PO-CH/NL/0224
PART C

Part . C .

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Begins: 5/2/88.
Ends: 15/7/88.

PO -CH /NL/0224

PART C

Chancellor's (Lawson) Papers:

REVIEW OF STUDENT
SUPPORT

Disposal Directions: 25 Years

15/9/95.

PO -CH /NL/0224
PART C

979/014

CONFIDENTIAL

As agreed with me 5/ii

1. MR GILMORE
2. CHANCELLOR

FROM: T J BURR
DATE: 5 February 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Kemp
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Peretz
Mr Spackman
Mr Turnbull
Mrs Butler
Mr McIntyre
Miss Noble
Mr Parsonage
Mr Richardson
Mr Bolt
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

Ch/
Content with draft?
Thanks - OK as drafted.
5/2

BURR → CH/EX 5/2

REVIEW OF STUDENT SUPPORT

Following your meeting yesterday, I attach a revised draft letter for you to send to Mr Baker on how the review of student support should now be taken forward.

2. The draft explicitly offers Mr Baker the solution to which you were attracted, whereby the parental contribution would be reduced in parallel with the grant. It does not suggest specific figures, since that would carry the risk of setting a floor for further negotiation by DES. But DES will recognise the general shape of what is on offer (and indeed we think it would be useful for us to make sure they do, in order to ensure that Mr Baker is appropriately briefed for a meeting with you). And they will have no difficulty in costing options of this kind for themselves.

3. Before writing , however, you will want to know what the public expenditure implications are. We have therefore

done a more thorough costing than in my submission of 3 February. * The specific assumptions which we have made are set out in the Annex. The key feature is that both the grant and the potential contribution are reduced by 20% at the outset, and the outstanding balance of grant (and parental contribution) is then reduced by 5% each year for a further 9 years. Cumulatively, this brings the grant (and parental contribution) to 50% of its present level in real terms over the whole 10 year period.

4. This seems to us to be a viable option. The annual reductions in grant are modest: indeed if inflation were as high as 5% they could be achieved by simply freezing the grant in cash terms. Any slower rate of change might actually entail increasing the grant element in cash terms in some years, which would clearly be undesirable at least until the 50% level had been reached. On the other hand to move much faster would cost more in the medium term, because the public expenditure cost of reducing the contribution precedes the public expenditure saving from switching grant to loan (which saves nothing for the first 5 years).

5. This option therefore provides a good test of the kind of medium term expenditure commitment which the scheme offered in the draft would entail. In summary, for different levels of take-up of the loan facility, the figures are as follows:

£ million

Year	**1**	**5**	**10**	**15**	**20**	**Steady State**
Take-up						
80%	- 3	34	-39	-177	-250	-270
90%	12	73	2	-153	-236	-258
100%	27	113	43	-129	-221	-246

For added realism, these figures assume that the loan which replaced social security benefits to students would have to include an element of "levelling up", and an addition (of £20 million at 90% take-up) has been made to the cost of the loan to allow for this factor. Covenanting has been netted out against the parental contribution, so that the figures represent public expenditure effects. The average debt for a student leaving a 3 year course would ultimately reach £3957.

6. You were inclined to discount the risk of 100% takeup. On the other hand, 80% take-up may be over-optimistic, since the terms of the loan would be quite attractive in comparison with other forms of borrowing. The 90% take-up figures show a peak cost of £73 million in the fifth year. But the longer term savings are much greater (although DES would no doubt succeed in diverting some of these to pay for other improvements in student support - such as lifting the moratorium on designation of courses as eligible for mandatory support - which they have long wanted). 2

7. The key point, therefore, is that by writing to Mr Baker in the attached terms, you would be committed to a medium term addition to the education programme which would be difficult to reduce below £75 million in the peak year (and that does not include the increased administrative costs of loans as compared with grants). For that price it is crucial that the Government should be publicly committed to the continuing substitution of loan for grant (at least to the 50% level), which is the prize we are after both in public expenditure terms and for its incentive effect. Provided Mr Baker will accept that, you may feel the price is worth paying.

8. The draft letter is deliberately not copied to the Secretaries of State for Scotland, Wales and Northern Ireland, although they obviously have an interest. It seems best to reach agreement with Mr Baker first, and bring them in afterwards.

T J Burr

T J BURR

ASSUMPTIONS

(i) Grant and parental contribution reduced by 20% in first year, and then by 5% of the outstanding balance for 9 years, reaching a cumulative reduction of 50% over the full 10 year period.

(ii) Loans interest free, but principal indexed.

(iii) Repayment begins in the fourth year after graduation with options for further deferment if earnings are exceptionally low.

(iv) Default rate of 10%.

(v) Repayment in equal annual instalments of 10 years.

(vi) Covenanting netted out against parental contributions.

(vii) Changes to grants, parental contributions and introduction of loans do not apply to students who are already in higher education with the exception of a loan of £296 per student to replace social security.

12a/1 979/013

CONFIDENTIAL

DRAFT LETTER FROM CHANCELLOR

pse type fixed for Ch

Secretary of State for Education and Science
Elizabeth House
York Road
LONDON SE1

REVIEW OF STUDENT SUPPORT

I have been following the discussions which Robert Jackson has been having with Peter Brooke and Treasury officials about the way forward on the review of student support, and the best way of moving towards our declared objective of student loans. These discussions have continued through the latter part of last year. I am now concerned that we should make early progress in deciding what proposals to put forward.

2. The urgency is clear. It would be a real setback if we failed to introduce student loans in this Parliament, after having included the idea in our Manifesto. But if we do not secure the necessary legislation in the next session of Parliament, the prospects for achieving that objective before the next Election will be poor. That means that we must have fully worked up and agreed policy proposals, ready for publication, by May or June at the latest.

3. I am frankly doubtful whether the complex and ambitious approach for which Robert Jackson has been arguing will enable

us to do that. It raises too many issues which ~~will~~ would absorb time that now needs to be spent on pressing ahead with the central aim of simply getting a loan scheme into place. There may well be ideas here which we can pursue in the longer term; but we need to be careful not to take on more than we can handle or resolve in the limited time available.

4. The financial implications, ~~alone~~ too, are ~~frankly~~ unacceptable! ~~present great difficulty.~~ In the paper which, with Robert's approval, your officials have shown to mine, a scheme is envisaged with an additional cost in the early years at least of £340 million a year, compared with an existing level of expenditure on mandatory student awards which the paper puts at £480 million. We will make no progress on the basis of proposals with additional costs of this sort. ~~Even if it were possible to make sums of this order available to the education programme, I do not for a moment suppose that you would want to use them in this way.~~

Dodgy?

5. It does not help at all to suggest that this cost could be moved off-budget by getting the scheme privately financed. If it were simply a question of leaving students to raise what funds they could from financial institutions on commercial terms, we could no doubt leave that to find its own level. But it is clear from the paper that any privately financed student scheme would be largely determined by the government, with institutions being obliged to lend government-guaranteed or subsidised money, in amounts and on terms largely prescribed by the government, to students designated by the government. ~~The cost to the rest of the economy of government action to~~

Thus it is clearly and already a public sector scheme, and would have to be treated as such!

~~get more money into the hands of students has to be faced: it is not avoided by channelling funds directly from the private sector~~.

6. Moreover any scheme of this kind involving ~~A separate difficulty about schemes based on~~ private finance would make us to some extent beholden to ~~is that they would have the effect of putting us partly~~ in the ~~hands of~~ the lending institutions. We would not be able to commit ourselves firmly to policy proposals in which they had a major role without first reaching agreement with them on what that role should be. But the necessary negotiations would be likely ~~bound~~ to take several months ~~at least~~. which we can ill afford.

7. My own view, therefore, is that we should adopt a much simpler approach. I have in mind A loan scheme that would be established on the basis of public finance, although it could well ~~might~~ be administered ~~via?~~ by ~~in~~ the private sector if that offered the most convenient and cost-effective solution. Loans would replace social security benefits for students from the outset. We would also start by substituting loans for a significant proportion of the existing grant, and commit ourselves to gradually increasing that proportion over time to at least half the present grant in real terms. The loan would be interest free, but the principal would be indexed.

8. On this basis we would have a clear prospect of substantial longer-term savings, as well as the important wider benefits of loans. I accept ~~think~~ that it is worth incurring some medium term public expenditure cost in order to realise these advantages. I would therefore be prepared to see the parental contribution reduced in the same proportion

as the reduction in grant, which has the advantage that it avoids any "means testing" of the loan. As long as the grant remained, there would be a parental contribution to it. But the loan would be available regardless of parental income.

9. I hope you will agree that this offers an attractive as well as a practical package. It would have a net cost in the early years, but I would be prepared to contemplate this ~~and that means that other costly changes in student support arrangements would have to wait.~~ ~~In~~ due course there would be growing net savings ~~which would give greater flexibility.~~ I fear I am firmly of the view that to proceed on the magnetic and ambitious course envisaged in Robert's paper would result in ~~But my firm conclusion on the package which Robert Jackson has suggested is that~~ we cannot do everything at once. The main task is to get loans into place, and I am proposing a practical way of doing that. the loss of a great prize

10. I look forward to an early discussion about all this.

NIGEL LAWSON

Odd to say this - invites DES to return to Jackson, which we do not wish to offer as an option.

replace with: "but I would be prepared to contemplate this as the price of getting a simple, workable scheme of student loans off the ground," and

ps2/1M

CONFIDENTIAL

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Kemp
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Peretz
Mr Spackman
Mr Turnbull
Mrs Butler
Mr McIntyre
Miss Noble
Mr Parsonage
Mr Richardson
Mr Bolt
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

Treasury Chambers, Parliament Street, SW1P
01-270 3000

CHEX → BAKER 8/2

8 February 1988

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
39 York Road
LONDON
SE1 7PH

BP ... 15/2

Dear Kenneth

REVIEW OF STUDENT SUPPORT

I have been following the discussions which Robert Jackson has been having with Peter Brooke and Treasury officials about the way forward on the review of student support, and the best way of moving towards our declared objective of student loans. These discussions have continued through the latter part of last year. I am now concerned that we should make early progress in deciding what proposals to put forward.

The urgency is clear. It would be a real setback if we failed to introduce student loans in this Parliament, after having included the idea in our Manifesto. But if we do not secure the necessary legislation in the next session of Parliament, the prospects for achieving that objective before the next Election will be poor. That means that we must have fully worked up and agreed policy proposals, ready for publication, by May or June at the latest.

I am frankly doubtful whether the complex and ambitious approach for which Robert Jackson has been arguing will enable us to do that. It raises too many issues which would absorb time that now needs to be spent on pressing ahead with the central aim of simply getting a loan scheme into place. There may well be ideas here which we can pursue in the longer term; but we need to be careful not to take on more than we can handle or resolve in the limited time available.

The financial implications, too, are unacceptable. In the paper, which, with Robert's approval, your officials have shown to mine, a scheme is envisaged with an additional cost in the early years at least of £340 million a year, compared with an existing level of expenditure on mandatory student awards which the paper uts at £480 million. We will make no progress on the basis of proposals with additional costs of this sort.

It does not help at all to suggest that this cost could be moved off-budget by getting the scheme privately financed. If it were simply a question of leaving students to raise what funds they could from financial institutions on commercial terms, we could no doubt leave that to find its own level. But it is clear from the paper that any privately financed student scheme would be largely determined by the government, with institutions being obliged to lend government-guaranteed or subsidised money, in amounts and on terms largely prescribed by the government, to students designated by the government. Thus it is clearly and inherently a public sector scheme, and would have to be treated as such.

Moreover, any scheme of this kind involving private finance would make us to some extent beholden to the lending institutions. We would not be able to commit ourselves firmly to policy proposals in which they had a major role without first reaching agreement with them on what that role should be. But the necessary negotiations would be likely to take several months, which we can ill afford.

My own view, therefore is that we should adopt a much simpler approach. I have in mind a loan scheme that would be established on the basis of public finance, although it could well be administered by the private sector if that offered the most conventional and cost-effective solution. Loans would replace social security benefits for students from the outset. We would also start by substituting loans for a significant proportion of the existing grant, and commit ourselves to gradually increasing that proportion over time to at least half the present grant in real terms. The loan would be interest free, but the principal would be indexed.

On this basis we would have a clear prospect of substantial longer-term savings, as well as the important wider benefits of loans. I accept that it is worth incurring some medium-term public expenditure cost in order to realise these advantages. I would therefore be prepared to see the parental contribution reduced in the same proportion as the reduction in grant, which has the advantage that it avoids any "means testing" of the loan. As long as the grant remained, there would be a parental contribution to it. But the loan would be available regardless of parental income.

I hope you will agree that this offers an attractive as well as a practical package. It would have a net cost in the early years, but I would be prepared to contemplate this as the price of getting a simple, workable scheme of student loans off the ground, and in due course there would be growing net savings. I fear I am firmly of the view that to proceed on the imaginative and ambitious course envisaged in Robert's paper would result in the loss of a great prize. We cannot do everything at once. The main task is to get loans into place, and I am proposing a practical way of doing that.

I look forward to an early discussion about all this.

Yours
Nigel

NIGEL LAWSON

pmp

FROM: T J BURR

DATE: 15 February 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Kemp
Mr Scholar
Mr Culpin
Mr Gilmore
Mrs Lomax
Mr Peretz
Mr Spackman
Mr Turnbull
Mrs Butler
Mr McIntyre
Miss Noble
Mr Parsonage
Mr Richardson
Mr Bolt
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

REVIEW OF STUDENT SUPPORT

This note provides briefing for your meeting with Mr Baker tomorrow to discuss the way forward in the review of student support. The Chief Secretary and the Paymaster General will also be present, as will the DES Minister for Higher Education, Mr Jackson. The basis for discussion will be your letter to Mr Baker of 8 February, although in the background (and very much in Mr Jackson's mind) will be the DES paper setting out his ideas for radical and expensive changes (attached to my submission of 14 January).

<u>Objectives</u>

2. The overall aim is to get student loans implemented on a significant scale during this Parliament. That means starting to make loans to students from the academic year

1990-91, starting in October 1990. October 1991 is probably too close to the next Election. That means Royal Assent to the necessary legislation by the autumn of 1989, in order to leave time for implementation. That in turn means legislation in the 1988-89 session, and introduction of a Bill this autumn. Firm policy proposals will therefore have to be published little more than three months from now.

3. Accordingly your key objectives for the meeting will be:

(a) on **substance** to reach agreement on the kind of scheme which should now be worked up;

(b) on **procedure**, to give officials an agreed remit to produce a draft White Paper no later than the end of April.

4. More specifically, on **substance**, you will need agreement on the following points:

(a) the switch from grant and social security to loans is big enough on its own, and should not be regarded as an opportunity for a lot of other changes in the student support arrangements;

(b) loans should be publicly rather than privately financed;

(c) the guiding principles should be equal percentage reductions in grant and parental contribution, to be replaced by loan with no means test;

(d) there should be a substantial initial reduction in grant (of say 20%);

(e) there should also be a clear and public commitment to further reductions to no more than 50% of the present real level within a 10 year period.

It should be common ground that social security benefits will be replaced by a loan facility at the outset. On (e) above, the particular point to watch is that DES, having got the money for a reduction in the parental contribution, may shy away from a continuing reduction in grant. Your position is that the medium term cost is only worthwhile if that further reduction in grant is achieved.

5. On **procedure,** the remit to produce a draft White Paper is not only important in itself (because the Government will need to have something to publish by the early summer) but is also intended to provide the focus of activity which has so far been badly lacking in the review. There will however be a number of steps along the way, and it would be useful to run over these with Mr Baker. They include:

(a) bringing in the Secretaries of State for Scotland, Wales, and Northern Ireland, and DHSS Ministers on the social security aspect;

(b) obtaining the Prime Minister's endorsement of the broad approach, although on the experience of 1985 she is unlikely to want to be committed until properly worked up proposals are available;

(c) deciding on specific issues as they arise in the course of preparing the White Paper, so that work can proceed;

(d) as soon as the shape of the package is clear, and without necessarily waiting for the full White Paper, securing collective Ministerial endorsement.

You may wish to agree with Mr Baker that those present should be ready to reconvene, together with the territorial Secretaries of State in order to resolve issues as necessary and maintain momentum. But if agreement can be reached on the specific points set out in paragraph 4 above, this should be less necessary than in 1985.

?

6. One hitch is that QL has recommended against including a Student Support Bill in the 1988-89 legislative programme. You will want to confirm with Mr Baker that he intends to press strongly for inclusion, and to promise him your full support.

<u>**Mr Baker's objectives**</u>

7. It was Mr Baker who proposed the present review with the specific aim of introducing loans to replace social security benefits and an element of grant. There is no reason to think that he will have any fundamental difficulty of principle about the kind of approach set out in your letter. But there are a number of points which he may want you to accept as the price of his agreement.

(a) His own comments on the subject have consistently stressed the idea of a **mixed loan/grant system,** and he may not be prepared to envisage the total replacement of grant by loan even in the longer term. He may even want to be able to say, in presenting the proposals, that the total replacement of grant by loan is not envisaged.

(b) It was Mr Baker who originally proposed that the review should be conducted within the cost constraint of existing expenditure on grant and social security benefits for students; and he has never shown much sign of attaching great priority to student support. He is therefore unlikely to press for major increases in student support expenditure. But he will almost certainly press for agreement that significant **additional funds** should be made available to alleviate the problem of losers on the replacement of social security benefits by loan.

(c) He may also want a longer term understanding (and perhaps agreement to a public commitment) that the net savings from loans, when they eventually emerge, will be used in the first instance **to ease some of the constraints** on the present student awards scheme. The major point here is extension of the scheme to cover a wider range of courses. He may even go further and argue that a logical use for the savings would be to expand and strengthen the higher education system more generally.

(d) another long-term understanding which he may seek is that there should be a commitment to uprate the new arrangements for student support **in line with prices.** This has not happened in the past.

(e) While Mr Baker is unlikely to be wedded to Mr Jackson's ideas, he may be sufficiently influenced by them to argue that limited additional provision for such things as scholarships and bursaries could provide a useful **sweetener** for the new scheme.

8. You might respond on the following lines:

(i) On (a), the **mixed loan/grant scheme**, you might say that it would clearly be wrong, and almost certainly ineffective anyway, to attempt to close off options for the very long term. You might also remind Mr Baker that, with your proposed link between reductions in the parental contribution and reductions in grant, a permanent element of grant means a permanent role for the parental contribution. But you might agree that the scheme would be presented in terms of a phased move to a 50/50 loan grant scheme, with no proposals for any further shift.

(ii) On (b), **social security**, you might simply suggest that further work needs to be done by officials: we do not expect to be able to avoid some net cost here, and the costings which we gave you before you wrote to Mr Baker were on this basis.

(iii) On (c), **ploughing back savings from loans**, you might question the usefulness of attempting to legislate for so far ahead; but you might also emphasise that there are no savings anyway until the cost comes back below its present level, underlining the point that it is in the longer term rather than in the short or medium term that any room for manoeuvre lies.

(iv) On (d), **uprating**, you might say that it would be wrong to tie the Government's hands. A formal commitment would only raise the question of uprating policy in other areas, notably social security. At least for the 10 year transition period, any uprating would have to be applied to the loan rather than the grant element.

(v) On (e), **sweeteners**, you will want to emphasise that your proposed scheme already has a significant cost in the medium term, while DES are pressing for extra money to ease the replacement of social security benefits for students. The UK already spends a lot more than other countries on student support, and there is therefore neither scope nor justification for trying to add "extras".

9. We do not know what Mr Baker thinks about the **timing** of the move to loans. We would expect him to take the view that, if there are to be loans at all, it would be

as well to get them into place well before the next Election. But we know the DES officials are beginning to have misgivings about the task which will confront them over the coming months in getting as far as the introduction of a Bill this autumn, and are wondering whether an October 1990-91 introduction of loans might be tolerable after all. It may be that Mr Baker will reflect some of these doubts at the meeting. But DES officials would not exactly be dismayed if loans never happened, and they are therefore not greatly concerned by the possibility that slippage from 1990-91 might lead to further postponement into the next Parliament and beyond. You can remind Mr Baker than he himself recognised the electoral sensitivity of student loans by proposing that the reivew should not be brought to a conclusion until after the 1987 Election. The way to avoid similar problems next time, while still being sure of getting loans into place, is to press ahead now.

10. Mr Jackson can be expected to play an unhelpful role at the meeting. As far as we can tell, his ideas began with an optimistic perception that financial institutions could very readily be persuaded to lend large sums to students, and that the existing expenditure on student support could then be redirected in other ways. But it soon became clear that he was prepared to leave nothing to chance in ensuring student access to bank loans, while losing none of his enthusiasm for redeploying the existing expenditure provision. His postion now is that he wants assured access to subsidised bank loans for all students, plus immediate abolition of the parental contribution, plus new forms of more or less targetted support. He shows no sign of being discouraged by the additional cost of £340 million (compared with existing expenditure of £480 million), and assumes that any Treasury concerns can be met by simply moving the cost off budget by private finance. Nor has he considered whether, even if £340 million were available, student support would be a good thing on which to spend it.

Handling the meeting

11. It will be important to make the meeting a discussion of your proposal, rather than Mr Jackson's. We therefore suggest that you should take the initiative in opening the discussion, rather than inviting Mr Baker to do so; and that you should focus first on the advantages of your proposal, and come to the disadvantages of Mr Jackson's afterwards. The key positive points which you will want to get across are:

(a) a **manageable** transition to loans: early and definite enough to indicate the Government's intentions and get loans accepted as "here to stay", with steady progression thereafter to a genuine mixed grant/loan scheme;

(b) **simplicity:** concentrates on the central principle of loans, without provoking unnecessary difficulty by making other contentious changes, or getting snagged on time consuming negotiations with financial institutions;

(c) action on the **parental contribution** where previously there have only been aspirations to do something about the parental contribution in the longer term, Mr Baker will actually be able to announce a substantial reduction with the promise of more to come;

(d) a key selling point for the new loans will be that they represent a new source of support for students which is entirely **non-means tested**;

(e) another is that the loans will be **interest free:** the liability of students will be limited to the real value of the principal.

Lying behind all this, of course, are the broader objectives of loans, in terms of improving incentives for students and through them the responsiveness of higher education to the needs of the economy; avoidance of a "welfare mentality" among students; and long term public expenditure savings. There is no reason to think Mr Baker does not see these advantages. But his prime concern is likely to be with the tactics of getting there, and the above points are likely to be the most relevant in that context. A speaking note is attached at Annex A .

