a single endowment charge after graduation, (£2,216 in 2005/06).

2.1 Student Contribution:

Universities and colleges of higher education in Northern Ireland, Wales and England can now charge variable tuition fees up to £3,145 (2008/09) a year for courses for new students.

2.2 Financial Assistance:

2.2.1 Student Loans

In September 1998, a new student loan scheme was introduced. Students entering higher education since this date have been able to take out income-

³⁵ Source: Direct.gov.uk

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contingent loans repayable through the tax system. Student loans are administered by the Student Loans Company (SLC).

The loans to meet the new fees will be repaid on graduation at a rate dependent on the earnings of individual graduates. The starting point for repayments are graduate earnings of £15,000 per year. The interest on loans is linked to the rate of inflation.

The Student Loans Company, administers government-funded loans and grants to students throughout the United Kingdom. The Company is responsible, in partnership with Local Authorities in England and Wales, the Student Awards Agency for Scotland, the Education and Library boards in Northern Ireland, the Higher Education Institutions and HM Revenue & Customs, for student support delivery in the UK.

The primary roles of the Company are to:

- Deliver financial support to eligible students pursuing higher education;
- Pay to Higher Education Institutions the public contribution towards tuition fees for England, Wales and Northern Ireland;
- Supply information needed by HM Revenue & Customs (HMRC) to ensure repayments are collected on time from all those due to repay under the Income Contingent Repayment Loan Scheme;
- Manage the direct collection of repayments for loans granted under the former Mortgage Style Loan Scheme.

The Company also undertakes specific tasks such as payment of Education Maintenance Allowances and also administer and pay bursaries and scholarships to higher education institutions.

Interest is charged on student loans from the moment they are paid until they are repaid in full. The interest rate for loans applies from 1 September to 31 August each year. The rate is linked to the rate of inflation in line with the Retail Prices Index: this means that in real terms the amount repaid will broadly have the same value as the amount borrowed and no profit is made on the loan itself. The interest rate is currently 3.8%.

There are two types of loans available to students -

- A Student Loan to cover the cost of tuition fees (**tuition fee loan**).
This loan is available to all students and is dependant on the cost of tuition fee payable for the course (maximum £3,145 in 08/09)
- A Student Loan to help towards accommodation and other living costs (**maintenance loan**).
This loan is part means tested. A student can take out around 75 per cent of the maximum Student Loan for Maintenance regardless of household income - this is called the 'non income assessed' part of the loan. The eligibility for obtaining the remaining 25 per cent - the 'income assessed' part of the loan – is dependant on the student's household income.

2.3 Repayment of Loans

The Government's policy is that loans should be available to students on favourable conditions, which require borrowers to repay, in real terms, broadly the same amount as that borrowed. Thus interest rates are indexed to inflation rates and adjusted each year in line with the Retail Price Index. Students are not required to repay the amount until they have graduated and are earning over £15,000 a year. Payments are made at the rate of nine per cent of income above the £15,000 threshold, collected through the tax system

In 2006 the Government announced plans to ensure that student loans are repaid by borrowers who move abroad after completing their courses. All students have to enter into a contract with the Student Loans Company (SLC) on entering university, which commits them to repaying the loans on completion of their courses. The contract also allows the Student Loans Company to enforce collection of the loans.

Loans are income contingent i.e. repayments are due on gross income in excess of £15,000 per annum at the rate of 9% of any income earned in excess of that amount in a year.

Loans are repaid in one of three ways:

- **PAYE (Pay As You Earn):** if the graduate is employed, student loan deductions are made automatically from their salary. The Employer must calculate the amount to be deducted. Each year the Revenue Office sends a pack to employers explaining how loan calculations should be calculated and deducted. At year end the employer informs the Revenue Office how much has been repaid, this information is then forwarded to the Loans Company.
- **Self Assessment:** if the graduate is self-employed, or a combination of employed and self-employed, they are responsible for calculating and making their own repayments. The former student is required to complete a tax return informing the Revenue Office of their profits and expenses. Revenue then calculates tax, national insurance and student loan repayments for the year. Repayments must then be made after the end of the tax year.
- **Overseas:** if the graduate is planning to work abroad, they are required to make a repayment arrangement with the Student Loans Company. If they do not inform the Student Loans Company of their circumstances, they may be subject to penalties.