12. Assuming that Mr Baker is persuaded to endorse your broad approach, he can be expected to press you on a number of details. These include:

(a) the size of the initial reduction in the grant and parental contribution;

(b) the rate of progress to the 50% level thereafter;

(c) the amount of money which you are prepared to make available to cover the medium term cost.

13. It will of course be helpful to make as much progress as possible in agreeing on the specific parameters of the scheme. But it will also be important to avoid putting a sum of money on the table which Mr Baker can then attempt to bid up. It is for Mr Baker to make a costed bid for the scheme. We therefore suggest that you respond to questions (a) and (b), but avoid being precise about (c). On (a), you might say that you envisage an initial 20% switch from grant and parental contribution to loan. On (b), you envisage a further compound 5% real reduction in the balance of grant and parental contribtuion, bringing it down to 50% after 10 years.

14. On (c), you might say that the cost depends heavily on the assumption made about take-up; but that with 90% take-up of the loan, the peak annual PSBR cost would be of the order of £50 million, by the fifth year. But you might suggest that Mr Baker should take the scheme away

and do his own calculations. (The figure of £50 million does not include any allowance for additional provision to deal with social security losers - see paragraphs 7(b) and 8(ii) above. It needs to be expressed as a PSBR rather than a public expenditure cost because the DES calulations will continue to include covenanting.)

15. Mr Baker will naturally want assurances about the availability of public expenditure provision. You might say that costs falling within the period covered by the next Survey will need to be the subject of a bid; but that this will obviously not be disputed to the extent that it is an agreed reflection of an agreed policy.

Private Finance

16. Mr Baker may show some interest in Mr Jackson's ideas on private finance. Mr Jackson is likely to press them anyway. He will say that he does not see why bank loans should count as public expenditure. You might say that they are indeed not defined as public expenditure, but that this is not the point. Every significant parameter of the proposed privately financed scheme would be determined by the Government: the qualifying students; their minimum entitlement to loan; the terms of the loan; and provision for default, including Government guarantees. For all practical purposes it would be a Government scheme, and there is no mileage in suggesting that the financial implications should be of less concern than with a publicly financed scheme.

Conclusion

17. You might end the meeting by suggesting that officials should now be in touch urgently to produce an agreed statement of the proposed approach to student loans, sorting out the financial implications as far as possible. The results should be brought back to Ministers, preferably on the basis of a letter to you from Mr Baker, by the middle of next week, exposing any issues which arise for resolution. Once approved, that can then provide a basis on which the drafting on the White Paper can proceed.

T.J.Burr

T J BURR

SPEAKING NOTE

143.38

CONFIDENTIAL

ANNEX A

SPEAKING NOTE

- Climate for student loans probably more propitious than in the past. But still a big change.

- Proposal in my letter of 8 February concentrates on the key objective of getting loans into place, and on a worthwhile scale.

- It does so in a way which should be both manageable and politically feasible. Does not attempt the full shift to loans in one go, but at the same time makes sufficient initial movement to ensure that loans are here to stay.

- Proposed scheme does not provoke opposition by attempting to introduce other new concepts at the same time as loans (such as selective grants).

- It is a scheme which the Government can put forward itself, without first needing to get financial institutions and others on board.

- It will be possible to take early action on the parental contribution where previously this has had to be ruled out on the grounds of cost. Besides an initial reduction there will be a clear commitment to further alleviation.

- Student reluctance to accept the principle of loans can be tackled by emphasising that they will be an entirely non-means-tested form of support.

- The loans can also legitimately be presented as interest free. Students will simply have to repay the real value of the principal.

All this adds up to a viable basis on which to take the opportunity which now presents itself, and with a good prospect of the success which has proved elusive in the past.

MAP -

Thanks. Discuss.

1/3/88.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Ch/ Bad news on STUDENT SUPPORT from QL. Lord Pres. has apparently written round — our copy hasn't arrived, I'm afraid — to say no room unless we + DES make fuss at Cabinet (11/3). Reason given is that we don't yet have policy approval. Which is only too true, I'm afraid — I learn from CST's office that official discussions have run into the sand, as DHSS are producing v. low numbers for benefit savings ∴ not enough to put into loans for DES's tastes without extra p.ex we could not accept. FST may want to raise at Prayers (and we will get copy of L. Pres letter first thing).

over

CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

News on our other QL interests is —

a) Crown Agents, again, not on Lord President's list, but Alex tells me that one is planned to be winnable at Cabinet; and

b) our interests in DTI Bill seem to be safe — certainly TAURUS is — but FST's office are pursuing with FIM for confirmation that they are content with detail.

MPW
1/3

pmp

2/3/88

Ch/

More bad news on student support – this time a leak. Mr Baker's PPS rang Jill Rutter to say Baker furious to discover that Nick Wood of the Times knows all about latest state of play on loans. Appalling.

It is appalling. And always happens with DES.

MPW
2/3

pmp

Discussed with CST

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2/3/88.

Ch/

This doesn't seem to be in press summaries so you might like a copy. A very Jacksonian flavour to it - interest rates, wider access, part of a huge shake-up, private sector institutions etc - see my highlighting.

CST has spoken to Mr Baker who says can't possibly have come from DES, but he will launch an enquiry. Intends to issue press release saying

- press report entirely speculative
- everyone knows we're conducting a review - in our manifesto etc - will come forward with proposals when good & ready
- no prospect of this being included in ER Bill

CST wd like to discuss at your bilateral MPW 2/3

Ministers aim to introduce student loans

By Philip Webster and Nicholas Wood

A revolutionary change in the way students are funded, featuring a scheme to give them personal loans and cut their grants, is to being considered as part of a huge shake-up in higher education.

Students would be allowed to apply for low interest loans of up to £1,000, but their grants would be cut by around £100 and their entitlement to housing benefit removed.

!

The idea of loans to top up grants is regarded as a potential bombshell by senior Conservative MPs. It has been considered before and discarded.

But it is the central element of a controversial package assembled by Mr Robert Jackson, the Minister for Higher Education, after a review begun in August, 1986, by his predecessor Mr George Walden.

Main points of the student loan plan:

- **Maximum loan of £1,000 per student.**
- **Repayments over 10 years.**
- **Borrowers would lose £100 from their grants and all their housing allowance.**
- **Built-in safeguards to freeze repayments if students became unemployed during the repayment period.**

Under the plans students would be allowed to pay back their loans over a period of 10 years, long after they had finished their courses.

And safeguards will be built in so that the repayments would be frozen if people became unemployed during that time.

The interest rate would be low but the precise figure is shortly to be the subject of talks between Mr Kenneth Baker, the Secretary of State for Education, and Mr Nigel Lawson, the Chancellor.

Mr John Moore, Secretary of State for Social Services, is also involved because of the projected removal of the housing benefit, which is estimated by some Government sources at about £370 a year on average, although the DHSS has no official figures.

Although the plans envisage a small grant reduction, grants would be made available to a wider range of students, so overall Government spending on grants is unlikely to fall. But the main saving would come from the housing benefit change.

Discussions on the proposals, on which it is hoped to produce a White Paper around Whitsun, are at an early stage and they could be subject to considerable change in Cabinet committee.

Ministers expect the loan proposal to be subjected to the deepest scrutiny by the Treasury, which may be unhappy about the lengthy pay-back period.

But ministers hope that the loan idea will reduce the likelihood of a repeat of the furore in 1984 when Sir Keith Joseph, then Secretary of State for Education, made the last attempt to cut grants.

A Conservative backbench revolt forced him to withdraw a plan to cut grants by increasing parental contributions.

Grants are to rise to £2,425 from £2,330 in 1988-89 for students living in London, to £2,050 from £1,972 for those living elsewhere, and to £1,630 from £1,567 for students living at home.

With the Government already fighting on at least three fronts in the Education Reform Bill – the concern of vice-chancellors over university funding, the abolition of the Inner London Education Authority, the clash with the churches over opting-out – some insiders believe that the loans announcement could not come at a worse time.

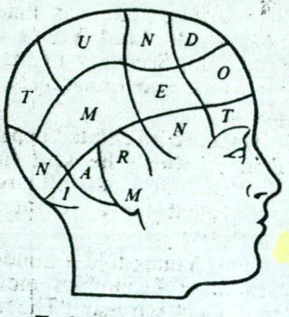
But last night supporters of the upheaval argued that in contrast to the last attempt to shake up the system parents would not be penalized.

One commented: "The last proposal proved highly unpopular because parents felt they were being singled out for more punishment. This proposal will benefit all concerned because it will mean youngsters will be assisted in having more money without their parents having to pay for it."

Previous forays into the controversial territory of student loans have been vetoed by the Treasury on the grounds of cost, notably that the high start-up costs of such a system outweighed any long-term savings.

It is understood that ministers are still giving consideration to the key question of which agency should administer the loans – the Treasury or the banks or other private financial institutions.

TOURNAMENT OF THE MIND



- **Today *The Times* Tournament of the Mind enters Round Nine, with a cash prize of £5,000 awaiting the individual winner**

Nat

Tha win upda wea

From Richa Michael Eva

Mrs Thatcher argument abo short-range n late last night w was reached o words for the communiqué announced tod

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New York (Reuter) ... Britai

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CONFIDENTIAL

FROM: T J BURR
4 March 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Scholar
Mrs Case
Mr Culpin
Mrs Lomax
Mr Peretz
Mr Spackman
Mr Turnbull
Mrs Butler
Mr McIntyre
Miss Noble
Mr Parsonage
Mr Richardson
Mr Bolt
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

Ch/ Bad news on the timing of Cabinet discussion, I fear. It has been put to PM who is not minded to delay – I think on grounds that if it can't be sorted out in a week, unlikely it can be done in two, and ∴ not worth delaying.

mpw 4/3

I trust CST has been informed.

P.S. Hampshire's [illegible] in Cab: briefing.

STUDENT SUPPORT

This note provides briefing for your meeting with Mr Baker on Monday to decide the key elements of a new system of student support on the basis of the approach agreed at the Chancellor's meeting with Mr Baker on 16 February.

2. At that meeting officials were asked to work out agreed costings for the main variants on this approach. These are now contained in the attached paper which has been agreed between DES and ourselves, and provides a basis for discussion.

3. Since the 16 February meeting Mr Baker has written (19 February), staking out an ambitious claim for a large loan facility for students, plus £20 million for universities to use for bursaries, sponsorship, and other forms of financial assistance to students. For good measure, he suggested that the longer-term savings from student loans should be used to

develop the higher education system. In your reply of 26 February you indicated that you saw no case for expenditure on the scale implied by Mr Baker's ideas, or for pre-empting future savings from student loans.

Objectives

4. The issues for decision are set out in paragraph 2 on the front page of the agreed paper. Your objectives will be:

(a) To settle all these issues with Mr Baker. The answers to all of them need to be clear if you are to join forces with Mr Baker in presenting the scheme to colleagues as an agreed DES/Treasury scheme. Collective agreement to a reform of student support, let alone a place in next Session's legislative programme, is unlikely except on the basis of joint DES/Treasury proposals.

(b) You will want to keep the cost of the scheme in the peak early years, before loan repayments start flowing in, to no more than the figure of around £75 million which we indicated to be the likely price tag for the kind of scheme now proposed, before the Chancellor first put it to Mr Baker in his letter of 8 February (although no such figure has been mentioned to Mr Baker or DES). The precise amount of loan which that would permit depends on the assumptions made, and is discussed further below. But it would be a lot less than Mr Baker's ambition of £1000.

(c) For that money, you would need agreement to a firm and public commitment to a continuing shift from grant to loan until the latter at least equalled the former, with no pre-emption of the longer-term savings which the scheme would generate.

(d) You will want to see off Mr Robert Jackson's idea, which Mr Baker has adopted, for an extra £20 million for higher education institutions to distribute to students in bursaries and other ways. Even if Mr Baker agreed to accommodate this idea by abating the student grant, it would still remain as a pressure point for future growth in expenditure, as institutions sought larger sums to distribute to students; and the idea would stir up additional controversy when the principle of loans will be controversial enough anyway.

(e) Finally, you will want agreement vigorously to pursue the question of getting a Student Support Bill into the legislative programme for next Session. At the time of writing this brief it was still unclear whether the legislative programme would be on the Cabinet agenda for next week. If it is, or even if it is deferred until the following week, there will not be time to bring proposals to E(EP) for collective endorsement beforehand. But it would be very helpful if Mr Baker could use the time before Cabinet to sell the proposed scheme to the Secretaries of State for Scotland and Wales, so that they are at worst neutral and at best supportive when the legislative programme is discussed.

See my note at front

With these aims in mind, the following paragraphs address the questions for decision in the agreed paper.

The broad basis of the scheme

5. This should not present any difficulty. The further work which we have done has not thrown up any unexpected flaw in the approach which was agreed at the Chancellor's meeting. The essential elements are:

(a) Replacement of social security benefits for students by loan;

(b) A substantial initial shift from grant to loan;

(c) A further progressive shift until support is equally split between loan and grant;

(d) The parental contribution to be reduced in parallel with the grant.

All this now seems to be common ground.

The size of the initial grant reduction.

6. Reductions of 15, 20 and 25 per cent were mentioned at the Chancellor's meeting on 16 February. DES have shown little interest in the 15 per cent variant, and Mr Baker's letter of 19 February mentioned a reduction of 20 per cent. It should in fact not be difficult to get agreement to a reduction of 25 per cent, and we recommend you to go for that. The additional cost (arising from the parallel reduction in the parental contribution) is no more than about £10 million a year at the outset. That seems worth accepting, for two reasons. First, the bigger the initial move to loan, the more firmly entrenched loans will become, and the faster the longer-term benefits will be realised. Second, it seems clear that Mr Baker attaches presentational importance to a large loan facility; and it is considerably cheaper to move towards him by shifting more grant to loan than by simply topping up the loan facility. DES officials, at least, do not anticipate that Mr Baker will have much difficulty with a 25 per cent reduction in grant.

The size of the loan

7. This is the difficult issue. If it were simply a question of transferring support between grant and loan, there would be little room for argument. But the wide dispersion of students' social security entitlements provides Mr Baker with an opening to argue for an increase in the overall levele of support, in order to minimise the number of social security losers.

8. Given the importance of the social security issue, I attach as an Annex to this brief a note which has been prepared by Mr Gibson of ST, which describes the situation on social security benefits for students, the way in which it has changed and will change, and points which you can make to Mr Baker. Mr Gibson will also be present at the meeting on Monday.

9. There has been one major, and helpful, development since

Mr Baker's letter of 19 February. Since the agreement reached at the 16 February meeting, which put an end to the diversion caused over recent months by Mr Robert Jackson's radical ideas, we have been able to get down to examining with DES and DHSS in detail the question of student entitlement to social security benefits. DES originally thought they would be able to demonstrate that these entitlements were higher than had been assumed in previous costings, since they have recently received the results of a survey of student income and expenditure which was commissioned by the Review of Student Support, which pointed to a figure of £250 a year per student. But we have pointed out that the key question is not what students were claiming in the academic year 1986-87, to which the Survey related, but how much they would be claiming in 1990-91. That is what will determine the size of the PES transfer from the DHSS to the DES programme when students' social security benefits are replaced by loan, and what will be relevant to the question of student losses or gains resulting from the change.

10. This year's social security reforms will make a substantial difference to students' social security entitlements, as the Annex explains. Whereas previous costings of student loan schemes have assumed a transfer from DHSS of £85 million, the costings in the agreed paper now only assume savings of £50 million (and subsequent work after we had to put the costings in hand suggests that the actual figure may be a few £ million less than that). Depending on the assumption made about take-up of the loan, that would only pay for a top-up loan element to replace social security of around £150 and perhaps less. This discovery has led DES officials to acknowledge to us privately that Mr Baker's proposed figure of £1000 for the total loan is now unrealistic, and they are talking in terms of £900. That lacks the presentational neatness of £1000 and increases the likelihood of reaching agreement with Mr Baker on a lower figure.

The costings

11. Costings are set out in the agreed paper attached. Figures are all in 1990-91 prices to permit discussion of the actual cash amounts which would be made available on the introduction

of student loans in that year. The key Annex to the paper is Annex 2. This gives a comprehensive set of figures for variant A, comprising an initial switch from grant to loan of 25 per cent followed by a cash freeze on the grant thereafter (represented as a real decline of 3 per cent a year until the grant reaches 50 per cent of the total support). Various further amounts of loan to replace social security are then added to this switch from grant (amounting to £590 per student), ranging from £150 to £550. This gives total loan facilities ranging from £740 up to £1140. Figures are shown both on 70 per cent and 90 per cent take-up. (We did not include 80 per cent take-up in order to keep down the number of figures, and the appropriate numbers can in any case be found by interpolation; but we understand that Mr Baker has now asked his officials to calculate the figures at 80 per cent take-up. This may well be significant in indicating that Mr Baker would be prepared to move away from the position in his letter of 19 February, in which he argued that take-up would only be 70 per cent.)

12. You will see that the take-up assumption has a dramatic effect on the costs. We would be very cautious about moving down from 90 per cent, for which you argued in your letter of 26 February. A loan which is simply indexed in line with inflation, with no further interest payments, is very attractive. In principle students would have an incentive to take up the loan and invest it in index-linked gilts, even if they did not need the money. What we are likely to find, however, is that while the great majority of students use the loan facility, some of them will not use the full amount, so the take-up in terms of expenditure is likely to be less than the proportion of students who get a loan. And for the purposes of costing, it is of course the proportion of expenditure which is important. If it simplified discussion with Mr Baker to split the difference between the figures and talk in terms of 80 per cent take-up, that would not be disastrous; but you would need to be correspondingly cautious in the level of additional costs that you were prepared to agree to, given the risk that actual take-up, and therefore expenditure, might turn out higher.

13. You will see from Annex 2 to the paper that the cost of

a loan facility of about £750 would probably be tolerable even at 90 per cent take-up. (The higher figure which I quoted to you yesterday was based on earlier calculations which assumed a switch from grant to loan of only 20 per cent.) £800 or even £850 are conceivable if you are prepared to take some risks on take-up. I have already mentioned that DES officials are now talking in terms of £900. It may therefore be possible to reach agreement, but hopefully no higher than at £800.

14. One argument that Mr Baker may use is that the then Lord President, in seeking the Prime Minister's authority for the Review of Student Support in 1986, said that:

> "[Mr Baker] also accepts that the amount of money available for student support should be the total of student grant available at the time plus a component equivalent to the present value of social security benefits claimed by students, once the entitlement limitations have been taken into account. He also accepts that no account should be taken of any future increased take-up or benefit uprating."

Mr Baker might argue that on this basis you should be prepared to agree to a loan element in replacement for social security of £250 per student, which is the amount that the Survey evidence suggests was actually claimed by students in 1986-87. You can argue that the presumption of cost neutrality in the Lord President's minute has already been breached by your agreement to earlier reductions in the parental contribution. Mr Baker cannot both have more money than is being spent on grant, as this implies, and have the full 1986-87 value of social security benefits. In any case, the Lord President's minute has in this respect been overtaken by the 1988 social security reforms: it was never envisaged at that time that student entitlements would be reduced to the extent that they now have been.

15. You will however wish to avoid reaching any final agreement with Mr Baker on the size of the loan facility without first establishing two points. First, the loan must subsume any question of compensating students for their community charge contribution (see defensive (ii) on the last page of the Annex

to this brief). Second, it must subsume the proposed £20 million for discretionary bursaries, which should preferably be dropped altogether. This cannot be additional to what you agree on the size of the loan.

16. I should point out that all the figures in the paper are PSBR, not public expenditure, effects. Displaying public expenditure effects in the paper is complicated by covenanting; and we have also just been advised by GEP that indexation payments on student loans would count as revenue rather than as negative public expenditure. We will have to recast our costing model to cope with this last complication. Public expenditure figures will of course be calculated, but they are not available yet.

Treatment of grant after initial reduction

17. There is a choice between freezing the grant in cash terms, and reducing it by 5 per cent a year in real terms. Obviously this is a distinction without a difference if the rate of inflation is 5 per cent; but if it is less, the cash freeze implies a correspondingly slower erosion of the grant. Mr Baker has already declared himself in favour of the cash freeze rather than the 5 per cent real reduction. The latter could prove difficult to engineer in practice, since it will probably mean making a series of very small cash reductions in the grant over time. Provided that you can get agreement to an initial 25 per cent switch from grant to loan, you might agree to go for the cash freeze thereafter.

Discretionary bursaries

18. We know from what DES officials have told us in confidence that this idea for spending an extra £20 million was not originally on Mr Baker's shopping list at all, but was added because Mr Jackson and Mr Bird (the senior DES official responsible for this subject) pressed hard for it to be included. Mr Baker may therefore not display much personal attachment to it. You can certainly argue that it is a quite needless obstacle to agreement which should be dropped. You can point out that £20 million spread over some 100 higher education

institutions would achieve little anyway, and there would be incessant pressure for the amount to be increased. If it were at the expense of grant, which is the only basis on which you could possibly accept it, it would become a further and unnecessary point of controversy about the scheme as a whole. Furthermore, loans should themselves be a powerful incentive to students to improve their academic performance and to consider the economic relevance of their studies. There should therefore be no need for further additional incentives to attract students into subjects like science and engineering or to promote academic excellence. The onus is certainly on those proposing such an arrangement to show why the market is incapable of overcoming shortages of particular disciplines, and needs to be distorted by incentives of this kind.

Administration

19. The paper touches on the question of administration. There is no need for decisions to be taken on this now. But you might say that you are attracted to the idea that financial institutions should be invited to tender for the job of administering the scheme.

Next Steps

20. The overriding need is to get a place in the legislative programme. To this end, as already argued above, it would be very helpful if Mr Baker could have a word with Mr Rifkind, and perhaps with Mr Walker too, before Cabinet discusses the programme. Once that has been done, and assuming that a Student Support Bill is agreed, there would be every advantage in bringing early proposals to E(EP); and you might suggest that Mr Baker should commission a draft paper, to be agreed with you.

T.J. Burr

T J BURR

ANNEX

STUDENTS AND BENEFITS

INTRODUCTION

1. The rationale behind the Government's view that students should not be reliant on the benefit system is that students differ from other recipients of benefit because they have effectively taken themselves out of the labour market - being neither workers nor unemployed - in the interests of their self development and longer term career prospects. They should not be seen as students during term time and unemployed workers during vacations, but as students throughout the whole period of their course.

BACKGROUND

2. The position now is that students are treated as normal claimants during the long vacation (and their grant, which is not supposed to cover the long vacation, is not treated as income). Hence they are entitled to Supplementary Benefit, Unemployment Benefit and Housing Benefit (HB) in the summer. For the rest of the year, they are entitled to HB, but their grant is taken into account as income (it is averaged over the 38 weeks).

3. This position reflects the restrictions on entitlement introduced during 1986 and 1987:

- no supplementary/unemployment benefit during the short vacations;

- no HB in halls of residence during term time;

- grant income to be averaged over 38 weeks of term time and short vacations for HB;

- no HB during long vacations at term time address unless resident;

- treat non-grant aided students as grant aided for HB purposes.

These measures were estimated to save £24m (at 1985-86 benefit rates). Students were given a flat rate £36 addition to their grant to compensate them for the reduction in entitlement (costing £8m).

4. The social security reforms to be introduced in April will reduce student benefit entitlement overall. During the long vacations, those living away from home who previously received the higher householder rate of Supplementary Benefit will receive a lower (under 25) rate on Income Support (-£5); those living at home will gain slightly (+£1).

5. However, during term time students will suffer losses of HB, for two reasons. Firstly, the lower rate of Income Support ('the applicable amount'for HB) means that more grant will be taken into account, and there will also be a higher taper, so that 65p of each £ of income (grant) above the applicable amount will be deducted from benefit. The present taper is 33%

ESTIMATED COST OF SOCIAL SECURITY SUPPORT TO STUDENTS IN 1990-91

6. DHSS and DES have now agreed that the best estimate of the cost of student benefits in 1990-91 is **£68** million. This is based on all students; for mandatory award holders only (412,000 rather than 638,000) the equivalent figure is **£47m.**

7. The £68 million figure is much lower than the DES research survey estimate of student claims in 1986-87 of £140 million, for various reasons explained below. It takes full account of the projected increase in student numbers by 1990-91 and is built up as follows:

Long vacation Income Support - £43 million

Takes account of actual DE data on benefit claims by students and HMT unemployment assumption for 1990-91 (2.4 million rather than 2.7 million in 1987-88). Assumes little or no UB available to students (many of 8% who claim UB will lose from tighter NI conditions in current SS bill).

Long vacation HB - £7 million

Takes account of change in student long vacation entitlement effective from summer 1987 and cessation of rate rebates by 1990-91, as well as unemployment change above. NB Not affected by April 1988 changes.

Term time and short vacation HB estimate - £18 million

Takes account of April 1988 changes.

POSITIVE

1. What matters in 1990-91 is actual benefit position then. Because of social security changes since 1986-87, benefits much less important as source of income.

2. Estimate conservative, because it is based on assumption of no further fall in unemployment beyond 2.4 million in 1988-89.

DEFENSIVE

(i) Loan facility should be greater to compensate high losers.

- inconsistent with approach to compensation for 20 per cent contribution to rates/community charge.

- compensation through grant was given on an average basis when 1986-87 changes were made to student's benefit entitlement, despite heavy losers then. Little political damage.

- small number of heavy losers. For them small amount of extra loan will be little consolation anyway.

- 'levelling up' could make matters worse. Logic in loan to compensate for average benefit entitlement. Extra could only be justified by reference to high losers, in which there would be pressure for <u>full</u> compensation.

- many of high losers in South East where rents are highest. But this is precisely area where opportunities for employment in vacations are plentiful.

- students living at home will not lose (because cannot claim HB).

- lots of losers (3.8 million) from social security reforms, including losses over £5 a week. Why should students receive much better treatment than the genuinely poor?

(ii) <u>Students should get compensation through grant for 20 per cent community charge contribution.</u>

No. Amount included in income support for average 20 per cent community charge contribution. This also feeds through into housing benefit entitlement. Since students will be compensated through loan for loss of benefit entitlement, there will automatically be element in loan for community charge just as there is element in income support/housing benefit.

(iii) <u>April 1988 HB benefit changes hit students unfairly, so set loan compensation at higher level.</u> No. Students still better off than unemployed claimants eg student at home £5 a week better off; away from home varying amounts depending on rent level, but on rent of £30 a week still £1.50 a week better off.

STUDENT SUPPORT

This note describes a new regime for student support, on the basis outlined in the Chancellor's letter of 8 February and discussed by DES and Treasury Ministers on 16 February. Detailed figures and the specific assumptions on which they are based are given in the Annex.

2. The questions which DES and Treasury Ministers are asked to decide are:

i. are they now prepared to accept a scheme on the broad basis described?

ii. should the initial reduction in grant and parental contribution, to be replaced by loan, be 15%, 20% or 25%?

iii. what should be the size of the loan allowing for an appropriate element to replace social security benefits for students?

iv. should the grant, after the initial reduction, be frozen in cash terms or reduced by 5% per annum in real terms, to the point at which maximum grant and loan are equal?

v. what place should there be for discretionary bursaries?

The Scheme

3. The proposed regime, in essence, is that a loan would replace a proportion of grant and of the parental contribution in parallel, and also the entitlement to social security benefits of students with mandatory awards. The Annexes illustrate the implications of -

(a) a 20% cut, and

(b) a 25% cut

in grant and parental contribution initially, with take-up of -

(c) 70% and

(d) 90%.

For these variants are shown the effects of further reducing the grant and parental contribution in real terms after the first year -

(e) by 3% a year (for (a) and (b)),

(f) by 5% a year (for (a) only),

to the point at which the level of maximum grant and the level of loan entitlement are equal. This would correspond to freezing the grant and parental contribution in cash terms on inflation assumptions of 3% (for (e)) and 5% (for (f)) respectively. To achieve (f) with inflation of 3 per cent would mean reducing grant and parental contribution by some 2 per cent in cash terms.

4. The scheme is briefly described in Annex 1, and the subsequent annexes show the PSBR effects of 3 Variants:

A 25% initial reduction: 3 per cent thereafter

B 20% initial reduction: 5 per cent thereafter

C 20% initial reduction: 3 per cent thereafter.

5. Annex 2 displays the PSBR effects, for Variant A, for a range of possible loan facilities. Annex 5 shows the PSBR effects of Variants B and C, for the end-of-range cases.

6. The PSBR effect is calculated as gross loan outlay minus (i) net reduction in grant and parental contribution (allowing for covenant rebate) (ii) present expenditure on social security benefits and (iii) loan repayments. The full calculation is

displayed for Variant A, for the two ends of the loan facility range, in Annexes 3 and 4.

Issues for decision

Initial reduction in grant

7. It makes relatively little difference to the PSBR whether the initial cut in the grant and parental contribution is 20% or 25% as can be seen by comparing Annex 5 with Annex 2. The figure chosen will depend partly on Ministers' view of the presentational benefits, and partly on their decision whether allowance should be made, within the reduction in grant, for discretionary bursaries (see paragraph 14 below); no explicit allowance has been made for these in the costings.

Take-up

8. It can only be a question of judgement what will be the take-up of loans. Annexes 2 and 4 show that the PSBR effect of any scheme is sharply dependent on the assumed rate of take-up.

Size of loan

9. Under Variant A, the initial reduction of grant to be replaced by loan, calculated by reference to a weighted average of the main rates of grant adjusted by the Treasury cost factor up to 1990/91 prices, is taken to be £590. Annex 2 shows a wide range of possible loan facilities, based on the addition to that figure of sums ranging from £150 to £550 representing the margin for the replacement of social security benefits available to students.

10. The choice of the appropriate loan margin is for consideration in the light of (i) the PSBR effects and (ii) the available evidence on the present and future costs of benefits payable to students. Evidence and forecasts on the latter are set out in Annex 6.

11. The latest evidence of benefits claimed by students is taken from the survey of students' income and expenditure commissioned by the Student Support Review, in the year following the implementation of most of the 1986 package of benefit reductions. Expressed in 1990 prices, this data implies an expenditure of about £85 million on mandatory award holders in England and Wales.

12. The sum to be transferred from DHSS PES provision in 1990/91 will, however, have to be based on actual expenditure in that year. In calculating the likely expenditure on students account must be taken of changes in take-up and entitlement between 1986/87 and that year. The calculations in columns C and D therefore make allowance for:-

- deferred changes from the 1986 package

- the changes, particularly in housing benefit, in social security entitlements to be introduced next month

- the general downward trend in unemployment

- the loss of rate rebate when the community charge is introduced.

13. On this basis the 1990 expenditure is forecast as £68 million for all students in GB, or £47 million for mandatory award holders. (The round figure of £50 million has therefore been taken as the saving in benefit costs in the calculations in the Annexes.) If these sums were distributed equally between all mandatory award holders in England and Wales the expenditure per student would be:

£85 million	£68 million*	£47 million
£210	£165*	£114

*The asterisked figures would of course pre-empt all resources assumed to be available for mandatory award-holders, leaving none to provide non-award holders with any alternative access to resources.

14. If the loan facility for the replacement of grant were to be based directly on any of these figures, for the alternative take-up assumptions the corresponding margins would be as follows:

70%	£300	£235*	£163
90%	£233	£183*	£127

Cuts in grant and parental contribution in subsequent years

15. Ministers will wish to decide whether the grant should be frozen in cash terms or reduced by 5% a year in real terms, though in practice these alternatives differ only insofar as future inflation is less than 5 per cent. A comparison of Variants B and C in Annex 5 shows that the PSBR implications are small. Ministers will no doubt weigh the presentational case as well as the different costs.

Bursaries

16. At the meeting on 16 February the Secretary of State for Education and Science argued the case for discretionary bursaries of up to £20m., to be administered by higher education institutions. The objectives would be

a. to relieve hardship, particularly among the "losers" of social security benefits;

b. to encourage the recruitment of students in subjects such as science and engineering;

c. to promote "scholarship" - academic excellence; and

d. to encourage sponsorship of students by employers through the provision of matching funding.

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*The asterisked figures would of course pre-empt all resources assumed to be available for mandatory award-holders, leaving none to provide non-award holders with any alternative access to resources.

This could be provided for in any of the following ways:

i. as a net addition to costs, and therefore to PSBR effects, leaving the other components of the calculation unaffected;

ii. at the expense of gross mandatory grant, leaving net PSBR effects unaffected; or

iii. to substitute for some of the loan that would otherwise replace grants.

17. If the third of these were adopted, a fund of £20m. could be created by maintaining a relatively small proportionate differential between the reduction of grant/parental contribution and its replacement by loan. The precise figure would depend on the expectation of take-up: from a little over 3% for 70% take-up to about 2.5% for 90% take-up. Thus, on one variant, grant might be reduced by 20% and replaced by a loan equivalent to a 17-17.5% reduction. This would somewhat reduce the loan repayments in the calculations in Annexes 2-5. The PSBR effect in the short term would be minimal. Savings in the longer term would be reduced, but if the objective of equalising grant and loan is retained there would be no difference when the steady state is reached.

Administration

18. Ministers may wish to give officials a steer at this stage on whether they favour the loan scheme being administered by -

a. the DES,

b. a non-departmental public body, or

c. the financial institutions, as agents.

The first option would go against current Government plans for the civil service, but officials have not explored the relative costs of the three options. Financial institutions may be expected to compete for the business, because they will want to keep students as lifelong customers for the full range of their services. Option (c) is therefore likely to prove the most cost-effective. If so, there would be advantage in inviting the financial institutions to tender for the business, with a view to awarding the contract, other things being equal, to the institution(s) proposing the lowest administrative costs.

Next steps

19. Ministers will wish to consider, if agreement on a scheme is reached, how to handle the next steps. In brief these are seen as being:

i. involve other Education Ministers as soon as possible,

ii. bring proposals to the Student Support Review Group,

iii. obtain collective approval to

- the broad lines of a scheme, and
- the terms of a White Paper for publication in June.

Further consideration will need to be given to the need to consult the educational and other interests involved, and to the administrative arrangements.

March 1988

A revised loan scheme

Main features

1. The regime comes into effect in autumn 1990 and applies to all (not just new) students. The effects are calculated in constant 1990 prices, and therefore show the actual cash amounts of grant and loan when the regime is introduced. Student numbers are assumed to be in accordance with the present "projection Q".

2. Grant entitlement is means-tested against parental income. The loan is not means-tested.

3. The means test runs from a threshhold of £11,100 (below which the full grant is paid) to a ceiling of £22,500 (above which no grant is payable). This broadly represents the present contribution range uprated in line with the expected earnings trend.

4. After the first year, the grant and parental contribution are either frozen in cash terms, calculated as equivalent to 3% annual reduction in real terms or reduced by 5% a year in real terms. (Since the model is constructed in real terms the implications for the cash value of the grant cannot be demonstrated. But if inflation were at a constant rate of 3 per cent p.a. option a 3% real terms reduction would be equivalent to freezing the grant in cash terms, and a 5 per cent real terms reduction to cutting it by 2 per cent a year in cash terms.)

Main assumptions

5. Repayments begin from the April following the end of the course. Repayment is deferred in any year in which income is below 85% of the national average. Otherwise the loan is repaid in 10 years.

6. Nil real interest rate; the principal is indexed to the RPI from the time the loan is advanced.

7. Take-up is shown as 70% or 90%.

8. Default rate is 10%.

ANNEX 2

PSBR EFFECTS [E & W £m, 1990 prices]: VARIANT A

(NB Figures in brackets represent social security replacement element included in total loan facility)

	take up	1990	1991	1992	1993	1994	1999	2004	2009	2025	NPV (YEARS 1-35)
£740	70	+ 12	+ 12	+ 8	0	- 9	- 76	-149	-198	-230	-1695
(£150)	90	+ 65	+ 66	+ 64	+ 56	+ 46	- 24	-113	-175	-217	-1047
£790	70	+ 27	+ 25	+ 21	+ 13	+ 3	- 68	-144	-194	-227	-1568
(£200)	90	+ 83	+ 84	+ 81	+ 72	+ 61	- 14	-106	-170	-213	- 883
£840	70	+ 41	+ 39	+ 34	+ 25	+ 14	- 59	-139	-187	-217	-1418
(£250)	90	+101	+102	+ 98	+ 88	+ 75	- 3	-103	-164	-202	- 709
£890	70	+ 55	+ 53	+ 48	+ 38	+ 26	- 51	-134	-180	-206	-1264
(£300)	90	+119	+120	+115	+104	+ 90	+ 7	- 98	-157	-191	- 534
£940	70	+ 69	+ 67	+ 61	+ 50	+ 37	- 43	-129	-176	-203	-1137
(£350)	90	+137	+138	+132	+120	+105	+ 18	- 91	-152	-187	- 370
£990	70	+ 83	+ 81	+ 74	+ 63	+ 49	- 37	-123	-167	-192	- 981
(£400)	90	+156	+155	+149	+136	+120	+ 24	- 86	-144	-176	- 192
£1040	70	+ 97	+ 95	+ 87	+ 75	+ 60	- 30	-116	-158	-182	- 820
(£450)	90	+174	+173	+166	+152	+135	+ 30	- 80	-134	-164	- 12
£1090	70	+111	+109	+101	+ 87	+ 72	- 22	-111	-154	-178	- 693
(£500)	90	+192	+191	+183	+168	+150	+ 41	- 74	-129	-160	+ 152
£1140	70	+126	+122	+114	+100	+ 83	- 14	-104	-145	-167	- 529
(£550)	90	+210	+209	+200	+184	+164	+ 47	- 67	-120	-149	+ 335

CALCULATION OF PSBR EFFECTS

VARIANT A
£740 TOTAL LOAN FACILITY

VARIANT A HMT LOAN SCHEME: 25 PER CENT REDUCTION IN GRANT AND CONTRIBUTION IN YEAR1: 3 PER CENT THEREAFTER (m 1990 prices. England & Wales)

£150 LOAN TOP UP Take Up (%)		1990	1991	1992	1993	1994	1999	2004	2009	2025
	Net change in grant/c/v	-140	-151	-160	-169	-177	-238	-260	-260	-260
70	Net change in SB	-50	-50	-49	-48	-47	-49	-50	-50	-50
	Gross Loan Outlay	+202	+215	+224	+233	+241	+312	+338	+338	+338
	Loan Repayments	0	-2	-8	-16	-27	-101	-177	-226	-258
	Total PSBR Effect	+12	+12	+8	0	-9	-76	-149	-198	-230
	Net present value (over 35 years)= -1695									
	Net change in grant/c/v	-145	-157	-167	-175	-183	-247	-269	-269	-269
	Net change in SB	-50	-50	-49	-48	-47	-49	-50	-50	-50
90	Gross Loan Outlay	+260	+276	+288	+299	+310	+402	+434	+434	+434
	Loan Repayments	0	-3	-10	-21	-34	-130	-228	-290	-332
	Total PSBR Effect	+65	+66	+64	+56	+46	-24	-113	-175	-217
	Net present value (over 35 years)= -1047									

CALCULATION OF PSBR EFFECTS

VARIANT A
£1140 TOTAL LOAN FACILITY

VARIANT A HMT LOAN SCHEME: 25 PER CENT REDUCTION IN GRANT AND CONTRIBUTION IN YEAR1: 3 PER CENT THEREAFTER (m 1990 prices, England & Wales)
£550 LOAN TOP UP

Take Up (%)		1990	1991	1992	1993	1994	1999	2004	2009	2025
70	Net change in grant/cov	-140	-151	-160	-169	-177	-207	-210	-210	-210
	Net change in SB	-50	-50	-49	-48	-47	-49	-50	-50	-50
	Gross Loan Outlay	+315	+327	+335	+341	+347	+390	+394	+394	+394
	Loan Repayments	0	-4	-12	-25	-40	-147	-238	-279	-302
	Total PSBR Effect	+126	+122	+114	+100	+83	-14	-104	-145	-167
	Net present value (over 35 years):	-529								
90	Net change in grant/cov	-145	-157	-167	-175	-183	-215	-218	-218	-218
	Net change in SB	-50	-50	-49	-48	-47	-49	-50	-50	-50
	Gross Loan Outlay	+405	+420	+430	+438	+447	+501	+507	+607	+507
	Loan Repayments	0	-5	-15	-32	-52	-189	-306	-359	-388
	Total PSBR Effect	+210	+209	+200	+184	+164	+47	-67	-120	-149
	Net present value (over 35 years):	+335								

PSBR EFFECTS FOR VARIANTS B AND C

<u>VARIANT B</u>: 20% reduction in grent and pc in year 1: 5% p.a. thereafter. [England and Wales £m, 1990 prices.]

		PSBR effects									
LOAN FACILITY*	Take-up	1990	1991	1992	1993	1994	1999	2004	2009	SS	NPV
620 £~~740~~	70%	9	10	8	2	- 6	- 72	-156	-205	-233	-1719
(£150)	90%	53	59	61	58	52	- 13	-121	-181	-219	-1062
1020 £~~1140~~	70%	122	120	114	102	87	- 11	-104	-146	-170	- 526
(£550)	90%	198	202	198	186	171	52	- 67	-121	-151	338

<u>VARIANT C</u>: 20% reduction in grant and pc in year 1: 3% p.a. thereafter

£150 top-up	70%	9	8	6	- 1	- 8	- 66	-133	-187	-229	-1601
	90%	53	55	54	49	41	- 17	- 93	-161	-216	- 983
£550	70%	122	119	112	99	84	- 3	- 93	-140	-166	- 460
	90%	198	198	191	176	159	61	- 54	-114	-148	382

* The figures in brackets represent social security benefit replacement element included in total loan facility.

ASSUMED SOCIAL SECURITY SAVINGS

A: Estimated costs of benefits in 1986/87: students on mandatory awards in England and Wales (based on RSL survey)

B: A adjusted to 1990/91, on Treasury cash factor and student numbers

C: DHSS present estimate of actual cost of student benefit claims in 1990/91, taking account of:

- i HB losses from April this year (and loss of rate rebate when the community charge is introduced)
- ii the general downward trend in unemployment

\- for all students in GB

D: C scaled down for mandatory award holders in England and Wales

	A £ million	B £ million	C £ million	D £ million
i. HB in term-time and short vacations	33	36	18	14
ii HB in long vacation	10	11	7	5
iii. Income support (SB/UB) in long vacation	34	38	43	28
iv. Total	77	85	68	47
v. Per student (£)	190	210	106	114

2515/17/29

CONFIDENTIAL

BF 30/3

FROM: C W BOLT
DATE: 29 March 1988

AC 29/3

1. ~~MRS CASE~~
2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Spackman
Mr Turnbull
Mr Burr (o/r)
Mrs Butler
Mr McIntyre
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT

Mr Baker will be writing in advance of your meeting with him tomorrow. His letter will cover four main areas, of which the most significant are that he is pressing for an initial loan of £1000, and is continuing to argue for the establishment of a hardship scheme.

Objectives

2. Your objectives will be to confirm the agreement which appeared to have been reached at your meeting of 9 March, as a basis for presenting proposals to E(EP) on 19 April. In particular, you will want to stress:

(a) that collective agreement to a reform of student support, and for securing a place in the next Session's legislative programme, is unlikely if the proposals are not presented as being agreed between the Treasury and DES;

? (b) that identification of the total costs of the scheme, including the effects of Budget changes, equal treatment for full value discretionary award holders, and formula consequentials for Scotland and Northern Ireland, make it all the more important to restrict the size of the initial loan to £900;

(c) that the case for a hardship scheme still appears weak, and that even on DES figures a maximum of £5m would be justified.

Scope of the scheme

3. Mr Baker proposes that the scheme should cover both mandatory award holders and full value discretionary award holders. The inclusion of this latter group reflects on assumption that local authorities will pay awards to such students on the basis of the proposed new student support arrangements. This would cost initially about £10m a year. It is understandable that DES should seek to extend the coverage of the scheme in this way, and it would be difficult to argue that it should be restricted to mandatory award holders only. DHSS will welcome the inclusion of this additional group in the coverage of the loan scheme; Mr Baker will, however, seek your support in persuading DHSS that other discretionary award holders should remain within the benefit system. You should offer support if necessary.