3.0 Germany³⁶

Until 2005, no fees were charged for German higher education institutions for first degree courses. Since 2005 the Länder (State governments) may, at their own discretion, impose study fees on students. The study fees must be applied to the improvement of the quality of lectures and study courses and/or to the improvement of study conditions. Additionally, all students have to pay a minor contribution towards administrative fees and for the use of the institution's social facilities. Financial assistance is available in a combination of a means tested interest free State loan and a non-repayable grant.

Financial Assistance (Student loans & grants)

Simultaneous to the introduction of fees in 2005, loan systems were developed which provide for the legal entitlement to a student loan and the income-related repayment of the loan after completion of the study course.

The eligibility for student loans is usually dependent on parent income, as parents are required by law to fund their children's education (including higher education).

Half of the amount is provided over the maximum period for which assistance is payable as a **non-repayable grant**, while the other half takes the form of an **interest free State loan**. Repayment terms for this State loan depend on social considerations and income.

The current maximum amount per month (for a university student) is €643 (September 2008). This can be reduced gradually if student or parent income or student assets exceed certain amounts. Based on calculations loans as low as €1 per month are offered (and are taken up by students, as being in receipt of a loan allows for other benefits such as waiving of TV license fees)

Generally, loans are independent from student achievement or grades at least for two years. After that, a certain minimum grade level has to be met and proof of participation is required. Change of field of study is allowed once during the first two years without becoming ineligible. For university studies, every field of study has a predefined maximum study duration (usually around five years), after which the student becomes ineligible for State loan. Further funds can be granted as low-interest loan for another two years if certain criteria (like reasonable likelihood that the student will graduate during that time) are met.

³⁶Source: Eurydice – The Education System in Germany 2006/07

In some cases, e.g. if the student has worked full time for a number of years before returning to student status, State loan eligibility is calculated independently from parent income, because parents' obligation to fund their children's education ends once children enter the workforce on a full-time basis. In those cases, only student income and assets are consulted for purposes of State loan eligibility and limit of loan allowed.

4.0 The Netherlands³⁷

Students in higher education pay tuition fees to the institution. As long as they are under 30 years old, they are charged the statutory rate for tuition fees. The annual statutory tuition fee for all full-time courses during the 2006/2007 academic year was €1,519. The level of the statutory fees is fixed by law and is adjusted every year in line with the family spending index. Students aged 30 or over have to pay fees at a separate rate, the level of which is set by the institution itself and can therefore vary from one institution to another.

Under the Student Finance Act 2000, students who are under the age of 34 and who commenced their studies before the age of 30 and are enrolled on an accredited full-time course in higher education are entitled to financial assistance. Under the current system, financial assistance consists of an allowance towards expenses such as living costs, books and study materials, tuition fees and travel. Grants are intended as a means of keeping higher education broadly accessible and are paid monthly.

Financial assistance may include a basic grant, a supplementary grant and an interest-bearing loan. Students in higher education receive a performance-related grant. The basic grant and supplementary grant are initially paid out in the form of a loan. Students receive financial assistance for the duration of their course and a loan period of 36 months after the course ends. Provided the student graduates within ten years, the loan is converted into a non-repayable grant. The performance-related grant can be supplemented by an additional loan.

The performance-related grant is a loan and becomes non-repayable when the student obtains a master's degree. Students who do not wish to pursue master's degree studies may opt to have the loan made non-repayable after obtaining their bachelor's degree. This ends their entitlement to financial support for master's degree studies. Graduates who have not used up their full entitlement to financial assistance may use it later on in their careers for post-initial studies.

4.1 Loans and Grants

The basic grant is non-income-related. The size of the grant depends on the type of education (higher education or vocational training) and on whether or not the student is living away from home. Depending on their parents' income,

³⁷ Source: Eurydice – The Education System in the Netherlands 2006/07

students may be able to claim a supplementary grant in addition to the basic grant. The interest-bearing loan that students may take out is subject to a ceiling and is not related to parental income. Students with children and/or a partner may qualify for a single parent allowance or an allowance for their partner.