Size of loan

4. At your last meeting with Mr Baker, you indicated that you could accept a scheme of £900/£900/£715. This was then estimated (ie pre-Budget) to have a PSBR cost of £82 million, compared to £107 million for Mr Baker's proposal of £1000/£1000/£725. The Budget changes on covenants have resulted in a small increase in these costs, to £86 million and £111 million respectively. (PSBR costs are the same initially as public expenditure costs, following the Budget). This change reinforces the need to resist Mr Baker's proposal for an initial loan of £1000, which he restates in his letter following discussion with other Education Ministers.

5. Mr Baker has no new arguments to support his proposal: the advantages he sees are that it would reduce somewhat the numbers of losers from the scheme, and have the presentational advantage of being a round number. You should reiterate your argument that there is no case for a top-up of nearly £300 on top of the £715 that would be neutral in terms of the switch from grant and loss of social security entitlements.

6. It is, of course, unfortunate that Mr Baker's discussions with other Education Ministers have served to reinforce his earlier proposal, rather than provide the opportunity for him to sell the £900/£900/£715 scheme as had been intended, following your last meeting.

Hardship scheme

7. Mr Baker's letter is likely to restate his desire to establish a hardship scheme. No figures will be given in his letter, although we understand that he now has in mind a figure of £10m, compared with the £20m originally proposed. As indicated in Mr Burr's submission of 9 March, it is difficult to justify a figure of more than £5m, even if the merits of the proposal were accepted. Mr Baker indicated at your last meeting that, with an initial loan of £900, there would be 40,000 losers, of whom 20,000 would lose more than £100. But even a fund of £5m would provide an average of £125, for 40,000 students, which is probably if anything slightly higher than the average loss. The case for a hardship fund appears even weaker if the initial loan is £1000, as Mr Baker proposes.

Phasing in

8. Mr Baker has concluded that phasing in has no obvious advantages over a "big bang" introduction of the new regime for all students in October 1990, although other Education Ministers have seen some advantages in phasing. Given that Mr Baker seems unwilling to drop his proposals for a hardship fund even with phasing, and it would in any case create difficulties if social security changes for students were phased, the advantages of phasing in do not seem to be significant. This points clearly to full implementation of the new arrangements in October 1990.

Costs of scheme

9. DES are still refining their cost estimates, to include for example move up to date information on earnings. There are other minor details to be resolved: for example, the latest costings provided by DES assume repayments begin in the April following the end of a student's course whereas previous costings assumed an earlier start date of October. However, it is clear that, even with an initial loan of £900, the total cost of the scheme in the first year is over £100m, once the implications for full value discretionary award holders (paragraph 3 above) and the formula consequentials for Scotland and Northern Ireland are taken into account. You will want to ensure that in

the further costing work being undertaken, all these additional costs are taken into account.

Next steps

10. If agreement is not reached tomorrow with Mr Baker, it is unlikely that there would be much advantage in a further meeting before Mr Baker puts proposals to E(EP). You will, however, want to stress that continued disagreement will reduce the chances both of securing colleagues' agreement and obtaining a place in the legislative programme.

CWBolt

C W BOLT

CONFIDENTIAL

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

CHIEF SECRETARY
REC. 29 MAR 1988
ACTION Mr Bott.
COPIES TO Cx, FST, PMG, EST
Sir P. Middleton, Mr Anson, Mr Phillips
Mr Spackman, Mr Turnbull, Miss Case
Mr Bott, Mrs Butler, Mr McIntyre
Miss C Evans, Mrs Pugh, Mr Cropper
Mr Tyrie, Mr Call

Rt Hon John Major MP
Chief Secretary of the Treasury
The Treasury
Parliament Street
SW1P 3AG

~~BP 81/3~~

29 March 1988

Dear Chief Secretary

STUDENT SUPPORT

Robert Jackson and I had two useful discussions with you on 7 and 9 March. We are to be joined by Wyn Roberts, Michael Forsyth and Brian Mawhinney for a further meeting on Wednesday 30 March. I hope that we may on that occasion be able to agree on a package for presentation to E(EP) on 19 April.

I think there are four main questions which we need to settle.

1. **Students in scope of the scheme.** Our calculations have been done so far on the basis that the students in scope of the loan scheme would be those currently eligible for mandatory awards. We could usefully add to these a small group, namely those in receipt of discretionary full-value awards. That should in my view be the extent of the coverage of the scheme when we start in 1990-91. This does mean that the question of disentitling other students from income support and housing benefit, and compensating them through the student support system, would have to be considered later. We cannot extend the loan arrangement as currently envisaged to cover them. If you agree with me on this point, we might briefly discuss how to persuade our DHSS colleagues to share our view.

2. **Size of loan facility.** I have explained my preference for a loan facility of £1,000 as the central figure. This would be the size of the facility for the largest group of students: London students would have £1,300, students studying at home £500. You have said that you would be willing to see a loan facility of £900 (with, I take it, higher and lower values for the other categories pro rata). My colleagues and I

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would like to urge you to accept our view that the figure should be £1,000. This figure has obvious presentational advantages. It also has substantive merit in reducing the number of "losers".

3. **A bursary scheme.** The five of us are agreed that we must protect this flank with a bursary scheme. Even with a £1,000 loan, there may be some 30,000 "losers" about whom our supporters in the House will be legitimately concerned. And the concept of a scheme to be allocated at the discretion of higher education institutions is important also in the wider context of our approach to the management of higher education. I must press you on this.

4. **Phasing in a loan scheme.** I favour the introduction of a loans regime for all students in autumn 1990, and we have discussed a scheme on this basis. Some of our colleagues would prefer to see it phased in, so that only students starting their courses in or after autumn 1990 would be in scope of the scheme. This too is something that we need to settle next week.

Once we have settled these large questions, our officials can make progress with the preparation of an agreed paper which I will present to colleagues in E(EP) for discussion at their meeting on 19 April.

Copies of this letter go to Wyn Roberts, Michael Forsyth and Brian Mawhinney.

Yours sincerely

Tom Jeffery

- approved by the Secretary of State and signed in his absence.

004/4206

cc:
Chancellor
FST
PMG
EST
Sir P Middleton
Mr Anson
Mr Phillips
Mr Spackman
Mr Turnbull
Mrs Case
Mr Burr
Mrs Butler
Mr McIntyre
Mr Bolt
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

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CHIEF SECRETARY TO THE TREASURY

BF 15/4

Treasury Chambers, Parliament Street, SW1P 3AG

Tom Jeffery Esq
Private Secretary to the
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
London
SE1 7PH

11th April 1988

Dear Tom,

STUDENT SUPPORT

Your Secretary of State, accompanied by Mr Jackson came to discuss progress on Student Support with the Chief Secretary on 30 March. Also present were Mr Roberts, (Minister of State at the Welsh Office), Mr Forsyth, (Parliamentary Under Secretary of State at the Scottish Office). Dr Mawhinney was not available so the NIO was represented by Mr Holmes. Officials from Departments were also present, as were Mrs Case and Mr Bolt from the Treasury.

Your Secretary of State opened by saying that he had managed to achieve a substantial measure of agreement between Education Ministers. They were agreed that students' access to the social security system should be ended. There was some difficulty in estimating what the loss of entitlement would amount to particularly post-social security reforms. They were agreed that the end state should be a 50: 50, grant: loan arrangement. There was also clear agreement that loans of £900/£900/£715 were not sufficient. Education Ministers thought that loans of £1,000/£1,000/£800 would be necessary to introduce the scheme. They also believed that there should be a welfare bursary scheme. Your Secretary of State said that he thought that these proposals should be put in context of the net savings of £56 million the Treasury was making out of the revised covenanting arrangements, after allowing for the cost of recycling student awards (£44 million).

Your Secretary of State said he had an open mind on the question of whether it was preferable to go for a big bang in October 1990 or to phase. However the Secretary of State for Wales was very concerned about the initial 25 per cent cut in the grant and in the parental contribution. He had also had an off-the-record discussion with Whips who had also noted that substantial cut in the grant could be interpreted as being inconsistent with the "top-up" that had previously been presented. The Secretary of State proposed an alternative of a 5 per cent initial cut in the grant and parental contribution followed by 5 per cent per annum cuts until the steady state of 50:50 grant:loan were achieved. On calculations done by the DES, this implied that the 50:50 steady state would be achieved in 2001 as opposed to 2000 under the big bang proposal. The initial loans would be of £550/£550/£275. This produced a different profile for public expenditure: in the initial years the run would be £77/84/87/86/83m. Mr Roberts repeated his Secretary of State's concern about the number of losers in 25 per cent proposal. He believed this would be alleviated by the longer phasing he was proposing. He believed his Secretary of State would argue against the 25 per cent cut in Cabinet.

Mr Forsyth said that on political grounds he believed that there was a case for having a more substantial loan element earlier. He noted that there was a special problem in Scotland because of the widespread nature of 4-year degree courses which would mean that the Scots would require more than the normal formula consequence to cope with the public expenditure changes. That problem would obviously be reduced with the smaller loan scheme. Mr Holmes said that since more of Northern Ireland students were in receipt of maximum grant they would prefer the lower initial loan scheme.

The Chief Secretary said that he was pleased there was agreement at least on the social security objective and the 50:50 grant:loan objective. The choice on phasing was essentially political. He preferred the big bang approach. He noted however that the scheme still had no place in the legislative programme and there seemed to be less agreement than there had been. The public expenditure implications were now noticeably worse than the initial range the Treasury had considered. The baseline cost for England was £86/86/81/71m on a £900 loan. To this had to be added the formula consequences for Northern Ireland and Scotland, quite apart from any separate bid the Scots might make for special treatment, and the additional cost of discretionary full value awards which would add a further £10 million or so. The scheme appeared to be costing over £100 million a year, well in excess of anything he had in mind. He was very reluctant to move from loans of £900/£900/£715. The advantage of the 25 per cent initial cut was that it produced an initial loan of significant size. The latest 5 per cent proposal would move in the opposite direction. He was happy to see that proposal costed but noted that it was contrary to the position that had previously been reached. He was prepared to agree that the terms of full value discretionary awards should fall into line with those of the mandatory scheme, but that would further strengthen his resistence to any move away from £900/. He had considered further the case your Secretary of State had put on the hardship scheme. He noted that the losers would be those in high cost areas or in high cost housing, not necessarily the poorer students. He would be prepared to entertain a hardship scheme provided satisfactory administrative arrangements were devised but only of a much smaller scale than that proposed by your Secretary of State i.e. £5 million. He noted however there was still disagreement on the question of the initial loan should be £1,000 or £900.

Your Secretary of State said that he had calculated that with a 5 per cent reduction in grant, the loan should be £550. This would imply cut in grant of £113 and loss of social security of £235 which would produce a loss of £348 plus a £200 top-up. The Chief Secretary noted that much of the attraction of the matching reduction in the parental contribution would be lost through switching to a 5 per cent reduction.

The Chief Secretary said that he was prepared to agree that there should be some further work on the costing of the revised proposal put to him by the Secretary of State which he had not had chance to consider and which he could not agree to as it stood. He also asked for there to be further work on the effect of admitting discretionary full value awards into the loan scheme. He was concerned that as the basic grant was frozen the number of recipients of full value awards could rise and this would add to public expenditure. He would like the Scots to produce a costing of the additional Scottish cost. He would like to see the options costed with the separate elements identified e.g. the territorial consequential plus any additional bid and the cost of discretionary full value awards. He noted that phasing of removal of students from social security benefits would lead to DHSS oppostion to the package which could be fatal to its chances of getting collective agreement. He would discuss further with your Secretary of State and other Ministers once the proposal had been properly costed and in advance of preparation of the E(EP) paper.

I am copying this letter to the Private Secretaries to Mr Forsyth, Mr Roberts and Dr Mawhinney.

Yours ever,

Joe Eddy

JILL RUTTER
Private Secretary

CONFIDENTIAL

papers/psc

(on BF for 15/4 1 month)

FROM: S P JUDGE
DATE: 13 April 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Spackman
Mrs Case
Mr Turnbull
Mr Burr
Mrs Butler
Mr McIntyre
Mr C W Bolt
Miss G C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

BF 15/4

STUDENT SUPPORT

The Paymaster General has seen your letter of 11 April, recording the Chief Secretary's meeting with Mr Baker and others.

2. The Paymaster General has noted in particular the discussion about a possible hardship fund. He notes that when the Government changed the student travel arrangements in 1984, 30 per cent of students lost over £50 and were not compensated - "rough justice". The only alleviation, which DES funded from savings elsewhere, was that students who lost more than £250 were refunded the excess over that figure: this of course applied only to existing students.

3. The Paymaster General recalls that in 1984 the net loss to students overall was £7m, but 56 per cent of students were outright gainers, and he cannot recall what the loss figure (in cash) was for the losers. His only query on Mr Baker's letter is whether (as with student travel) the losers are highly localised at particular institutions (he notes the reference to high cost areas and high cost housing).

4. All of this is simply defensive material for future negotiations on the hardship fund.

S P JUDGE
Private Secretary

975/13

CONFIDENTIAL

FROM: T J BURR
14 April 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Miss Sinclair
Mr Bolt
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

I am not clear why there appears to be no middle ground between an original scheme of 5% and one of 25%. Maybe there would be a 15% solution?

STUDENT SUPPORT

You are meeting Mr Baker at 3.30pm on Tuesday 19 April for a further discussion of student support. The purpose of the meeting will be to see how far you can reach agreement with Mr Baker on the proposals to be put to E(EP). The E(EP) meeting has been arranged for 3 May, a fortnight after your meeting.

2. A necessary basis for your meeting with Mr Baker, therefore, is a draft of the paper which he proposes to circulate to E(EP). I attach a first draft, which DES officials sent us yesterday afternoon. It has been submitted to Mr Baker, but not yet discussed with him; and it is not yet clear how far it reflects his views. Nevertheless it covers the issues which your meeting will need to consider. If progress is made at the meeting, a revised version will in any case need to be produced and cleared with you before circulation to E(EP).

Size of the loan

3. This remains the main issue, and has indeed become less straightforward since Mr Baker deployed the idea of a 5 per

cent initial reduction in grant and parental contribution at your previous meeting with him on 30 March. You will recall that this option has the support of Welsh Office Ministers, and that the Whips are said to be hesitant about the initial 25 per cent cut in grant under the options previously discussed. The draft E(EP) paper now has Mr Baker proposing this 5 per cent option. That is no more than his officials' anticipation of his views, but it could well be correct.

4. The first question, therefore, is whether you should be prepared to go along with this option. There are some arguments for doing so. The cost in the early years is similar to that of the option with a 25 per cent cut in grant and a £900 loan, which you were prepared to accept; and the longer-term savings are also similar. Only in the medium term is the net cost much higher than under the £900 option, reflecting the slower build up of loan repayments. In almost all years the 5 per cent option compares favourably with Mr Baker's proposal that a 25 per cent reduction in grant would need to be replaced by a £1,000 loan. Costings for each of the options are set out in tables 1A to C of the paper, and summarised in table 1D.

5. We nevertheless recommend that you should firmly reject the option for a 5 per cent initial cut in grant (and a £550 initial loan - option C in the paper). There is a considerable risk that this option would never produce the longer-term savings which would alone justify the substantial initial cost. The attraction of this option to Welsh Office Ministers, and perhaps to the Whips and to Mr Baker, is that it avoids any substantial cut in grant and minimises the debt burden on students in the early years. But the nettle of placing such a burden on students has got to be grasped if we are to have a worthwhile student loan scheme. If your colleagues are not prepared for that (and the kind of debt profile which a typical student would face once the scheme had been phased in is shown in the last of the tables attached to the paper), it would be better to stay with the existing grants scheme. Otherwise the risk is that £100 million a year will be spent on introducing a generous

top-up loan, for little reduction in grant; the will to increase the loan burden by making further significant reductions in grant is then found to be lacking, and we end up with the costs of default and administration on the loan, superimposed on a grant which is only a little lower than at present.

6. The likelihood of such an outcome is strengthened by the fact that the subsequent 5 per cent real reductions in grant, on which progress towards a worthwhile loan scheme would depend, could prove difficult to engineer. If inflation were, say, 3 per cent, it would mean a cash reduction in the grant of 2 per cent each year. The chances are that such changes would be thought too small to be worth making in practice. One might therefore achieve no more than a cash freeze on grant, as under the other options, but without the initial 25 per cent cut.

7. In short, we think that it would be right to regard your colleagues' willingness to make the initial 25 per cent cut as a litmus test of determination to have a substantial loan element in student support, rather than just a top-up of existing grant support. If they are not prepared to have more than a top-up at the outset, it is not clear why they should ever be prepared to go much further. Substantial expenditure on introducing the scheme would not then have been worthwhile. It is only worthwhile if there is a willingness to implement loans on a substantial scale from the start.

8. With a 25 per cent initial cut in grant, the choice is between Mr Baker's proposal of a £1,000 initial loan (option A) and yours of a £900 loan (option B). Mr Baker is of course likely to say that, if you cannot accept the 5 per cent reduction/£550 approach (option C), but insist on a 25 per cent reduction in grant, he will need at least a £1,000 loan to sell the scheme politically. There are of course arguments against that:

(a) As the Annex to the draft E(EP) paper acknowledges, the £900 loan exceeds the cut in grant by £336, which is well in excess of the £270-290 average social security entitlement of students who actually claim benefits; and it is far higher than the figure of £100-130 which results from averaging benefit expenditure over all mandatory award holders;

(b) the Government has not felt it necessary to compensate on this scale for the social security reforms, or the introduction of Community Charge;

(c) the higher the loan facility, the higher the level of student debt which results from the scheme. Mr Baker may say that the facility would not in practice be fully used by students; but that will not stop critics of the scheme from calculating students' potential liability on the basis of the maximum loan available.

9. If it nevertheless becomes clear that Mr Baker is determined to go to E(EP) on the basis of a £1,000 loan, you will need to judge both whether you would ultimately be prepared to move to that level in order to have a student loan scheme at all, and if so, whether to do so before or after E(EP). There would clearly be advantage in having a common position with Mr Baker for E(EP). It would obviously be unsatisfactory, when Cabinet had been given the impression that agreement on the form of the student loan scheme was close, if the Prime Minister were to find in E(EP) that Mr Baker was arguing for one option (£1,000), you were arguing for £900, and Mr Walker for £550. The Prime Minister might then be quick to conclude that, contrary to what she had been told, the policy was nowhere near sufficiently agreed to justify a place in the tightly constrained 1988-89 legislative programme. So if you would ultimately be prepared to move to £1,000, there would be something to be said for doing so before E(EP). But £1,000 costs some £30 million a year more than £900 in each of the early years of the scheme. The £900 option already costs over £100 million a year in those years, and you have indicated that £100 million is the furthest that you would wish to go. We judge, therefore, in spite of the risks, that it is worth making a stand for £900, and not moving off it ahead of E(EP). If the result is that E(EP) rejects the scheme

(which is by no means certain), it will at least be clear that the scheme was only available at a price higher than you would readily have been prepared to pay. Our assessment is that Mr Baker is testing the limits of your willingness to make money available because he sees that the Treasury wants a student loan scheme and wishes to capitalise on the fact. We think that you should also test his resolve.

10. I should add that we have been looking more closely at the DES figures for the final year. (£725 for the £1,000 scheme and £715 for the £900 one.) It looks to us as if lower figures could be justified, of say £700 and £670 respectively. The saving are not great (some £3 million a year), but it would be worth suggesting that officials should look at this point again.

Discretionary awards

11. At the meeting on 30 March, you asked for further work on the effect of admitting discretionary full value awards into the loan scheme. We thought we had persuaded DES officials that the right approach was to provide in the legislation on student loans that local education authorities could make both discretionary grants and loans, but that the levels of grant and loan could not exceed those in a mandatory scheme. This would avoid any need to make loans to discretionary award holders under the national scheme which, as you pointed out at the 30 March meeting, would leave LEAs responsible only for the reduced grant, and able to use the grant savings to extend the scope of their discretionary schemes. Our proposal was and is that LEAs should bear the cost of loans to discretionary award holders. An additional reason for not bringing discretionary award holders into the national scheme is that to do so would mean that the national scheme would be supporting students on particular courses in some parts of the country but not in others, depending on how the relevant LEA had exercised its discretion. The result would be pressure that any course which was supported anywhere should be supported everywhere, and that would be expensive.

12. Now, however, DES officials have simply told us that they want to leave the question of full value discretionary award holders on one side for the present, in order to simplify matters for E(EP). That would be all right if they either meant to leave discretionary award holders unaffected by the introduction of the new scheme, or had a serious prospect of doing so. In practice, it is very difficult to imagine that DES would be prepared to leave discretionary award holders on grants at the existing level, while reducing grants (and replacing them by loans) for the higher priority mandatory award holders. It is clear, however, that DES do not even intend to do this. They say that instead of enabling LEAs to set up their own parallel system of student loans for discretionary award holders, they would propose to lift the moratorium which has existed for some years on the designation of further courses for mandatory support. That could well be at least as expensive as extending student loans to discretionary award holders.

13. Whatever DES propose to do, it clearly has to be brought to account now. It would not be acceptable for Mr Baker to secure E(EP) agreement to a £1,000 loan on the basis, implicitly, that nothing needed to be done for discretionary award holders, and then come back in the Survey and say that the decision to introduce student loans necessitated doing something for discretionary award holders. We have accordingly prepared the attached alternative versions of the DES tables 1A to 1C, showing the costs on the basis that local authorities replicate the national scheme for their discretionary award holders. We have, incidentally, put the proposed £5 million access fund below the line in these tables, since you will wish to take the line that this will not be finally conceded until agreement has been reached on the size of the loan facility.

Conclusion

14. There are some other points of detail on the paper which we can sort out following the meeting. Among other things, there is scope for improving the presentation and for reducing the number of tables. Experience when loans were last considered collectively in 1985 showed that a poorly presented paper could

reduce the chances of agreement. But the main points which you will wish to make are that:

(a) a £900 loan facility is quite large enough;

(b) the paper must be explicit about the way in which full value discretionary award holders are to be handled.