4.2 Categories of students and grants

There are different categories of students eligible for different types of grants as follows:

- **Students who enrolled before 1 September 1996 and receive a progress-related grant.** Students have to obtain a minimum number of credits each academic year, namely 50% of the standard study load for that year. If they fail to do so, their grant for that year will be converted into an interest-bearing loan. If, however, during the full duration of the course plus one year, they succeed in obtaining the full number of credits for the whole course, this step can be reversed.

There is also a limit to the length of time for which a student can claim financial assistance in higher education. The maximum period for assistance in the form of a non-repayable grant is equivalent to the official course duration plus one year's grace. After this period, students are entitled to a maximum of two years' assistance in the form of an interest-bearing loan, provided they have not exceeded the maximum period of enrolment.

- **Students who enrolled after 1 September 1996 and receive a performance-related grant.** A new type of grant, known as a performance-related grant, was introduced on 1 September 1996 for students entering higher education in that or subsequent years. Most higher education courses last 48 months. During this time all students are entitled to a non means-tested basic grant and possibly a supplementary grant which is dependent on income. Students who need longer to complete their studies can apply for an interest-bearing loan for a further 36 months.

The basic grant and supplementary grant are paid out in the form of a performance-related grant. This works on the principle of "loan then grant". The amount of the basic grant and supplementary grant are initially received as a loan. The student must obtain a degree within ten years of starting his or her studies for the loan to be converted into a non-repayable grant. Up to 1 September 2004, it had been possible to permanently convert the loan received in the first year into a grant even if the ten-year time limit for obtaining a degree was not met. The travel allowance is also performance-related for students in higher education who first received financial aid on or after 1 September 1999. The age limit for student finance is 30. After the age of 30, students are only entitled to a loan, for no more than four years.

- EEA students studying in the Netherlands and following an accredited course, are entitled to financial assistance under the Student Finance Act 2000. They qualify for an allowance equivalent to the basic grant for

students living at home. The allowance is paid in the form of a non-repayable grant.

5.0 Sweden

5.1 Fees

The Swedish tuition fee system provides for free tuition fees. Student finance is the student's contribution to cover living expenses and the cost of study material. The student finance is paid through a grant and loans system.

All students under the age of fifty-four can apply for student finance for a maximum of 240 weeks. The student loan must be repaid on a monthly basis before the loan recipient reaches the age of sixty. The size of the monthly payment is determined by the size of the debt and the interest rate. The amount is also adjusted to the recipient's income and ability to pay.

Students must pay a registration fee to the student union.

5.2 Financial Support for Students³⁸

Students who have been accepted by a higher education institution and fulfil certain basic criteria have a right to study assistance if they study at least half time. The study assistance consists of two parts, **a grant and a repayable loan**. A student, up to the age of 54, can choose to apply only for the grant. The National Board of Student Aid is responsible for the allocation and repayment of financial support for studies.

Normally support is granted for a maximum of 240 weeks (12 terms). Students with children may receive a differentiated supplementary grant of about SEK 800 for two children. Students aged 25 or above may receive a supplementary loan of about SEK 1500 per month. The supplementary loan is intended for those who earlier have had income from employment and aims to facilitate transition between work and studies.

Repayment of the study loan starts at the earliest in January six months after a student has graduated. The repayment period for the loan is normally 25 years or up to the year of the borrower's 60th birthday. The system is based on annuity loans, which means that the annual repayment increases by 2 per cent each year, as long as interest rates are unchanged. There is a 'safety clause' whereby the amount to be paid each year can be reduced, depending on the borrower's solvency. In such cases the repayment amount is related to the borrower's income during the year in question. Any debt remaining when the borrower turns 68, or if the debtor is deceased, will be written off.

Note: It was reported recently that some 28,000 Swedes are thought to be living abroad and avoiding the repayment of student loans with a combined value of 3.3 billion kronor (\$500 million). Most of these are living either in the US or the UK. The Swedish National Board of Student Aid (CSN) is to cease chasing debts owed by

³⁸ Source: Eurydice – The Education System in Sweden 2006/07

borrowers living in the United States and the United Kingdom due to the administrative costs involved in debt collections.