TJ Burr

T J BURR

2517/15/13

Table 1A

Option A: 25% initial reduction in grant and parental contribution, £1000 loan (80% take-up)

£ million 1990 prices

	1990	1991	1992	1993	1994	1999	2004	2009	steady state (2023)
Mandatory support, England and Wales									
Net change in grant	-139	-150	-159	-168	-175	-229	-236	-236	-236
Net change in social security	-50	-50	-49	-48	-47	-49	-50	-50	-50
Gross loan outlay	+300	+314	+324	+332	+341	+416	+427	+427	+427
Repayments	0	-2	-7	-17	-31	-132	-235	-292	-327
PSBR effect*	+111	+112	+108	+100	+87	+6	-94	-150	-186
Discretionary awards	+10	+10	+9	+8	+6	-7	-19	-26	-29
Territorial consequentials	+16	+16	+15	+14	+12	+1	-13	-21	-26
Total PSBR effects, UK (excluding administration)	+137	+138	+132	+122	+105	0	-126	-197	-241
Proposed access fund	+5	+5	+5	+5	+5	+5	+5	+5	+5

Notes:

(i) The scheme illustrated is for a 25% reduction in grant and parental contributions in 1990 with 3% p.a. reductions thereafter until 2001; a £1,000/£1,000/£725 loan facility; no social security benefits; an April start date for repayments; and no covenating.

(ii) The total PSBR effect is calculated as the gross loan outlay minus the net change in grant (the effect of reducing the parental contribution is reflected in this figure), present expenditure on social security benefits, and loan repayments.

*net present value (over 35 years) = -520

2517/15/13

Table 1B

Option B: 25% initial reduction in grant and parental contribution, £900 loan (80% take-up)

£ million 1990 prices

	1990	1991	1992	1993	1994	1999	2004	2009	steady state (2024)
Mandatory support, England and Wales									
Net change in grant	-139	-150	-159	-163	-175	-236	-244	-243	-243
Net change in social security	-50	-50	-49	-48	-47	-49	-50	-50	-50
Gross loan outlay	+275	+290	+300	+309	+317	+401	+412	+412	+412
Repayments	0	-2	-7	-16	-29	-123	-222	-279	-315
PSBR effect*	+86	+88	+85	+77	+66	-7	-103	-160	-197
Discretionary awards	+7	+7	+6	+5	+3	-8	-21	-27	-31
Territorial consequentials	+12	+12	+12	+11	+9	-1	-15	-23	-28
Total PSBR effects, UK (excluding administration)	+105	+107	+103	+93	+78	-16	-139	-210	-256
Proposed access fund	+5	+5	+5	+5	+5	+5	+5	+5	+5

Notes:

(i) The scheme illustrated is for a 25% reduction in grant and parental contributions in 1990 with 3% p.a. reductions thereafter until 2001; a £900/£900/£715 loan facility; no social security benefits; an April start date for repayments; and no covenanting.

(ii) The total PSBR effect is calculated as the gross loan outlay minus the net change in grant (the effect of reducing the parental contribution is reflected in this figure), present expenditure on social security benefits, and loan repayments.

*net present value (over 35 years) = -761

2517/15/13

Table 1C

Option C: 5% annual reduction in grant and parental contribution, £550 loan (80% take-up)

£ million 1990 prices

	1990	1991	1992	1993	1994	1999	2004	2009	steady state (2025)
Mandatory support, England and Wales									
Net change in grant	-28	-54	-77	-99	-118	-220	-231	-231	-231
Net change in social security	-50	-50	-49	-48	-47	-49	-50	-50	-50
Gross loan outlay	+155	+188	+217	+242	+266	+405	+421	+421	+421
Repayments	0	-1	-4	-10	-18	-94	-199	-273	-322
PSBR effect*	+77	+84	+87	+86	+83	+42	-59	-133	-182
Discretionary awards	+8	+9	+8	+8	+7	-3	-15	-24	-29
Territorial consequentials	+11	+12	+12	+12	+12	+6	-8	-19	-26
Total PSBR effects, UK (excluding administration)	+96	+105	+107	+106	+102	+45	-82	-176	-237
Proposed access fund	+5	+5	+5	+5	+5	+5	+5	+5	+5

Notes:

(i) The scheme illustrated is for a 5% reduction in grant and parental contributions in 1990 with 5% p.a. reductions thereafter until 2001; a £550/£550/£275 loan facility; no social security benefits; an April start date for repayments; and no covenanting.

(ii) The total PSBR effect is calculated as the gross loan outlay minus the net change in grant (the effect of reducing the parental contribution is reflected in this figure), present expenditure on social security benefits, and loan repayments.

*net present value (over 35 years) = -357

mjd 3/102m

CONFIDENTIAL

FROM: MISS M P WALLACE

DATE: 18 April 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Miss Sinclair
Mr Bolt
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT

The Chancellor has seen Mr Burr's minute of 14 April. The Chancellor wonders whether there might not be a middle way (of perhaps 15 per cent) between an initial grant cut of 5 per cent and one of 25 per cent.

MPW.

MOIRA WALLACE

RESTRICTED

FROM: S P JUDGE
DATE: 18 April 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr T J Burr
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Miss Sinclair
Mr Bolt
Miss C Evans
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT

The Paymaster General has seen Mr Burr's submission of 14 April.

2. The Paymaster has noted (**paragraph 12**) that DES do not propose to enable LEAs to set up their own parallel system of student loans for discretionary award holders. He says that there are some LEAs who would like to have the freedom to make such loans, so the issue will not go away.

SPJ

S P JUDGE
Private Secretary

AR1432p

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Parliamentary Under Secretary of State for Social Security

Robert Jackson Esq MP
Parliamentary Under Secretary of State
Department of Education and Science
Elizabeth House
York Road
SE1 7PH

CH/EXCHEQUER
REC. 22 APR 1988 22/4
ACTION CST
COPIES TO

21. April 1988

Dear Robert

I understand that the broad proposals for a new student support regime will be discussed at a meeting of E(EP) in early May. I thought it would be helpful, before the meeting, if I mentioned a couple of points about students and benefits, which do not need to be discussed at the meeting, but should not be overlooked for the longer term.

As I understand it, your dicussions so far with John Major have (quite rightly) focussed on the majority of students with whom we are concerned - those receiving mandatory awards. There are, however, other students who are currently eligible for benefit only on the restrictive terms which apply to students generally. We could not defend leaving those in benefit when we removed mandatory award holders. Not only would this offend the principle of treating people in like circumstances alike; all past experience suggests it could rapidly lead to a distortion of educational provision, in an attempt to maximise benefit entitlement. I see no realistic alternative to continuing to treat all students on a par for benefit purposes. Your Group has, I know, taken this on board and a paper has been promised by your officials on what, if any, compensation may be given to students not receiving mandatory awards.

The other point is that we have yet to consider whether benefit should continue for lone parent students, disabled students, and partners of students, for whom special rules currently exist. The time to do this is when the support available through the education

E.R.

system has been decided and the extent of gains and losses are established. But I have asked my officials to prepare a short paper on the benefit position which I hope could be discussed at the next meeting of the review team.

Copies of this go to members of E(EP).

Yours ever

Michael.

MICHAEL PORTILLO

have we seen X?

M.

pmp

BF 13/5

CHIEF SECRETARY
REC. 10 MAY 1988
ACTION Mr Bolt
COPIES TO Cx, FST, PMG, EST
2
Sir P. Middleton, Mr Anson, Mr Phillips, Mr Spackman, Mr Turnbull, Mrs Case, Mr Burr, Mrs Butler, Mr McIntyre, Miss Evans, Mrs Pugh, Mr Cropper, Mr Tyrie, Mr Call.

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

Michael Portillo Esq MP
Parliamentary Under Secretary of State
Department of Health and Social Security
Richmond House
79 Whitehall
LONDON SW1A 2NS

6 May 1988

Dear Michael

Thank you for your letter of 21 April about students and social security benefits.

2. As you say, the discussions between the Education Ministers and the Chief Secretary have been focussed on students who receive mandatory awards. A key objective is to take such students right out of the social security system, and you can be sure that the proposals which the Secretary of State intends to put to E(EP) will be aimed at the accomplishment of that object. The position of students outside the scope of the new regime will of course have to be addressed, but there will need to be discussions between our two departments before any proposals are put to colleagues.

3. You have made clear your Department's views that all students (leaving aside the special categories) should be treated on the same basis for benefit purposes so that when the new regime for mandatory award-holders is introduced full-time students outside that regime should lose any remaining entitlements to benefit. I must make it equally plain that we cannot contemplate the creation of a uniquely disadvantaged class of person, deprived of any channel of assistance from public funds. That would be contrary to your own principle of treating "people in like circumstances alike" and I do not see how it could be defended to our own supporters, let alone the wider public. Students outside the scope of a regime which assumes a sufficiency of resources in grant and loan are clearly not in the same circumstances as those inside. If they are to be removed from benefit they must be provided with resources in some other way. May I also remind you of the point made by Kenneth Baker in his letter of 9 March 1987 to John Major, when the latter was Minister of State at DHSS. It is a fundamental objective of our

policy to increase post-school participation in education and training and we cannot put that policy at risk.

4. The question is therefore whether we can devise any satisfactory way to provide students outside the mandatory regime with resources to compensate for withdrawing benefits. Our officials are agreed that it would be nugatory to take students out of the benefit system and then create an equally complex and costly machinery under different management to provide for their needs. But there is a price to be paid when a benefit precisely targeted to individual circumstances is replaced by an allowance available to all. If we were to extend to all students a loan facility sufficient for the adequate compensation of those who at present are heavily dependent on social security benefits, we would be greatly increasing public expenditure and paying an uncovenanted bonus to the large number who claim little or nothing at present. We certainly could not afford to do so without a transfer from your programme to our own which fully reflected this additional cost.

5. The exclusion of <u>all</u> students from benefits could therefore be a very expensive policy to pursue. Leaving on one side the administrative problem of reaching them, we do not at present see a way of extending resources to students without grant which would not exceed the cost of leaving them within scope of the benefit system. Many will already have no benefit entitlement because they live in the parental home and their (post-19) studies do not span the long vacation. Those who are in a position to claim housing benefit will have a considerably reduced entitlement after last month's changes. And your own Department has pointed out that claims for income support during the long vacation have fallen significantly over the last three years with the improving employment trend, and may be expected to continue to do so.

6. I am not seeking to preempt the issue; the discussion must be continued between us. But it is now undeniable that the trend in students' dependence on social security benefits has gone into reverse. If we succeed in introducing a new regime which removes nearly half a million students from that dependence we shall substantially have achieved the cultural shift we are seeking.

7. I acknowledge the other point that you make: that the special rules for categories such as lone parents and disabled students will need to be considered. These students, of whom there are fewer than 2000, are entitled to social security benefit throughout the calendar year, since they are unavailable for employment. We assume that they would retain that entitlement, even after the introduction of the new regime. But we will be glad to consider any proposals you have to put forward, if they are consistent with our policy on access.

8. I am copying this letter to the other members of E(EP).

Yours ever
Robert

ROBERT JACKSON

3632/15

FROM: P J CROPPER
DATE: 9 May 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

Thanks. The old lady's nieces & nephews know a great deal more about loans than the dons.

STUDENT LOANS

Records of recent ministerial meetings on student loans make depressing reading, especially with a debate looming up on abolition of student covenants.

2. Does not this lead us back to the original point, that the best way of getting student loans airborne is to include in the first loan offer the opportunity for some alleviation of the parental contribution? The rest will then follow.

3. This reform has just got to start with the sort of people who are accustomed to things like banks, loans and interest rates. Not with the nieces and nephews of the old lady in Islwyn, who could not sell her property and who recoiled in terror from the Prime Minister's advice to get a bank loan.

P J CROPPER

NH6/27M

RESTRICTED

pmp

FROM: MISS M P WALLACE

DATE: 11 May 1988

MR CROPPER

cc PS/Chief Secretary
PS/Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

STUDENT LOANS

The Chancellor was grateful for your minute of 9 May. On "loan-awareness", the Chancellor has commented that the nieces and nephews of the old lady in Islwyn know a great deal more about loans than she does.

MPW.

MOIRA WALLACE

→ CST bilateral ← Bf 24/5

Ch/

Mr Baker, as promised, has now seen PM to take her mind on student loans. I understand she raised two fairly predictable (+ crucial) caveats:

(i) banks <u>should</u> be involved, not just in administering, but also in stumping up their own money

(ii) prefers to implement in <u>next</u> parliament

Officials wonder if you would want to raise this with PM at your next bilateral. Do you think this worth a try?

[signature] 18/5

1669/10

CONFIDENTIAL

FROM: T J BURR
13 May 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Mr Richardson
Miss Sinclair
Mr Bolt
Mr Deaton
Mrs Pugh o.r
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT: ROLE OF THE BANKS

At your meeting yesterday with Mr Baker, he mentioned the possibility that the Prime Minister might raise the question of the role of the banks in student loans when he sees her on Tuesday.

2. Mr Baker did not know whether she was likely to be interested simply in bank administration of student loans, or in bank finance for such loans. The former, of course, is entirely consistent with the sort of scheme that has now emerged, and looks as promising a method of administration as any (though of course we have not yet had discussions with the banks). The latter, however, was something which Treasury Ministers decided against at a very early stage in the current work. Reopening this question now would entail a great deal of further work (including discussions with the banks to discover whether and on what basis they were prepared to play this kind of role). The prospects for introducing loans on the planned timetable, and therefore in this Parliament, would be much diminished.

3. The attached draft briefing note for Mr Baker therefore

attempts to distinguish clearly between bank administration and bank finance for student loans, and briefly states the key arguments against bank finance. It has been cleared with other Treasury divisions concerned. I would be grateful for your authority to send this to DES as early as possible on Monday, so that Mr Baker can have it well before he meets the Prime Minister.

T J Burr

T J Burr

1669/8

CONFIDENTIAL

BANKS AND STUDENT LOANS

[NB. 'banks' is shorthand for any financial institution in the retail loans business and could also include building societies, insurance companies etc.]

Important to distinguish:

1. **Bank administration of loans as agents**

Government provides the money and sets terms. Banks advance it to students, collect repayments, pursue defaulters etc. Banks paid fee by Government for providing these services.

Public expenditure: Full cost of loans, less repayments (but not interest), plus administrative cost.

Comment: A promising way of administering loans, (which is inherently more difficult than for grants). Makes use of bank expertise and branch network. Costs will need to be investigated with banks and compared with alternative methods (eg by Government Departments, local authorities, universities etc). But banks may well be anxious to get the job in order to attract student custom for other services.

2. **Bank financed loans**

Banks lend their own money. Will require guarantees against default and/or interest rate subsidies if they are to lend to <u>all</u> students on <u>soft</u> terms set by Government.

Public expenditure: Payments under guarantee plus interest subsidies plus margin for administrative cost. Loan payments and repayments do not count.

Comment: (a) presentational reduction in public expenditure; but not a good reason for doing it because -

(b) economic effect basically the same as public expenditure - Government intervening to divert funds to students;

(c) money raised on credit of Government, not banks or students - Government might as well raise the money itself, and could do so more cheaply than banks;

(d) time-consuming negotiations with banks over participation in scheme, and guarantee and subsidy terms - likely to make 1990 start impossible;

(e) interest subsidies would grow to a permanent and unpredictable element in public expenditure (assuming aim was to protect students from interest fluctuations).

Conclusion: If students can really be left to commercial judgement of banks, with neither subsidies nor guarantees, fine. But few would get much loan and some would get none. If they can't, simpler and more transparent for Government to provide the money itself.

2369/02

CONFIDENTIAL

FROM: T J BURR
DATE: 20 MAY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Mr Richardson
Miss Sinclair
Mr Bolt
Mr Deaton
Mrs Pugh o/r
Mr Cropper
Mr Tyrie
Mr Call

It is for Mr Baker to PM, pronto, to make the case; & I or the CST can then weigh in support. (Arguments such as [illegible] clear [illegible] matters for Mr B.)

Ch/ You know most of this already & wanted to discuss at CST bilateral (Wed 10.45) Would there be any point in a full mtg to discuss tactics, as Mr Burr suggests?

MPW 20/5

STUDENT SUPPORT

In my submission of 13 May to the Chief Secretary (copy attached), I said that Mr Baker had asked for Treasury briefing on the question of bank finance for student loans, since he understood that the Prime Minister was likely to raise this question when he put to her his proposals on student loans, which he did on Tuesday of this week.

2. No.10 are not prepared to let us see the record of the Prime Minister's meeting with Mr Baker, since it is not their practice to circulate records of bilateral meetings to third parties. But DES have told us that she raised the question of the banks meeting some of the risks of the loans in order to give incentives to lend wisely and to secure repayment.

3. DES are not sure how to pursue this point. The current phase of work on student loans has proceeded from the outset on the basis that the loans would be financed by the Government, though probably administered by the banks. Any question of bank finance would require us to examine a number of important issues which have not so far been looked at in any depth, such as guarantees for bank loans and interest subsidies. And before any policy could be announced which envisaged a role for banks as principals rather than as agents, there would

need to be discussions with them. All this would take far more time than is available if there is to be legislation for a loan scheme in the next session of Parliament.

4. But aside from the lack of time, there remain the substantive objections to involving the banks in this way which are set out in the brief attached to my submission of 13 May. It is not clear how far these points were put to the Prime Minister by Mr Baker. But we do not think that we can expect DES effectively to develop the argument on bank financed loans with the Prime Minister. If we are to avoid a diversion of the present momentum on student loans into examination of bank finance, we think that it will be necessary for you to speak to the Prime Minister, if possible in the course of next week.

5. It will obviously be desirable to avoid undue emphasis on the lack of time for further work in this area. We understand that the Prime Minister may have been inclined to question the need to introduce student loans by October 1990 anyway; but even if she is persuaded that this timing is essential, she may ask why the question of bank finance was not raised with her earlier. You will therefore wish to stress that it was carefully examined, but that the arguments were clearly against it. On the particular points which the Prime Minister appears to have made to Mr Baker, you could point out that the banks would require a guarantee before lending their own money to students (they told us this when we consulted them in 1985); and that if they had such a guarantee, they would be neither bearing the risks of the loans nor motivated to secure repayment. As regards incentives to lend wisely, it has been a basic assumption of the scheme that access to loan finance would be available to all students on qualifying courses, and would not depend on a judgement of their credit worthiness.

X

6. As a fallback, you might say that there is of course no need to rule out a larger role for the banks in the longer term. But to complicate the introduction of a student loan scheme by having to reach agreement with financial institutions would make the task substantially more difficult, and would also place the Government in a weak negotiating position with the banks on the terms of their involvement. If they perceived that the Government would be unable to proceed with an important initiative without their help, they would take a tougher line than if invited to participate in a scheme which was already up and running.

7. We can of course provide a speaking note covering these and other points. But you may wish to discuss tactics with us first.

T J Burr

T J BURR

ps2/89M

CONFIDENTIAL

MP

FROM: MISS M P WALLACE
DATE: 23 May 1988

MR T J BURR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mrs Butler
Miss Noble
Mr McIntyre
Mr Richardson
Miss Sinclair
Mr Bolt
Mr Deaton
Mrs Pugh
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT

The Chancellor has seen your minute of 20 May. He thinks that the right way to take this forward is for Mr Baker to minute the Prime Minister, as soon as possible, copying to us, at which point the Chancellor or Chief Secretary can weigh in in support. (He thinks that, for example, the point you make in your paragraph 5 - that it has always been assumed a loan scheme would be available to all students on qualifying courses - is more for Mr Baker to make than for us.)

MPW.

MOIRA WALLACE

RP

DRAFT PAPER FOR E(EP): 25/5/1988

STUDENT SUPPORT

Memorandum by the Secretary of State for Education and Science

1. I invite my colleagues to endorse a new regime, including loans, for student maintenance. [My proposals have the support of the Secretaries of State for Wales, Scotland and Northern Ireland.]

Aims

2. My policy aims are fundamental and long-term: to shift students' attitudes away from dependency on the State, and to share the cost of student maintenance more equitably between students themselves, their parents and the taxpayer. I further seek to reduce, over time, both direct expenditure on grants and the parental contribution; and to implement the Government's policy of disentitling as many students as possible from social security benefits.

Outline

3. My proposed scheme works by:

i. providing, from academic year 1990-91, a loan facility of up to £420 (average) in a full year and £310 in students' last year;

ii. freezing the grant and the parental contribution in cash terms after the academic year 1990-91, and increasing the loan facility as necessary each year;

iii. disentitling, from autumn 1990, students in scope of the scheme from income support and housing benefit;

iv. providing a discretionary Access Fund of £5m. a year to be administered by higher education institutions.

4. After 1990-91 the value of the grant and parental contribution will gradually fall in real terms, and the loan facility will be expanded to compensate. This process will continue until the loan facility is equal to the grant and parental contribution taken together, this point being reached - with inflation at 3% a year - in 2007. PSBR savings begin to accrue rather earlier, in 2002. [I leave open, however, the possibility of accelerating progress by future cash reductions in the grant and parental contribution.]

5. Students in scope of the scheme will be all mandatory award-holders and their equivalents in the UK (about 480,000). I have considered whether other students could be brought within scope and so disentitled from social security benefits: my proposals are set out in paragraphs 9-12 below.

6. From academic year 1990-91, students in scope of the scheme will no longer be eligible for income support or housing benefit during the period of their course. Disabled students and students who are single parents (fewer than 2,000 students in all) remain

eligible for benefits; and support for students with dependants will continue under my Department's grant regulations and those operating in Scotland and Northern Ireland.

7. The scheme is described in detail in Appendices A and B. Full costings are given in Appendix C.

Access Fund

8. Under my proposal there would be about 30,000 students in England and Wales who may, so far as I can judge, lose more than £420 a year in social security benefits. Though most will stand to lose relatively small sums, our supporters will be legitimately concerned about this group. We must protect this flank: to do so I propose an Access Fund, to be administered on a discretionary basis by the higher education institutions themselves on hardship criteria. A Fund of £5m. a year would allow an average of £167 per "needy" student: but there would be discrimination on the basis of assessments of individual circumstances, with payouts above and below this average.

Students in scope of the scheme

9. All mandatory award holders will be within the scope of the scheme. Before it is introduced, I regard it as essential to raise the moratorium on new courses that has applied since 1981, so as not to perpetuate and exacerbate the present anomalies. I have made costed proposals to that end in the Public Expenditure Survey. Raising the moratorium should increase the number of mandatory award-holders in 1990-91 by no more than 3,500.

10. In addition, a further 50,000 students in England and Wales hold LEA discretionary awards at the same value as the mandatory award. There is no reason why LEAs should not continue to use their discretion in this way, and the cost projections in Appendix C assume that the same number will have the benefits of the new regime passed on to them, and will be disentitled to social security benefits. However, it would not be acceptable for authorities to make discretionary full-value awards equivalent to the total of grant plus loan under the new regime. Equally, if their decisions are not to have unacceptable cost consequences, they should not be in a position, at a diminishing cost to themselves, to increase the number of students entitled to a loan under the national scheme. I propose, therefore, that from the date of the introduction of the new regime:

i. LEAs should be empowered to make loans to discretionary award holders themselves, on terms no more generous than those of the main scheme; and

ii. the maximum discretionary grants made by LEAs should be limited to grant entitlements as assessed under the mandatory awards regulations.

Students outside the new regime

11. About 530,000 students may therefore be expected to receive in full, directly or indirectly, the resources provided under the new regime. The precise number will depend on the way in which authorities use their discretion, and their new power to make loans.

All these will lose all entitlement to claim social security benefits.

12. There remains the question how far it may be desirable or practicable to withdraw entitlement to benefit from full-time students outside the scope of the new regime, receiving a lesser value award or none at all. This was not an issue within the terms of reference of the Student Support Review, and I am not inviting colleagues to address it now. I and my Education Minister colleagues however do not believe that all students, including those with no eligibility to grant at all, could defensibly be deprived of all access to assistance. A line will have to be drawn, whether in terms of a specified value of award, or of the level and nature of the course pursued, and it may be necessary to treat the different benefits - housing benefit and income support - differently. To do this, further study of the present range of discretionary support will be necessary, and I propose that officials should pursue this urgently.

Issues for decision

13. Two main issues remain for decision:

i. Should the loan scheme be introduced for all students, or only for new students, from autumn 1990? Phasing-in spreads the public expenditure costs, as the comparison in Annex 2 shows; it also would reduce the impact of the scheme. But it would prolong the period of transition, and of contention; and those whose courses had started before 1990 would not have access to the additional resources provided in the loan package. For both practical and presentational reasons I recommend introducing the scheme for all students together.

ii. As to the repayment period, I judge that 5 years will be sufficient for students on 3-year courses at the start of the scheme. But for those on longer courses, and for all students as the total value of the loan increases over time, a longer period will be needed, with the repayment period related to the size of the loan. Some possible methods are discussed in Appendix B.I invite my colleagues to agree that I should settle this in agreement with the Chief Secretary, Treasury, and my Education Minister colleagues.

Administration

14. My hope is that the scheme will be administered by the banks or other financial institutions as the Government's agents. I seek my colleagues' authority to enter into negotiations, jointly with the Treasury, with the financial institutions. I suggest that I should do so on the basis that, in the first instance at least, they would administer but not finance the scheme. However I shall want to pursue the possibility also that they might put some of their own resources into the scheme, with the particular aim of giving them an incentive to secure repayment.

Implementation

15. I propose to publish my proposals in a White Paper in July. A short Bill (5-10 clauses) is needed to

establish the broad framework for the scheme; details will be put in place through Regulations. A Bill is first reserve for the 1988-89 legislative programme approved by the Cabinet on 10 March. We need to legislate next Session so that the scheme can be introduced not later than Autumn 1990.

Expenditure and Manpower Implications

16. Appendix C shows the PSBR and public expenditure effects of my proposed scheme. The costs will be an agreed addition to my programme. Corresponding additional provision will need to be made in my own programme, and in the Scottish and Northern Ireland blocks. The administrative costs, for which additional provision will also be necessary, cannot be estimated until my administrative proposals in paragraph 14 above have been fully explored. If colleagues approve my proposals they will be pursued by my officials and the Treasury's as a matter of urgency. If that solution proves feasible, the implications for public sector manpower should be minimal.

Evaluation

17. The new regime will need to be the subject of policy evaluation in order to check achievement of its aims and objectives. My officials will discuss with the Treasury how and when evaluation will be most effective.

Conclusion

18. I invite my colleagues -

i. to endorse the loan scheme described in paragraphs 3ff. and in Appendices A and B;

ii. to agree my proposal for an Access Fund (paragraph 8);

iii. to agree my proposals for students with discretionary full-value awards, and students outside the new regime, including LEA loans (paragraphs 9-12);

iv. to agree my proposals for handling the main outstanding issues (paragraph 13) and administration (paragraph 14);

v. to agree that I should prepare a White Paper for publication in July; and

vi. to recommend to the Cabinet that a Bill on student support be included in the 1988-89 programme.

APPENDIX A TO E(EP)

A NEW STUDENT SUPPORT REGIME

My proposal is that a loan facility should be introduced from the Academic Year 1990/91, initially as an addition to the student grant and in replacement of all social security benefits - income support and housing benefit - to which students entitled to the loan would become disentitled.

2. After introduction of the loan scheme there should be no further increase in grant or parental contribution. As grant (including parental contribution) loses its real term value, annual upratings of student support should be applied wholly to the loan facility. This process should continue until the loan facility has reached the same level as the grant and parental contribution, taken together. On the assumption of a steady 3 per cent inflation rate, that point of equilibrium will be reached in the year 2007. PSBR savings will begin to accrue rather earlier, in 2002.

Scope

3. The regime will apply to all mandatory award holders and their equivalent in England, Wales, Scotland and Northern Ireland: ie, to full-time students on degree or equivalent courses. The same conditions of entitlement, eg in respect of residential qualifications and previous study, would apply. There will be statutory provision to empower LEAs to make loans so that they may extend a parallel regime to students whom they choose to support at the same level as mandatory award-holders.

4. The remaining grant entitlement will continue to be means-tested against parental income, but the loan itself will not be means-tested. Entitlements to grants and loans will continue to be fixed at rates varying with the students' term-time address: ie, there will be one rate for students living in the family

home, another for those living away from home in London, and another for those living away from home 'elsewhere'.

5. Students in their final year of study will have a lower loan facility, in recognition of the fact that they will need support only until they complete their studies at the end of the academic year. The final year's loan facility will therefore be maintained in a constant ratio (38:52) to the loan facility for a full year.

6. The loan will be at nil real interest: the outstanding principal will be revalued in line with inflation from when the loan is advanced until the final repayment has been made. Fuller details of the loan scheme and repayment arrangements are set out in Appendix B.

PSBR and Expenditure Effects

7. The PSBR effect is calculated as the gross loan outlay minus (i) net reduction in grant and parental contribution (ii) assumed expenditure on social security benefits in 1990 and (iii) loan repayments. The cost will depend on

(a) the take-up of loan, which cannot be accurately predicted. The projections assume 80 per cent take-up.

(b) The default rate. The projections assume that 10 per cent of students will default on their payments.

8. The public expenditure effect differs because the indexation element of loan repayment scores as "receipts" rather than as an offset to public expenditure. Projections of PSBR and PE effects are shown in Appendix C, Tables 1(a) to 1(c).

Benefit replacement

9. Because of the major changes in the benefit system which have just been introduced, there are no reliable forecasts of benefit income in 1990 with which the proposed loan facility can

be compared. The best guess we can make at present, taking account so far as possible of changes in the housing benefit system, and of trends in employment which will affect the take-up by students of income support, is that the benefit income of mandatory award-holders in England and Wales will be in the order of:

averaged over all award-holders	:	£100-£130
averaged over all full-year students	:	£140-£160
averaged over all benefit claimants	:	£230-£250
averaged over all full-year claimants	:	£270-£290

10. Although these figures fall within the loan margin after the replacement of grant, there are expected to be significant numbers of students claiming throughout the academic year and the long vacation whose income from benefits will exceed them. The number of "losers" in England and Wales could be in the order of 30,000.

11. It is intended to undertake a further survey of the take-up of benefits by students when the new arrangements have been in place for nearly a year: ie, in early 1989. It will then be possible to make a more accurate assessment of losers before the new regime is introduced.

An Access Fund

12. An Access Fund is needed to provide a safety valve for the new regime, to provide for those students whose income in grant and loan will be less than it would have been in grant, housing benefit and income support. It builds on the fact that many major institutions already operate a limited hardship fund, provided from private sources, to help students in difficult financial circumstances.

13. The money would be divided between the two Funding Councils in proportion to the numbers of full-time students in higher education in each sector. The Funding Councils would themselves

collect information from their institutions about levels of rent and local community charges and take this into account in allocating the Access Fund between institutions. The money would be clearly earmarked for the assistance of students with special financial difficulties. Nevertheless the institutions would have full discretion in the criteria they adopted for identifying cases of need and distributing the funds at their disposal.*

14. The Fund would be cash-limited, and its future level reviewed in the usual way as part of the PE survey. Once it is in place, it will in principle be possible to achieve some useful simplification of the grant regulations by getting rid of some of the discretionary additions for special categories of student.

Administration

15. It is envisaged that grants will continue to be made, and parental contributions assessed, by local education authorities or other existing award-making bodies. The administration of the Access Fund is discussed above.

16. The administration of the loan scheme is being urgently considered. One option is that the scheme should be administered by the banks, or other financial institutions, acting as the Government's agents.

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* These arrangements will apply to university students generally, and to students in public sector higher education in England. The administration of similar arrangements to benefit public sector students elsewhere in the UK will require further consideration.

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APPENDIX B

THE LOAN SCHEME: PROPOSED TERMS

Entitlement

All students within the scope of the new regime will be entitled to borrow any amount up to a specified maximum for each year of their course. It is proposed that the maximum should be set at a level which will provide the average student with a loan facility, at 1990 prices, of £420 in a full year and £310 in the final year of his course. This facility provides for the replacement of social security benefits, plus a margin for the general enhancement of the student's resources. ~~[It is proposed that the same maximum should be set for all students living away from home, but there should be a lower one for students living at home since their general expenditure, and income from benefits is lower.]~~

2. The following table shows the maximum loan facility, maximum grant (net grant plus parental contribution)*, and the resulting total resources for each of the three main award categories:

	loan facility	maximum grant*	total resources
i. in a full year:			
'elsewhere'		2155	
London		2545	
home		1710	
ii. in the final year:			
'elsewhere'		2155	
London		2545	
home		1710	

* This assumes that the grant is not increased by more than the Treasury cash factor between AY 1988/89 and AY 1990/91, and does not include any supplementary allowances for which some students will qualify.

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3. Table 2 shows the grant, parental contribution and loan facility at different levels of parental income in the first year of the new scheme, compared with the grant and parental contribution under present policies. The comparison is on the basis of the reduced contribution scale to be introduced in academic year 1988/89 for 'new' students. Table 3 shows in constant 1990 prices how the level of maximum grant will fall and the level of loan will rise until the two are approximately equal.

Repayment Terms

4. Graduates will be liable for repayments from the April following the end of their courses. Loans will be at nil real terms interest; but the outstanding principal will be revalued in line with inflation from the beginning of the course up to the date of final repayment.

5. For the determination of repayment instalments there are a number of alternative methods. The following options are under consideration:

A Repayment over a fixed period of years: eg, 10. Each year's instalment is calculated by dividing the outstanding debt, revalued in accordance with paragraph 4, by the number of years remaining. This is the present Swedish system.

B Repayment over a variable period of years, related to the size of the debt when repayments first become due. The range might lie between 5 years and 15 years. The repayment period for the average students on a 3 year course would be short (perhaps 5 years) initially, but will rise (perhaps to 10 years, if the full entitlement is taken up) as the loan element of a student's total resources increases.

C A fixed annual sum: for example £500 at 1990 prices, adjusted each year with inflation. This is essentially a variant of the previous option.

D A specified proportion of taxable income: for example 4 per cent. The length of the repayment period would thus be jointly determined by the size of the debt, and by earnings. This is the new system that the Swedish government is proposing to introduce.

6. Option A has the clear disadvantage that the repayment of small loans is unnecessarily protracted. Under Options A to C there would need to be provision for the deferment of repayment in years of unemployment or low income: for example in any year when the graduate's income falls below 85% of the national average wage (for men or women, as appropriate). Deferred payments would not be forgiven, and the outstanding debt would continue to be revalued during periods of deferment. But there could be provision for outstanding debt to be written off (if there has been no deliberate default) after a certain period or at a certain age: for example 25 years after graduation or age 60.

7. Under Option D, repayment is deferred automatically when income falls below a taxable level, and this option avoids any poverty trap. To avoid such a trap under the other options it might be necessary to superimpose a system of tapered payments just above the income cut-off of 85%.

8. Under any option graduates should have the choice of earlier repayment, and incentives could be offered to encourage them to do so. For example, the debt might be reduced by 25% if fully repaid in three years.

9. Table 4 shows the build-up and discharge of loan for students on courses of various lengths, starting on their courses in different years, and making use of their maximum loan

entitlement. The repayment period is varied with the size of loan, as under Option B above.

BF 14/6

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

CONFIDENTIAL

The Rt Hon John Moore MP
Secretary of State for Health and
Social Services
Richmond House
79 Whitehall
London SW1A

CHIEF SECRETARY
REC - 4 JUN 1988

6 June 1988

Mr McIntyre. / Mr Bolt — with attachment.
CX Sir Peter Middleton
Mr Anson Mr H Phillips
Mrs Case Mr Spackman Mrs C Evans Mr Cropper
Mr Turnbull Mrs Butler Mr Tyrie Mr Call

Dear John.

STUDENTS AND BENEFITS

1. Robert Jackson and I had a discussion with Michael Portillo last week about the future treatment of students with regard to eligibility for social security benefits.

2. As you know, I have been developing, in discussion with the other Education Ministers and the Chief Secretary, proposals for a new regime for student maintenance which will include an element of loan as a top-up to the present student grant. It is common ground between us that that loan should replace the social security benefit entitlement of all students in scope of the new regime. We do not, however, believe that it would be either practicable or affordable to extend loans to all full-time students, including those on a low-value discretionary grant, or to those not eligible for grant at all. There is therefore a further question about the future eligibility for benefits of such students.

3. This was not strictly an issue within the terms of reference of Robert Jackson's student support review, which has been essentially concerned with the future support of students on courses of higher education designated for mandatory awards. The officials of our two Departments and other Departments concerned have had some discussion of the options, but have so far failed to reach agreed conclusions. This is a difficult issue, and I am most anxious that it should not prejudice colleagues' reception of the new student support regime. It is the principle of loans which will provide the key to removing students from the dependency culture. We are working to a very tight timetable if a Student Support Bill is to be included in the 1988/89 Legislative

CONFIDENTIAL

Programme, and we must have such a Bill if the new scheme is to be introduced in the academic year 1990/91.

4. I was to have put my proposals to colleagues at a meeting of E(EP) on 14 June. The timetable has now slipped, but I think it would be useful to show you a draft of the memorandum - still not in a final form - prepared for that purpose. You will see that it does not prejudge the issue of the appropriate treatment for benefit purposes of students outside the scope of the new regime, but proposes that officials should urgently pursue the question.

5. That is consistent with what I agreed with Michael Portillo last week: that colleagues should not be invited to address the issue of benefit entitlement beyond the scope of the new regime until we had ourselves reached agreement on the right solution, and that our officials should urgently resume their discussions with a view to presenting us with an analysis of the issues. Now that collective consideration of my proposals has inevitably been delayed, we have rather more time in which to attempt to find a way through. I hope that we shall be able to do so, but the issue is a difficult one, and if we cannot resolve it in time it remains my view that we should not put at risk the introduction of student loans by inviting colleagues to address the secondary issue at the same time. There will still be time for further discussion before we publish a White Paper on future student support arrangements.

6. In the meantime I understand that our officials are preparing a position paper on the numbers and costs involved, the policy implications of disentitlement, and our two Departments' interests. We can then consider whether we should meet, or whether further work is necessary.

7. I am copying this letter to John Major, Malcolm Rifkind, Tom King and Peter Walker.

Yours ever

Kenneth

P.S. A meeting would be helpful fairly soon. KB

010/2981

CONFIDENTIAL

ppspl

FROM: JILL RUTTER
DATE: 7 June 1988

MRS CASE

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mr Bolt
Mr Spackman
Mrs Butler
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Call

STUDENTS AND BENEFITS

The Chief Secretary has seen Kenneth Baker's letter to John Moore of 6 June.

2 The Chief Secretary has commented that it will be a real "pig's breakfast" if the social security treatment of students is not fully agreed before the student loan package is put to colleagues in E(EP). He believes that there is a high premium on early agreement.

Jill Rutter

JILL RUTTER
PRIVATE SECRETARY

004/2981

CONFIDENTIAL

FROM: **CHIEF SECRETARY**

DATE: 9 **June 1988**

CHANCELLOR

cc:
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mrs Case
Mr Spackman
Mr Bolt
Mrs Butler
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Ramsden
Mr Farthing

Thanks: When will the Bill for the introduction of loans be given in the session?

STUDENT SUPPORT

We had a word yesterday morning about the article in Wednesday's 'Times' on student loans and I promised to let you have a note explaining where matters now stand.

2 On the article itself there are, needless to say, a number of inaccuracies. The initial size of the loan will be £420 in a full year of study and £310 in a student's final year at university, nothing like the figure of "well over £1,000 a head" mentioned in the article. Second, although the banks or other financial institutions may well have a role in administering the loan arrangements, it is not envisaged that they should provide the finance. In addition to the arguments of principle against this which we considered earlier, negotiating a suitable deal with the banks is out of the question if we want legislation in the next session in order to have the scheme up and running by 1990. Elsewhere in the article a number of things are stated as facts when they have no more than the status of options being discussed by officials.

3 As for the inter-departmental discussions, the latest state of play is summed up in the draft E(EP) paper accompanying the letter of 6 June from Kenneth Baker to John Moore (copy attached). We are generally content with this draft, though we still have one or two points of detail to make.

4 In summary, what Kenneth and I have agreed so far is that we will seek to introduce a loan regime in 1990. It will not involve any reduction in the cash level of the current grant which would, initially, be supplemented by a top-up loan of £420 a year. Thereafter there would be no further increase in the grant and the parental contribution in cash terms (ie they will gradually fall in real value), whilst the loan element would be increased year by year. This will continue until the loan is equal in value to the grant and parental contribution taken together. With annual inflation at 3 per cent this point would be reached in 2007. The total public expenditure and PSBR consequences of this amount to just over £100 million a year during the period covered by the 1988 Survey and we expect the scheme to break even in PSBR terms in 2001 and public expenditure terms by 2005 with increasing surplus thereafter. The new loans will be available to all students who hold mandatory awards and those who hold full value discretionary awards. These students will lose their eligibility for income support and housing benefits (unless they are also disabled or single parents). There will be a fund (initially of £5 million) to deal with hardship among students for whom the additional sums available under the loan arrangements are smaller than their previous entitlement to DHSS benefits.

5 The intention is that the scheme would be administered by the banks or other financial institutions acting as HMG's agent but that, initially at least, it will be funded with Government money. Once they have completed their courses, students would begin to repay the loan. They will not be charged interest, but the amount of debt outstanding will be revalued each year in line with inflation.

The issues which remained unresolved are these:

(i) What happens to students on less than full (discretionary) value awards?

DHSS ministers would like them, also, to lose entitlement to income support and housing benefits but Kenneth Baker thinks that this is not saleable.

(ii) Can numbers within the scope of the scheme be increased?

We believe so and have pressed for the inclusion, not only of those on full discretionary grants from LEAs but also those on a lower level of grant, say 60 per cent. This would reduce to a fairly small number the student population ineligible for loans - and therefore still eligible for DHSS benefits - and should, thus, reduce the concerns of DHSS ministers.

(iii) Should the new regime be introduced for all students in 1990 or only for those becoming students in that year?

Although it increases the front end costs of the scheme, there are considerable practical advantages to including all students ab initio and this is the approach which Kenneth Baker prefers.

(iv) How should repayments be made?

The options are (a) a fixed period of, say 5 or 10 years, with equal payments being made each year; (b) a period of variable length between say 5 and 15 years depending on the length of the original course of study; or (c) an approach whereby graduates would pay a set percentage of their taxable income, say 4 per cent for as long as necessary to eliminate the debt.

7 Officials are currently looking at all of these issues and, in particular, DES and DHSS are putting together a position paper on items (i) and (ii) in the hope of persuading John Moore to support an approach on the lines of (ii) above, which would represent a substantial improvement on the present situation, where all students are able to claim benefit. Obviously this issue needs to be resolved before we can take matters forward but Kenneth Baker is well aware of its importance and, as his letter makes clear, is keen to get John's early agreement.

8 On the face of it, none of the outstanding problems seem insuperable and we should be able to put together a scheme, which the Cabinet can endorse, in time for it to be introduced in 1990. The latest timetable assumes agreement in E(EP) in early July, followed very quickly by a White Paper which DES are already drafting.

9 Our task is not helped by persistent leaks to the press about the way our discussions are developing and I have already expressed my concern on this point to Mr Baker's office, yesterday morning.

John M.

JOHN MAJOR

It was Robert Jackson!!

ps2/40M

CONFIDENTIAL

~~BF 24/6~~

~~Bmp~~

Bmp

FROM: MISS M P WALLACE

DATE: 10 June 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mrs Case
Mr Spackman
Mr Bolt
Mrs Butler
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Ramsden
Mr Farthing

Ch / Your question behind. January 89 at the latest, apparently

MPW 14/6

STUDENT SUPPORT

The Chancellor was most grateful for the Chief Secretary's minute of 9 June. He has asked when the Bill would have to be introduced if we go ahead on this basis?

MPW.

MOIRA WALLACE

3633/8

CONFIDENTIAL

FROM: P J CROPPER
DATE: 13 June 1988

CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mrs Case
Mr Spackman
Mr Bolt
Mrs Butler
Miss C Evans
Mr Ramsden
Mr Farthing
Mr Tyrie
Mr Call

I take it the inflation fig. is neither a forecast nor a prediction, but a quasi-actuarial 'assumption' based on historical evidence. NL

NL

STUDENT SUPPORT

Reading the draft paper for E(EP) I cannot help being struck by the dependence of the proposed scheme on the arbitrary assumption of 3 per cent inflation between now and the year 2007.

2. If, as one might hope, inflation were to come down to zero before long, the loan scheme would apparently get stuck. Whereas a bout of inflation at the mid-seventies rate of 25 per cent per annum would swiftly reduce the value of grant and parental contribution well before 2007.

3. I suppose it will always be possible to revise the scheme if the looked-for price rises fail to materialise, but it looks a bit odd, surely, for this Government to make the working of a major piece of legislation depend on continuing inflation.