6.0 Denmark

6.1 Fees

Higher education in Denmark is normally provided free of charge for EU/EEA students and all students participating in an exchange programme. All other students have to pay a tuition fee. Annual tuition fees for full-time degrees range from €6,000 to €16,000 for students who are ineligible for free fees.

The government's system of financing education and training is almost exclusively based on the so called taximeter system, a comprehensive financing system based on per capita grants (cash-per student) to institutions. The grants are calculated primarily on the recorded student activity measured as their participation in courses/examinations.

6.2 Financial support for Students

Student grants and student loans in Denmark are administered by the Danish State Educational Grant and Loan Scheme Agency, a Danish government agency. All students above age 18 are entitled to a free grant regulated partly by the income of their parents if they are younger than 20. There is also the possibility of taking a student loan, which should be paid back in rates once the student finishes his/her education. In higher education, student grants are awarded by means of a voucher system. All students enrolled in higher education are given 70 vouchers where one voucher equals one month of study. When a student is admitted to a higher education programme, he is awarded vouchers corresponding to the officially stipulated time of study + 12 months within the above 70 vouchers.³⁹

Students in higher education (under a time limitation) have the choice of using these grants later, either to prolong their studies (for instance, to prepare for re-examination after a failed exam) or under certain circumstances to obtain double grants for a period of time at the end of their studies. In particular situations - mainly sickness and childbirth - students can apply for extra monthly grants. New mothers are eligible for 12 and new fathers for 6 extra monthly grants, with certain stipulations.

Students may also take out supplementary State loans. The interest rate for these loans is set by Parliament. Students must start paying back State loans no later than one year after the end of the year in which they graduate or give up their studies. The loan must be repaid within 15 years. About half of all students make use of State loans.⁴⁰

³⁹ Source: Eurydice – The Education System in Denmark 2007/08

⁴⁰Source: Danish Education Support Agency website

7.0 Iceland⁴¹

Under the Higher Education Act of 2006, access to public educational institutions is free of charge apart from registration fees. The payments are made directly to the higher education institution in question. Registration fees for public institutions are approx. ISK46,000 (€300) for each academic year, and the fee is the same for all fields of study. Included in the registration fee is a financial contribution for the institution's student union.

The Government operates a Student Loan Fund which offers student loans that are sufficient to cover costs incurred by the studies (tuition fees, books and materials, travelling expenses, etc.) as well as the cost of living.

The Fund provides assistance for the period of study or generally for two semesters of equal length for full-time studies (60 ECTS). The amount of the loan takes into consideration the size of the student's family. The rates of support for students living with low income parents may be raised to 100% if the income of both parents is under the prescribed threshold.

Repayment of loans begins two years after the completion of studies. The interest rate on loans made by the Fund is 1% but can vary, although it is at no time higher than 3% per annum on the principal of the debt. Student loans are index-linked, based on changes in the consumer price index of the Central Bank of Iceland. The annual repayment of loans comprises two elements: one fixed annual sum, €31 (ISK 83.872) in 2006, and one supplementary payment of 3.75% of the person's income, calculated on the previous year's tax base for municipal income tax purposes.

8.0 Finland

Students do not have to pay registration or tuition fees in Finland. Undergraduate students (those on Bachelor's and Master's programmes) pay a small membership fee to the student union every year; in return, they get reduced price meals, health care services and other social benefits.⁴²

8.1 Financial assistance & loans⁴³

Student financial aid comprises a study grant, a housing supplement and State guarantee for a student loan. The aid is granted by the Social Insurance Institution in cooperation with the education institution concerned.

Student financial aid is granted for a predetermined period, depending on the level of education. The amount of aid depends on the student's age, the form of housing, the

⁴¹Source: Eurydice – The Education System in Iceland 2007/08

⁴²Source: Eurydice – The Education System in Finland 2007/08

⁴³Source: Finish Ministry of Education website

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level of education and means-testing. In higher education, the means-testing usually concerns the student's own income.