PJC

P J CROPPER

NH6/9M

CONFIDENTIAL

MP

FROM: MISS M P WALLACE

DATE: 17 June 1988

PS/CHIEF SECRETARY

cc Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mrs Case
Mr Spackman
Mr Bolt
Mrs Butler
Miss C Evans
Mr Ramsden
Mr Farthing
Mr Tyrie
Mr Call
Mr Cropper

STUDENT SUPPORT

The Chancellor has seen Mr Cropper's minute of 13 June. He has commented that he assumes the inflation figure is neither a forecast nor a prediction, but a quasi-actuarial "assumption" based on hysterical evidence.

MPW

MOIRA WALLACE

1 ~~Alex~~ see x over
2 pusp

FROM: COLIN FARTHING
DATE: 22 JUNE 1988

CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mrs Case
Mr Spackman
Mr Bolt
Mrs Butler
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Ramsden

STUDENT SUPPORT

With my minute of 10 June, I sent you a copy of a joint DES/DHSS note which explained the consequences for the Social Security system of the proposed new arrangements for student support.

2. Mr Baker and Mr Moore met yesterday morning to discuss that note and Mr Baker appears to have agreed with the Social Services Secretary that once the new arrangements are in place all students will be disqualified from DHSS benefits whether they are entitled to the new loans or not.

3. In order to compensate those who are outside the scope of the loan arrangements a DES discretionary fund will be established to make payments to those students who can demonstrate hardship.

4. The exact way in which this fund will operate has still to be decided, as has the total sum to be dispensed. Mr Moore appears to have offered a PES transfer of £8m for this purpose, though Mr Baker seems to have said that the will need at least £10m to cover the likely level of demand.

5. Although this agreement does resolve the outstanding conflict between the two Secretaries of State it does do so in a rather messy and unsatisfactory manner. The proposed solution seems to be Mr ~~Major's~~ Moore's own and so there has been no preliminary discussion between DHSS and DES officials about how the new fund would operate and what criteria for hardship will need to be established. From the Treasury's point of view, we shall, of course, need to be persuaded that the new arrangements can be put into practice in a sensible and timely way before we can accept that the issue really has been resolved.

6. Because officials were not present at the meeting between the two Secretaries of State I am afraid that we will not be receiving any kind of note described the outcome, but the draft E(EP) paper is to be amended to reflect what appears to have been agreed.

X 7. On a further point, I understand from DES officials that Mr Baker is increasingly pessimistic about the possibility of being able to fit the necessary legislation into the timetable for next year's session, so it may well be, in practice, that the resolution of this issue will, in any event, need to be deferred. Mr Baker is meeting Mr Wakeham later this evening about the legislative timetable, so we should know the outcome fairly soon.

C FARTHING

9a/1/PC/131/31

1. ACSA

2 MP

CONFIDENTIAL

FROM: MRS A F CASE
DATE: 5 July 1988

CHIEF SECRETARY

c c PS/Chancellor
Sir P Middleton
Mr Anson
Mrs Lomax
Mr H Phillips
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Farthing

Ch/ to be aware

MP
5/7

STUDENT SUPPORT

I understand from DES officials that the Secretary of State for Education may want to talk to you later today about the way forward on student support issues having taken stock of where matters now stand on the legislative front. He wants to clear his lines with you before going back to the Prime Minister.

2. The message he has heard from the business managers is that even if a Student Loan Bill found a place in the 1989/90 programme, he should not count on Royal Assent before Easter 1990. He sees this as facing him with very severe timing problems. October 1990 continues to be seen as the latest date at which a loan scheme could be introduced during the life of this Parliament. The advice of DES officials is that for an October introduction, the detailed administration of the scheme would have to be in place and available to prospective students by the end of June. There would therefore be less than three months to go through whatever competitive/negotiating processes were necessary with the banks or other financial institutions. Even with much of the ground cleared before Royal Assent, DES officials are concerned that negotiations with the banks could take much longer or would not achieve value for money since the

CASE TO CST 5 JULY

institutions would know that the Government was working against a deadline. Mr Baker is therefore turning over in his mind two alternatives, which is what he may want to discuss with you. These are the setting up of a special new Government agency or the use of the Inland Revenue. The second of these has been raised before and, on FPs advice we have told DES that the Revenue are unlikely to be sympathetic. Their preliminary view is that the staff costs of operating such a scheme could be formidable, since they are in no better position than others would be to pursue reluctant payers. The same argument would apply to a special agency, which is one reason for which we have favoured the financial institution route. Before rejecting it, it would be worth having a better idea than we do at present of the financial institutions likely reaction and the reality of the timing constraint.

3. Mr Baker also seems to be going back on the agreement he was reported to have reached with Mr Moore about immediate disentitlement of all students from DHSS benefits. For the moment, however, he is treating this as a second order question.

AFC

A F CASE

005/4209

~~Can someone~~

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

FROM: JILL RUTTER
DATE: 5 July 1988

MRS CASE

BF to ACSA ~~8 7/7~~ 8/7

This plus ACs minute wd be papers for Baker mtg. No-one in HE knows about this: perhaps tell them?
Yours truly, mpw.

cc:
PS/Chancellor
Sir Peter Middleton
Mr Anson
Mrs Lomax
Mr H Phillips
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Farthing
Mr Call

STUDENT SUPPORT

Mr Baker came to see the Chief Secretary today. This note recalls more or less what happened - although I was present I did not take notes so it may be slightly garbled.

2 Mr Baker's position was much as you set out in your minute of 5 July. He accepted that there was no legislative slot next year. He thought he would have an early legislative slot in 1989-90 session - he talked of Second Reading in November. He pointed out the Bill would be extremely simple. He was attracted to an announcement later this month and a White Paper in the Autumn. He thought the Prime Minister's approach of delaying policy approval was disastrous. He was also still extremely worried about the idea of the delaying introduction of student grants after October 1990.

3 He and the Chief Secretary discussed the timing implications of all this. The Chief Secretary pointed out that once the Bill had approval in principle there was nothing against entering into consultation with the banks - for consultations could be initially started once the White Paper were published. Mr Baker seemed to accept.

4 Mr Baker floated his idea of using the Inland Revenue and pointing out that it would advance re-payments and give greater certainty of returns than would otherwise be the case. The Chief Secretary said that he doubted very much

RUTTER TO CASE 5 JUL

that the Chancellor would be attracted to such a proposition and that the Chairman of the Inland Revenue would if anything be less so. Nor was he attracted to it. Mr Baker appeared to accept this.

5 Mr Baker said that there were a lot of outstanding issues on a bank run scheme. He assumed that the banks would be administering public money. The Chief Secretary confirmed this. He said that the Prime Minister seemed to think that banks would pay the government for the privilege of running a student loan scheme. He doubted if this would be the case. Rather he thought the banks would require payment for administration from the Government. There were also issues to be resolved on how the students' debt to the Government should be treated alongside any overdraft a student might have to the bank. Mr Baker viewed these as mechanical issues which had not so far been addressed. Mr Baker also suggested that it might be more appropriate that Treasury officials take the lead in negotiations with the banks, commenting that DES officials were rather naive. The Chief Secretary did not sign up to this proposition.

6 Mr Baker also raised the question of Mr Moore's desire to disentitle all students on part value discretionary awards from benefit. He had looked at the sort of scheme DHSS were proposing - in effect a social fund for students - and found it profoundly unattractive. He was going to go back to Mr Moore and tell him that he thought that the only solution was to have a step by step approach and, for the time being, leave the students with social security entitlement. He did however hope that it might be possible to identify post-graduate students in this position and take action with them. He noted in this respect that the student loan scheme in the US had only gone off the rails when the US had extended loans below the university system to such vocational courses as hairdressing. He did not wish the UK scheme to go a similar way.

7 The Chief Secretary asked Mr Baker about the postion of territorial colleages. Mr Baker thought he had support

CONFIDENTIAL

from Messrs Rifkind and King. Mr Walker would support in principle but would oppose freezing the grant. He thought he would be a lone voice.

Jill Rutter

JILL RUTTER
Private Secretary

131/40

CONFIDENTIAL

MP

FROM: MRS A F CASE

DATE: 8 July 1988

CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Mr Anson
Mrs Lomax
Mr H Phillips
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Farthing
Mr Call

STUDENT SUPPORT

Mr Baker is coming to see you and the Chief Secretary on Monday afternoon. I understand that his chief purpose is to discuss how his department should approach the administration of a student loan scheme. This is ground which Mr Baker has already been over with the Chief Secretary (see Miss Rutter's minute of 5th July).

2. Mr Baker's intention so far has been that initially the scheme should be administered by the banks or other financial institutions as the Government's agent although the DES have occasionally floated the idea of using the Inland Revenue. We have been generally unreceptive to this idea and no work has been done to cost any of the options. There have been no discussions with the banks about their possible participation in any scheme of this kind since 1980.

3. Mr Baker seems to want the Treasury to play a role in negotiations with the financial institutions. Our view is that whilst we should be prepared to facilitate such discussions and to help the DES formulate their position, the leading role in any negotiations ought to fall to them, since they will be bearing the cost. Taking account of the need to allow sufficient time for negotiations, the sort of approach we had assumed would be taken is:

CASE TO CX 8 JUL

(a) once the policy had been decided and announced, exploratory discussions with the banking associations and the building societies to establish their interest in participating;

(b) assuming this was forthcoming, negotiations preferably with both in competition, on the structure of the scheme and its cost to HMG.

Signature of a final contract would need to await the passage of the legislation.

4. Mr Baker may also mention the question of disentitling from social security benefits all students on part value discretionary awards. When he saw the Chief Secretary the other day, Mr Baker seemed to favour a gradual approach rather than immediate total disentitlement (although he and Mr Moore had apparently agreed on the latter at their last meeting). He has now talked again to Mr Moore and seems to have changed his mind yet again. He is now said to favour immediate disentitlement and the setting up of a separate "trust fund" which would administer benefits for part-value discretionary award holders on somewhat less generous and cash-limited terms than their entitlement to social security payments. Setting up a new administration of this sort seems unlikely to be a very cost effective approach. It may therefore be worth exploring Mr Baker's latest view.

AFC

A F CASE

DRAFT PAPER FOR E(EP): 11/7/1988

STUDENT SUPPORT

Memorandum by the Secretary of State for Education and Science

1. I invite my colleagues to endorse a new regime, including loans, for student maintenance. The broad principles of my proposals have the support of the Secretaries of State for Scotland and Northern Ireland.

Aims

2. My policy aims are fundamental and long-term: to shift students' attitudes away from dependency on the State, and to share the cost of student maintenance more equitably between students themselves, their parents and the taxpayer. I further seek to reduce, over time, both direct expenditure on grants and the parental contribution; and to implement as far as possible the Government's policy of disentitling students from social security benefits.

Outline

3. My proposed scheme will work by:

i. providing, from academic year 1990-91, a loan facility at nil real interest of up to £420 (average) in a full year and £310 in students' last year;

ii. freezing the grant and the parental contribution in cash terms from the academic year 1990-91, and increasing the loan facility as necessary each year;

DRAFT PAPER FOR E(EP)

iii. Disentitling, from autumn 1990, the majority of full-time students over 18 from income support, unemployment benefit, and housing benefit;

iv. providing a discretionary Access Fund of £5m. a year to be administered by higher education institutions.

4. After 1990-91 the value of the grant and parental contribution will gradually fall in real terms, and the loan facility will be expanded to compensate. This process will continue until the loan facility is equal to the grant and parental contribution taken together, this point being reached - with inflation at 3% a year - in 2007. PSBR savings begin to accrue rather earlier, in 2002.

5. From academic year 1990-91 most full-time students will no longer be eligible for income support, unemployment benefit, or housing benefit during the period of their course. Disabled students and students who are single parents (fewer than 2,000 students in all) will remain eligible for benefits; and support for students with dependants will continue under the grant arrangements.

6. The scheme is described in detail in Appendices A and B. Full costings are given in Appendix C. A brief note on student support regimes in other countries is included at Appendix D. It shows that loans form a major element in the student support arrangements of the US, Japan, West Germany and most major European countries. Those countries with grant-only regimes extend them to a much smaller proportion of students in higher education.

Access Fund

7. Under my proposal there could be about 30,000 students in England and Wales who may, so far as I can judge, lose more than £420 a year in social security benefits. Though most will stand to lose relatively small sums, our supporters will be legitimately concerned about this group. To protect this flank I propose an Access Fund, to be administered on a discretionary basis by the higher education institutions themselves on hardship criteria, and in the light of their own assessment of individual students' circumstances.

Students in scope of the scheme

8. All mandatory award holders and their equivalents, about 480,000 students, will be within the scope of the scheme. Before it is introduced, I regard it as essential to raise the moratorium on new courses that has applied since 1981, so as not to perpetuate and exacerbate the present anomalies. I have therefore sought additional provision in this year's Public Expenditure Survey to enable the backlog of courses awaiting designation to be cleared. I estimate that this will add about 3,000 to the number of mandatory award holders, at a cost of about £6.6 million in a full year, though I have yet to reach agreement with the Chief Secretary on these figures.

9. In addition, about 50,000 students in England and Wales hold LEA discretionary awards at the same value as the mandatory award. There is no reason why LEAs should not continue to use their discretion in this way, and the cost projections in Appendix C assume that the same number will have the benefits of the new regime passed on to them, and will be disentitled to social security benefits. However, it would not be acceptable for LEAs to make discretionary full-value awards equivalent to the total of award plus loan under the new regime. Equally, if LEAs'

decisions are not to have unacceptable cost consequences, they should not be in a position, at a diminishing cost to themselves, to increase the number of students entitled to a loan under the national scheme. I propose, therefore, that from the date of the introduction of the new regime:

i. LEAs should themselves be empowered to make loans to discretionary award holders, on terms no more generous than those of the national scheme; and

ii. the discretionary grants made by LEAs should not exceed the maximum available through mandatory grants, with the means-test being applied.

Students outside the new regime

10. About 530,000 students may therefore be expected to be eligible to receive in full, directly or indirectly, the resources provided under the new regime. The precise number will depend on the way in which authorities use their discretion, and their new power to make loans. All these will lose all entitlement to claim social security benefits.

11. There remains the question how far it may be desirable or practicable to withdraw entitlement to benefit from full-time students outside the scope of the new regime, receiving a lesser value award or none at all. This was not an issue within the terms of reference of the Student Support Review. I and my Education Minister colleagues do not believe that all students outside the scope of the new regime, including those with no grant at all, could defensibly be deprived of all access to assistance. We see the need for a line to be drawn, whether in terms of a specified value of award, or of the level and nature of the course pursued. Family circumstances will be relevant, and it may be necessary to treat the different benefits - housing

benefit, unemployment benefit and income support - differently. I am pursuing this separately with the Secretary of State for Social Services and my Education Minister colleagues.

Issues for decision

12. Two main issues remain for decision:

i. Should the loan scheme be introduced for all students, or only for new students, from autumn 1990? Phasing-in spreads the public expenditure costs, as the comparison in Table 1(c) of Appendix C shows, and protects the grant expectations of students who started their studies before 1990. On the other hand such students would be denied access to the additional resources provided in the loan package. The period of transition - and contention - could be prolonged, and the phased withdrawal of benefit entitlement would present considerable administrative difficulties. For both practical and presentational reasons I recommend introducing the scheme for all students together.

ii. As to the repayment period, I judge that 5 years will be sufficient for students on 3-year courses at the start of the scheme. But for those on longer courses, and for all students as the total value of the loan increases over time, a longer period will be needed, with the repayment period related to the size of the loan. Some possible methods are discussed in Appendix B. I invite my colleagues to agree that I should settle this in agreement with the Chief Secretary, Treasury, and my Education Minister colleagues.

Administration

13. I propose that initially the scheme should be administered by the banks or other financial institutions as the Government's agents. I do not rule out the possibility of movement in the longer term, and possibly by stages, towards a scheme financed by private sector institutions, as principals. But it may not be practicable to devise a scheme which would be in any real economic sense within the private sector while at the same time guaranteeing loan resources on the same terms to all students admitted to higher education courses. I do not believe that it would be possible to overcome this difficulty in time to introduce loans during the present Parliament. I therefore seek my colleagues' authority to enter into negotiations, jointly with the Treasury, with the financial institutions, on the basis that initially they should administer but not finance the scheme.

Implementation

14. If my proposals are approved, my intention is to publish a White Paper on them in the autumn. A short Bill (5-10 clauses) is needed to establish the broad framework for the scheme: details would be put in place later through Regulations. We need to legislate in time for the scheme to be implemented not later than autumn 1990, which I see as the last realistic opportunity to introduce student loans. This means Royal Assent not later than January 1990 in order to allow time to let contracts with the financial institutions and to inform students of the source of their loans. But I understand that there will not be room even for a short Bill in the 1988-89 session. My conclusion is that we shall have either to get the Bill through Parliament very early in the 1989-90 session, or to abort the scheme altogether.

Expenditure and Manpower Implications

15. Appendix C shows the PSBR and public expenditure effects of my proposed scheme. The costs will be an agreed addition to my programme. Corresponding additional provision will need to be made in my own programme, and in the Scottish and Northern Ireland blocks. The administrative costs, for which additional provision will also be necessary, cannot be estimated until my administrative proposals in paragraph 14 above have been fully explored. If colleagues approve my proposals they will be pursued by my officials and the Treasury's as a matter of urgency. If that solution proves feasible, the implications for public sector manpower should be minimal.

Evaluation

16. The new regime will need to be the subject of policy evaluation in order to check achievement of its aims and objectives. My officials will discuss with the Treasury how and when evaluation will be most effective.

Conclusion

17. I invite my colleagues -

i. to endorse the loan scheme described in paragraphs 3 and 4 and in Appendices A and B;

ii. to agree my proposal for an Access Fund (paragraph 7);

iii. to agree that the moratorium on new courses be lifted (paragraph 8);

iv. to agree my proposals for students with discretionary full-value awards, including LEA loans (paragraph 9);

v. to agree that I should pursue the question of the future entitlement to social security benefit of students outside the scope of the new regime with the Secretary of State for Social Services and my Education Minister colleagues (paragraphs 10-11);

vi. to agree my proposals for handling the main outstanding issues (paragraph 12) and administration (paragraph 13);

vii. to agree that I should prepare a White Paper for publication in the autumn; and - a question which affects all the above -

viii. to consider the arrangements for the legislation needed to bring the proposed scheme into being.

July 1988

APPENDIX A TO E(EP)

A NEW STUDENT SUPPORT REGIME

My proposal is that a loan facility should be introduced from the Academic Year 1990/91, initially as an addition to the student grant and in replacement of all social security benefits - income support and housing benefit - to which students entitled to the loan would become disentitled.

2. After introduction of the loan scheme there should be no further increase in grant or parental contribution. As grant (including parental contribution) loses its real terms value, annual upratings of student support should be applied wholly to the loan facility. This process should continue until the loan facility has reached the same level as the grant and parental contribution, taken together. On the assumption of a steady 3 per cent inflation rate, that point of equilibrium will be reached in the year 2007. PSBR savings will begin to accrue rather earlier, in 2002.

Scope

3. The regime will apply to all mandatory award holders and their equivalent in England, Wales, Scotland and Northern Ireland: ie, to full-time students on degree or equivalent courses. The same conditions of entitlement, eg in respect of residential qualifications and previous study, would apply. There will be statutory provision to empower LEAs to make loans so that they may extend a parallel regime to students whom they choose to support at the same level as mandatory award-holders.

4. The remaining grant entitlement will continue to be means-tested against parental income, but the loan itself will not be means-tested. Entitlements to grants and loans will continue to be fixed at rates varying with the students' term-time address: ie, there will be one rate for students living in the family

home, another for those living away from home in London, and another for those living away from home 'elsewhere'.

5. Students in their final year of study will have a lower loan facility, in recognition of the fact that they will need support only until they complete their studies at the end of the academic year. The final year's loan facility will therefore be maintained in a constant ratio (38:52) to the loan facility for a full year.

6. The loan will be at nil real interest: the outstanding principal will be revalued in line with inflation from when the loan is advanced until the final repayment has been made. Fuller details of the loan scheme and repayment arrangements are set out in Appendix B.

PSBR and Expenditure Effects

7. The PSBR effect is calculated as the gross loan outlay minus (i) net reduction in grant and parental contribution (ii) assumed expenditure on social security benefits in 1990 and (iii) loan repayments. The cost will depend on

(a) the take-up of loan, which cannot be accurately predicted. The projections assume 80 per cent take-up.

(b) The default rate. The projections assume that 10 per cent of students will default on their payments.

8. The public expenditure effect differs because the indexation element of loan repayment scores as "receipts" rather than as an offset to public expenditure. Projections of PSBR and PE effects are shown in Appendix C, Tables 1(a) to 1(c).

Benefit replacement

9. Because of the major changes in the benefit system which have just been introduced, there are no reliable forecasts of benefit income in 1990 with which the proposed loan facility can

be compared. The best guess we can make at present, taking account so far as possible of changes in the housing benefit system, and of trends in employment which will affect the take-up by students of income support, is that the benefit income of mandatory award-holders in England and Wales will be in the order of:

averaged over all award-holders	: £100-£130
averaged over all full-year students	: £140-£160
averaged over all benefit claimants	: £230-£250
averaged over all full-year claimants	: £270-£290

10. Although these figures fall within the loan margin after the replacement of grant, there are expected to be significant numbers of students claiming throughout the academic year and the long vacation whose income from benefits will exceed them. The number of "losers" in England and Wales could be in the order of 30,000.

11. It is intended to undertake a further survey of the take-up of benefits by students when the new arrangements have been in place for nearly a year: ie, in early 1989. It will then be possible to make a more accurate assessment of losers before the new regime is introduced.

An Access Fund

12. An Access Fund is needed to provide a safety valve for the new regime, to provide for those students whose income in grant and loan will be less than it would have been in grant, housing benefit and income support. It builds on the fact that many major institutions already operate a limited hardship fund, provided from private sources, to help students in difficult financial circumstances.

13. The money would be divided between the two Funding Councils in proportion to the numbers of full-time students in higher education in each sector. The Funding Councils would themselves

collect information from their institutions about levels of rent and local community charges and take this into account in allocating the Access Fund between institutions. The money would be clearly earmarked for the assistance of students with special financial difficulties. Nevertheless the institutions would have full discretion in the criteria they adopted for identifying cases of need and distributing the funds at their disposal.*

14. The Fund would be cash-limited, and its future level reviewed in the usual way as part of the PE survey. Once it is in place, it will in principle be possible to achieve some useful simplification of the grant regulations by eliminating some of the discretionary additions for special categories of student, to the extent that this can be done without creating compensating claims for social security benefit.