The student financial aid scheme includes a housing allowance, which is granted towards the cost of accommodation during studies.

In respect of loans the students apply for a bank loan which is guaranteed by the government. The maximum amount of State-guaranteed loan is determined annually. No other security is needed for these loans. The student loan is granted by a bank at its discretion. The interest and other terms are agreed by the bank and the student. The payback time is usually twice the duration of studies.

A tax concession on loans is granted. The condition for the tax relief is that the student graduates in the normal time and has obtained a given loan amount. Interest assistance is available to all those who have low income and who have not anymore received financial aid for a specified period.

9.0 Norway⁴⁴

No tuition fees are payable in State institutions in Norway. A small fee has to be paid each semester to the student welfare organisation.

9.1 Financial Support for Students

The Norwegian State Educational Loan Fund (NSELF) was established in 1947 and provides financial support for the students in the form of grants and loans. These are mainly to cover expenses for accommodation, subsistence costs and study materials.

Every student can get financial support up to NOK 80,000 (€9,322) each academic year for ten months (2007). The total amount is initially given as a loan. Up to 40 % of the amount may be converted to a grant for students who do not live at home with their parents. In order to receive maximum grant, students have to pass all their examinations, earn less than NOK 116,983 (€13,633) each year and have assets not exceeding NOK 231,426 (€26,969) – all figures based on 2007 rates.

The support remains a loan for students who live at home with their parents, even if they pass all their examinations. Means testing of the parents' economy was disbanded in the early 1970s'. Students with children may be given an additional grant. The size of the grant depends on the income of the student and the income of spouse or cohabitant.

Loans are interest free during the studies. Repayment starts about seven months after graduation. NSELF has schemes that ordinary banks do not have. In cases of low income, unemployment, illness, childbirth or care of small children, repayments may be postponed for a period and the interest be waived. All or parts of the loan may be

⁴⁴Source: Eurydice – The Education System in Norway 2006/07

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cancelled if permanent illness prevents working, also when working in the most northern part of Northern Norway.

Appendix 4

Student Loans Schemes: Literature Review of Implications for Equity of Access to Higher Education

The Department's 2003 report, "*Supporting Equity in Higher Education*", in examining the Australian system of loans for tuition fees deferred for repayment on an income-contingent basis, looked at the possible impact that the accumulation of such debt might have on the propensity for students from disadvantaged backgrounds to access higher education. On one hand, while Callender and Kemp (2002) had concluded that there was some evidence that *debt aversion* was likely to have a disincentive effect on students from disadvantaged backgrounds, on the other, Andrews (1999) found that the impact of the Australian HECS system on participation by lower SES groups was negligible.

Support for the latter contention, that student loans systems do not create a disincentive for students from lower socio-economic backgrounds, is most prevalent in the available literature produced by or on behalf of Governments where these systems have been introduced. The Australian Government's discussion paper on the forthcoming review of Australian Higher Education (2008) cites a number of studies which concluded that the introduction of the HECS system did not appear to discourage poorer students from attending university.

It is worth noting, however, that the last Higher Education Triennium Report for 2004-2006 (2004) accepts that, "... *access to higher education by students from socio-economically disadvantaged backgrounds remains relatively low...*" and that representation from the lowest socio-economic group actually dropped from 14.7% to 14.5% in the period from 1991 to 2003. In addition, Aungles *et al* (2002) have observed that, although it was considered that HECS had not discouraged overall participation in higher education among students from low SES backgrounds, the share of males from a low SES background in HECS band 3 courses (the most expensive, e.g., medicine) declined appreciably, by 38%, when differential HECS charges were introduced.

In the UK, the English Department for Education and Skills (2005) argued that, because student loan repayments were income-contingent, then debt should not be a significant deterrent. In support of this contention, it pointed out that student numbers had continued to rise after the introduction of tuition fees and loans, including in lower social classes. However, it did acknowledge that there were specific groups for whom debt was more of an issue than in the main student body and that the overall support package needed to include fee remission, grants and bursaries for the poorest students.

Burdman (2005) observes that studies in this area largely reflect the views of students who have chosen to go to college and incur significant debt, but that the more relevant cohort, who chose not to go because they may be debt averse, is effectively largely invisible. The dilemma is that while, for some students, the availability of low-cost loans widens opportunity, for others, the necessity to incur debt in order to pay tuition

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fees means that chances of attending university significantly decrease. Burdman points out that student loan programmes are by nature complex and can be off-putting for the families of low-income students, who have little experience with borrowing and little exposure to higher education. These parents are reluctant to see their children start adulthood with significant debt and disadvantaged communities have few role models to demonstrate that this debt leads to long-term benefits in terms of earning power. Therefore, potential first generation third-level students (who are the key to raising access in disadvantaged communities) present the best predictor of debt aversion.

Even when they go to college, these students, because they tend to borrow less, work longer hours and attend less prestigious two-year community colleges rather than four-year universities. Burdman points to the hugely successful “No-Loan” programmes introduced in some Ivy League universities, designed to attract the brightest students from disadvantaged backgrounds. The resources available to these institutions allow them to replace loans with more traditional non-repayable grant schemes, demonstrating that the “debt dilemma” may interfere with the effectiveness of loan programmes in ensuring equitable access to a college education.

Shireman (2005) expresses this dilemma very succinctly: *“If you have a mortgage, then you have a house. If you have an auto loan, then you have a car. But if you have a student loan, you do not necessarily have the increased income that you need to pay it off”*. Shireman believes that these attitudes have their bases in both the culture and the economic circumstances of low-income families and communities. He argues that this debt aversion and lack of understanding of the longer-term returns to higher education leads to diminished college access and completion. Students of limited means who are reluctant to take out loans are likely to forego college altogether, drop out because of inability to source non-loan support or engage in excessive term-time working that may lead to non-completion.

Some empirical research was carried out on attitudes to debt and higher education participation by Callender and Jackson (2004). This research, using data derived from 2,000 prospective students, concluded that, even after controlling for a wide range of other factors, those from low social classes were more debt averse than those from other social classes and *“...are far more likely to be deterred from going to university because of their fear of debt”*. Overall, debt aversion was found to be a factor for those from the lower income group, but not from the middle or upper income groups.

This demonstrates why a loan system is more likely to work for middle and upper income groups and less likely to be successful for the most disadvantaged, whose debt aversion may lead to a diminishing of access to higher education (despite the income-contingent nature of the repayments), unless a non-repayable grants structure is retained.

Finnie (2004) makes a strong case for student loans on the basis of their equity and efficiency. However, he recognises that some potential borrowers may be debt averse. He maintains that this aversion takes two forms – “risk-based” debt aversion, associated with uncertainty regarding the returns to the investment (i.e., being left with an excessive debt burden) and “value-based” debt aversion, where there is a more fundamental or culture-related fear of debt and unwillingness to borrow. It is

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possible to address the former with an income-contingent repayment arrangement, while it is acknowledged that the latter may only be amenable to the introduction of non-repayable grants. Finnie concludes that a full financial aid system should probably include an integrated system of loans and grants on the basis that, while loans are best suited to solving credit constraint problems, grants are, “...*conversely, best suited to providing the pure subsidies that shift individuals’ schooling decisions...*”, particularly where this is justified on equity grounds.

Soule (2005), in acknowledging that students coming from low-SES homes are most likely to be deterred from pursuing post-secondary education by fear of debt, suggests that grant programmes targeted at low-income students should be increased and that guidance services should be improved at second level to help students learn about student loans, plan the financing of their education, discover alternate ways to fund university and determine realistic debt-to-income ratios based on their expected earnings and other life circumstances on graduation.

In conclusion, it would appear that a strong case has been made to demonstrate that debt aversion may be a factor militating against the take-up of student loans for some students from lower socio-economic backgrounds. As these students present a priority target group from an access perspective, then consideration should be given to retention of the current non-repayable grants provision for the lower income groups, which could be integrated as part of a full financial aid package, together with a loan provision, to meet the overall costs of higher education in the event of the re-introduction of tuition fees.

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