Administration

15. It is envisaged that grants will continue to be made, and parental contributions assessed, by local education authorities or other existing award-making bodies. The administration of the Access Fund is discussed above.

16. The administration of the loan scheme is being urgently considered. One option is that the scheme should be administered by the banks, or other financial institutions, acting as the Government's agents.

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* These arrangements will apply to university students generally, and to students in public sector higher education in England. The administration of similar arrangements to benefit public sector students elsewhere in the UK will require further consideration.

APPENDIX B

THE LOAN SCHEME: PROPOSED TERMS

Entitlement

All students within the scope of the new regime will be entitled to borrow any amount up to a specified maximum for each year of their course. It is proposed that the maximum should be set at a level which will provide the average student with a loan facility, at 1990 prices, of £420 in a full year and £310 in the final year of his course. This facility provides for the replacement of social security benefits, plus a margin for the general enhancement of the student's resources. The maxima will vary with the applicable main rate of grant, but the average of £420 is also the facility that will apply to the majority of students who live away from home other than in London.

2. The following table shows the maximum loan facility, maximum grant (net grant plus parental contribution)*, and the resulting total resources for each of the three main award categories:

	loan facility	maximum grant*	total resources
i. in a full year:			
'elsewhere	420	2155	2575
London	460	2545	3005
home	330	1710	2040
ii. in the final year:			
'elsewhere'	310	2155	2465
London	340	2545	2885
home	240	1710	1950

* This assumes that the grant is not increased by more than the Treasury cash factor between AY 1988/89 and AY 1990/91, and does not include any supplementary allowances for which some students will qualify.

3. Table 2 shows the grant, parental contribution and loan facility at different levels of parental income in the first year of the new scheme, compared with the grant and parental contribution under present policies. The comparison is on the basis of the reduced contribution scale to be introduced in academic year 1988/89 for 'new' students. Table 3 shows in constant 1990 prices how the level of maximum grant will fall and the level of loan will rise until the two are approximately equal.

Repayment Terms

4. Graduates will be liable for repayments from the April following the end of their courses. Loans will be at nil real terms interest: the outstanding principal will be revalued in line with inflation from the beginning of the course up to the date of final repayment.

5. For the determination of repayment instalments there are a number of alternative methods. The following options are under consideration:

A Repayment over a fixed period of years: eg, 10. Each year's instalment is calculated by dividing the outstanding debt, revalued in accordance with paragraph 4, by the number of years remaining. This is the present Swedish system.

B Repayment over a variable period of years, related to the size of the debt when repayments first become due. The range might lie between 5 years and 15 years. The repayment period for the average students on a 3 year course would be short (perhaps 5 years) initially, but will rise (perhaps to 10 years, if the full entitlement is taken up) as the loan element of a student's total resources increases.

C A fixed annual sum: for example £500 at 1990 prices, adjusted each year with inflation. This is essentially a variant of the previous option.

D A specified proportion of taxable income: for example 4 per cent. The length of the repayment period would thus be jointly determined by the size of the debt, and by earnings. This is the new system that the Swedish government is proposing to introduce.

6. Option A has the clear disadvantage that the repayment of small loans is unnecessarily protracted. Under Options A to C there would need to be provision for the deferment of repayment in years of unemployment or low income. In the projection of PSBR effects in Tables 1(a) to (c) it has been assumed that repayment will be deferred in any year when income falls below 85% of the national average wage. Deferred payments would not be forgiven, and the outstanding debt would continue to be revalued with inflation during periods of deferment. But there could be provision for any outstanding debt to be written off (if there has been no deliberate default) after a certain period or at a certain age: for example 25 years after graduation or age 60.

7. Deferment of repayment below the level of 85% of average income would be in marked contrast with loan repayment obligations under the new social security arrangements, which provide for arrears of repayments to the Social Fund to be deducted automatically from benefit. It would also introduce a new poverty trap, to mitigate which it might be necessary to devize a system of tapered payments above the income cut-off point. Option D is less open to the first of these criticisms, since the cut-off income level for deferment is the threshold for income tax. It also avoids any poverty trap at the level where repayment liability begins, though it has the disadvantage of increasing marginal tax rates.

8. Under any option graduates should have the choice of earlier repayment, and incentives could be offered to encourage them to

do so. For example, the debt might be reduced by 25% if fully repaid in three years.

9. Table 4 shows the build-up and discharge of loan for students on courses of various lengths, starting on their courses in different years and making use of their maximum loan entitlement, on a 3 per cent inflation assumption. The repayment period is varied with the size of loan, as under Option B above. Table 5 shows the initial debt burden, by course length, on differing inflation assumptions.

TABLE 5

INITIAL DEBT BURDENS BY COURSE LENGTH, AND ON DIFFERING INFLATION ASSUMPTIONS

The figures below show the total amount owed at 5 April following the final year of study by students taking up the full loan facility at the 'elsewhere' rate of £420. (Higher figures would apply to students living away from home in London: lower to students living at home).

Examples: (i) students beginning their studies in AY 1990/91
(ii) students beginning their studies in AY 2000/01
(iii) students beginning their studies in AY 2007/08

	Length of study (years)	Inflation rate(%) 0%	3%	4%	5%	6%
Example	3	1312	1455	1505	1556	1609
	4	1912	2184	2281	2381	2485
(i)	5	2574	3028	3194	3366	3546
	6	3297	3995	4254	4527	4815
	3	2886	4301	4901	5576	6338
	4	4031	6188	7119	8178	9383
(ii)	5	5222	8257	9591	11124	12885
	6	6458	10517	12335	14445	16891
	3	3637	6667	8127	9888	12009
	4	4969	9381	11547	14185	17382
(iii)	5	6301	12253	15229	18887	23377
	6	7633	15289	19186	24024	30018

NH6/50M

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pl type final

~~DRAFT~~

[still to be cleared with Mrs Case]

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

12 July 1988

MW Yr formulation on this pt, is fine. But [illegible] of the note [illegible] have [illegible]. But pse check with CST, too. M

Tom Jeffery Esq
PS/Private Secretary of State
for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

STUDENT LOANS

Your Secretary of State met the Chancellor and Chief Secretary ~~yesterday afternoon~~ on Monday to discuss student loans.

Your Secretary of State reported on how matters now stood. He and the Chief Secretary had now agreed figures for a scheme to be put to E(EP). Your Secretary of State had also been discussing with DHSS Ministers the details of the plan to disentitle students from social security benefits: his view was that initially perhaps 100,000 students would retain access to the social security system. The main problem remaining was timing. It was now clear that there was no possibility of legislation in the next session. But there were clear disadvantages in allowing introduction of the scheme to slip to Autumn 1991. He had therefore been considering whether it would still be possible to start the loan system in Autumn 1990 with legislation at the very beginning of the 1989-90 session. The legislation itself, although controversial, would be short. Disentitlement from benefits could be effected by order, but primary legislation was required in order for the loans to be paid. It might be reasonable to expect that the legislation would reach the statute book by Easter 1990. But he was concerned that there might not then be sufficient time to negotiate the mechanics of the scheme before an Autumn implementation. He said that in his view there were three possible options for administration:

(i) Handling the whole thing via the Revenue, and recovering the loans through PAYE. This was an option neither he nor the Chancellor favoured, although it could be mentioned in the White Paper; alternatively

Some large building societies & major PLCs, such as

(ii) the scheme could be administered by the Government, possibly involving the local Education authorities; or

(iii) ~~finally~~ the Banks and other financial institutions could act as the Government's agents in providing and recovering the loans.

The last of these three was the option favoured by your Secretary of State and Treasury Ministers. But the time for negotiation would be tight and this would weaken our negotiating hand with the Banks who would be looking for some kind of management fee.

The Chief Secretary said that he thought we should not underestimate the Banks and building societies' likely enthusiasm for their role in running the scheme. Ideally, we would want a number of institutions to participate - ~~perhaps~~ the big four clearers, the Royal Bank of Scotland, and perhaps, ~~say,~~ the Abbey National. But if the institutions were pushing for ~~an~~ a ~~unreasonably~~ large fee, we should respond by threatening to put the whole operation out, as a single contract, to competitive tender. The Chancellor and Chief Secretary saw no problem in beginning contingent negotiations with the institutions about a model scheme as soon as the White Paper had been published, and certainly after second reading. The Chancellor also confirmed that he was content for Treasury officials to be involved in support of the DES team. He was fairly sure the Banks would not be prepared to ~~administer the scheme without payment of some fee~~ - it was afterall terra incognita for them. But the financial institutions had always gone to great efforts to attract student custom, and participation in the loan scheme would help them in this respect: we should make full negotiating capital out of this. We should also try and set up the model scheme so that the Banks had incentives to recover outstanding loans promptly, rather than giving preference to recovering overdrafts of their own money.

Your Secretary of State said he would now circulate his paper for E(EP). Subject to approval from colleagues, he would look to make an announcement perhaps as early as 21 July. No-one would expect the Government to have consulted the financial institutions in detail before the announcement, but the Chancellor agreed that it would be sensible for him to have a word with the Governor, to ~~establish whether the Bank saw any problems with the broad proposal~~. If pressed, your Secretary of State could then say that the Bank had been consulted.

I am copying this letter to Jill Rutter here.

Seek to avoid the risk of the banks responsible for negotiating in the first instance.

carry any of the risk themselves

MOIRA WALLACE
Private Secretary

CHANCELLOR OF THE EXCHEQUER

Harpy I/II

The Chancellor was anxious that I should clear these minutes with CST: can you arrange pl?

[NB – the formulation on who should lead the negotiations has been cleared with Ch. It is not quite what Mr B said – he made it plain who he thought should lead – but it is not an actual untruth & leaves issue slightly more open for future]. ma

NH6/50M

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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

13 July 1988

Tom Jeffery Esq
PS/Private Secretary of State
for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

STUDENT LOANS

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I am copying this letter to Jill Rutter here.

MOIRA WALLACE
Private Secretary

NH6/50M

CONFIDENTIAL

prmp-

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

4819

13 July 1988

cc.
PS/CST
PS/PMG
Sir P. Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Farthing
Mr Call

Tom Jeffery Esq
PS/ Secretary of State
for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

WALLACE TO PS/BAKER 13 JUL

Dear Tom,

STUDENT LOANS

Your Secretary of State met the Chancellor and Chief Secretary on Monday to discuss student loans.

Your Secretary of State reported on how matters now stood. He and the Chief Secretary had now agreed figures for a scheme to be put to E(EP). Your Secretary of State had also been discussing with DHSS Ministers the details of the plan to disentitle students from social security benefits: his view was that initially perhaps a minority of students would retain access to the social security system. The main problem remaining was timing. It was now clear that there was no possibility of legislation in the next session. But there were clear disadvantages in allowing introduction of the scheme to slip to Autumn 1991. He had therefore been considering whether it would still be possible to start the loan system in Autumn 1990 with legislation at the very beginning of the 1989-90 session. The legislation itself, although controversial, would be short. Disentitlement from benefits could be effected by order but primary legislation was required in order for the loans to be paid. It might be reasonable to expect that the legislation would reach the statute book by Easter 1990. But he was concerned that there might not then be sufficient time to negotiate the mechanics of the scheme before an Autumn implementation. He said that in his view there were three possible options for administration:

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I am copying this letter to Jill Rutter here.

Yours

Moira.

MOIRA WALLACE
Private Secretary

NB E(EP)

CONFIDENTIAL

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

5

CHIEF SECRETARY
REC. 13 JUL 1988
Mr Potter
Cx, Sir P Middleton, Mr Anson, Mr Phillips, Mrs Case, Mr Edwards, Mr Turnbull, Mr Gilhooly, Mr Forth, Mr MacAuslan, Mr Call

BAKER → RIDLEY 15/7

Nicholas Ridley Esq MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

15 July 1988

Dear Nick,

STUDENTS AND THE COMMUNITY CHARGE

I have seen Michael Howard's letter of 12 July to Robert Jackson.

The case for specific compensation through grant for students' discounted community charge liability was thoroughly examined in Robert's review of student support. I acknowledge that your officials expressed the view that there was a prima facie case for compensation. But the majority of students already contribute to domestic rates. I took the view that I could not sustain a PES bid for specific compensation through grant, nor find the necessary resources within my programme.

I remain convinced that we must get away from the idea that the student grant must reflect any change in financial circumstances. The right way to deal with the community charge is through the flexibility which loans provide. I am proposing to provide from academic year 1990/91 a top-up loan with an ample margin to accommodate students' community charge liability. Until then, as Robert Jackson argued in his letter of 20 June, we should be able to hold the position if the level of student award is revalued with the GDP deflator. That is the judgement I have made, and I am prepared to face any criticism.

At the E(EP) meeting next Tuesday we shall be concerned with the shape of student support from 1990/91. The baseline of grant support to which loans will provide an addition will depend on the outcome of my discussions with the Chief Secretary in the context of the public expenditure survey. I do not think that it would be appropriate for this issue to be discussed in E(EP).

I am copying this letter, as Michael Howard did, to John Major, Michael Forsyth, Brian Mawhinney and Wyn Roberts.

Yours ever,

Kenneth

CONFIDENTIAL

→ folder

BRIEFING NOTE

FROM: COLIN FARTHING

DATE: 15 JULY 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Miss Peirson
Mr Culpin
Mr McIntyre
Mrs Pugh
Mr Perfect
Mr Cropper
Mr Tyrie
Mr Call

STUDENT SUPPORT

E(EP)(88)8th Meeting - 11am, July 19 at No 10 Downing Street

Memorandum by Secretary of State for Education and Science (E(EP)(88)13 of 12 July 1988)

Line to Take

Support the introduction of a student loan scheme, but regret that the current proposal offers little immediate benefit to the Exchequer - it has high initial costs (over £100m a year in survey period); a long pay back period (first PSBR savings predicted in 2002) and contains no provision for cutting the present high level of cash grant. Nevertheless, be willing to accept proposals as only means of introducing a loan scheme during the present Parliament, but subject to reservations on flexibility, access fund and moratorium set out below.

Attitude of Other Ministers

Mr King and Mr Rifkind are expected to support the introduction of loans, but may have reservation on points of detail.

Mr Walker is understood to be opposed to a loan scheme. He is, however, unable to attend the meeting on Tuesday and has yet to decide whether he will send his Minister of State or set out his views in a letter.

Mr Moore is strongly in favour of loans, but is likely to be upset that the paper is not specific on the need to disentitle all students from DHSS benefits. He thought he had reached agreement with Mr Baker on this point and was surprised to find the paper did not reflect his view.

The Paper: I Points to Make

Contest (Paragraphs 3(ii) and (4)) **the proposal to "freeze" the grant** and parental contribution; seek to replace with a commitment "not to increase" them. Accept the difficulty of Education Ministers presenting to the House an immediate cut in the grant, but need to retain the flexibility to do so in later years if circumstances allow, especially if the rate of inflation falls and, as a result, the break even point of the scheme recedes beyond its current date of 2002 to a time even later in the 21st Century.

Accept the £5m access fund (paragraphs 3(7) and (7)) but only as a necessary transitional measure. As the object of the current scheme is, in large part, to dissociate students from support under Social Security arrangements, it is illogical to maintain in perpetuity a fund which demonstrates a continuing linkage. Review after 3/5 years.

Resist the connection (paragraph 8) between this scheme and **the raising of the moratorium on new courses** - there is no essential linkage between these issues. Mr Baker has already entered a PES bid for ending the moratorium at a cost of 5.3/6.6/6.6 so the issue can be taken up separately in bilaterals. It is not an inherent element in the loan scheme.

Accept (paragraph 9) that the scheme should cover holders of full value local authority discretionary awards.

Agree that further work needs to be done (paragraph 11) on the position of those - approximately 20 per cent - students who fall outside the proposed scheme. Mr Moore remains keen to disentitle all students to DHSS benefits (unless they are also disabled or have families) and had hoped to see a clear statement to this effect in Mr Baker's paper. He has proposed that the sums saved by such a disentitlement (some £8.2m) should be transferred from his Department to DES where the money could be used to set up a discretionary hardship fund to be applied to those students who fall outside the new loan arrangement. There is some doubt about how practical this is. DES and DHSS officials are already discussing what form such a fund should take and how it will operate.

If a workable solution can be found, all well and good, if not, then students outside the new scheme can, for the time being, continue to draw some or all of the benefits to which they are currently entitled. E(EP) does not need to take a view on this now and can await the outcome of the further work.

Support the proposition (paragraph 12(i)) that the new scheme be introduced for all eligible students from autumn 1990. Although the up-front costs are greater than for phased introduction, Mr Baker is right in saying that they are justified by the practical and presentational arguments.

Accept (paragraph 12(ii)) that a five year repayment period is the right one for students on a typical three year course, but that a lengthier period may be needed for those on longer course. Agree to settle the detail of this with Mr Baker later.

Support the proposal (paragraph 13) that the financial institutions should be asked to administer the scheme, but that it should be funded - initially at least - with Government money. The case for using the banks' own money is, at best, doubtful, but even if it were otherwise, Mr Baker is correct to say that there is simply not time to agree a bank funded scheme if loans are to be introduced in autumn 1990. A speaking note on this is attached.

(Treasury Ministers have agreed that Treasury officials should support the DES in negotiations with the banks. Final decisions must lie with DES who will account for cost. Present proposal is early technical meetings with CLSB and BSA to devise a scheme followed by some competitive tender arrangement.)

Stress the importance (paragraph 14) of a very early legislative slot in the 1989-90 session. A clear statement by the Committee on the importance of an early tabling might strengthen Mr Baker's hand in subsequent Q(L) discussions.

Underline (paragraph 15) the significant implications for public expenditure in the early years (over £100m a year in the PES period - Appendix C, table 1(b)) and the need to take any opportunity to accelerate the point at which the scheme begins to show a positive financial return. Agree that the aim should be to maximise the administrative load on the banks and thus keep to a minimum the implications for public sector manpower.

Support (paragraph 16) the need to evaluate the scheme and agree to DES officials discussing with yours how this could best be achieved.

The Paper: II Conclusions

Agree conclusion (i) (endorse scheme), but only on the basis that we retain the option of cutting the cash value of the grant, at some point in the future, should circumstances permit.

Agree conclusion (ii) (access fund), but only on the basis that the access fund is a necessary, transitional measure and should be rundown to nothing over, say, the next five years.

Oppose conclusion (iii) (moratorium) saying that the moratorium is already the subject of a separate PES bid and thus falls to be handled in bilaterals.

Agree conclusions (iv), (v), (vi), (vii) and (viii), subject to clearing terms of statement with colleagues.

COLIN FARTHING

SPEAKING NOTE

SPEAKI[NG NOTE]

1669/8

CONFIDENTIAL

BANKS AND STUDENT LOANS

[NB. 'banks' is shorthand for any financial institution in the retail loans business and could also include building societies, insurance companies etc.]

Important to distinguish:

1. Bank administration of loans as agents

Government provides the money and sets terms. Banks advance it to students, collect repayments, pursue defaulters etc. Banks paid fee by Government for providing these services.

Public expenditure: Full cost of loans, less repayments (but not interest), plus administrative cost.

Comment: A promising way of administering loans, (which is inherently more difficult than for grants). Makes use of bank expertise and branch network. Costs will need to be investigated with banks and compared with alternative methods (eg by Government Departments, local authorities, universities etc). But banks may well be anxious to get the job in order to attract student custom for other services.

2. Bank financed loans

Banks lend their own money. Will require guarantees against default and/or interest rate subsidies if they are to lend to <u>all</u> students on <u>soft</u> terms set by Government.

Public expenditure: Payments under guarantee plus interest subsidies plus margin for administrative cost. Loan payments and repayments do not count.

Comment: (a) presentational reduction in public expenditure; but not a good reason for doing it because -

(b) economic effect basically the same as public expenditure - Government intervening to divert funds to students;

(c) money raised on credit of Government, not banks or students - Government might as well raise the money itself, and could do so more cheaply than banks;

(d) time-consuming negotiations with banks over participation in scheme, and guarantee and subsidy terms - likely to make 1990 start impossible;

(e) interest subsidies would grow to a permanent and unpredictable element in public expenditure (assuming aim was to protect students from interest fluctuations).

Conclusion: If students can really be left to commercial judgement of banks, with neither subsidies nor guarantees, fine. But few would get much loan and some would get none. If they can't, simpler and more transparent for Government to provide the money itself.

47A/2/395/052/MDG

CONFIDENTIAL

PAYMASTER GENERAL

FROM: MS K ELLIMAN
DATE: 15 JULY 1988

PS/CHANCELLOR

cc: PS/Chief Secretary
PS/Sir Peter Middleton
Mr Anson
Mr Phillips
Mrs Case
Mrs Lomax
Mr Farthing
Mr Call

PS/PAG → PS/CHEX 15/7

STUDENT LOANS

The Paymaster General has seen your letter of 13 July to the Private Secretary to the Secretary of State for Education, and has commented that he envisages pressure by the NUS on the banks to disencourage them from participation.

Kim Elliman

KIM ELLIMAN
PRIVATE SECRETARY

CONFIDENTIAL

FROM: MRS A F CASE
DATE: 15 July 1988

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Lomax
Mr Farthing
Mr Call

[Ch/ the report from Footman is that Governor thinks Banks won't be keen on administering this
MPW]

CASE → CHEX 15/7

STUDENT LOANS

You are talking to the Governor about Mr Baker's student loan plan on Monday.

2. The Governor has already had a copy of Mr Baker's draft E(EP) paper which sets out the outline of the proposed scheme.

3. In the last day or so FIM have mentioned the scheme to Mr George at the Bank. I understand that he suggested a two-stage approach to the banks (and building societies). Immediately after the announcement the DES or we should get in touch with the CLSB and BSA inviting them to nominate 2 or 3 people who together with the official side would constitute a technical group who would work up the arrangements in a certain amount of detail. The second stage would be to market these arrangements by inviting tenders or whatever. Decisions about the handling of this second stage would not be needed immediately and could take account of the feel we had got for the financial institutions' attitudes and interest during the first stage. In order to avoid the risk of the banks responding negatively when Mr Baker makes his announcement, the DES approach to the CLSB and BSA should be immediately after the Parliamentary announcement. DES officials see no difficulty with this.

4. Handling arrangements of this sort are very much the sort of thing we too had in mind. If the Governor mentions

them, you might therefore say that we agree.

AFC

MRS A F CASE