

PO-CA/NL/0224

PART D

Part D

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(Circulate under cover and notify REGISTRY of movement)

Begins: 18/7/88.
Ends: 15/12/88.

PO -CH /NL/0224

PART D

Chancellor's (Lawson) Papers:

REVIEW OF STUDENT SUPPORT

Disposal Directions: 25 Year

15/9/95

PO -CH /NL/0224
PART D



CST, PMG,
 SIR P MIDDLETON,
 MR ANSON, MR PHILLIPS
 MR SCHOLAR, MRS LOUAX
 MRS CASE, MR FARTHING
 MR CALL

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

18 July 1988

John Footman Esq
 PS/Governor
 Bank of England
 Threadneedle Street
 LONDON EC2R 8AH

ACSA
 →
 FOOTMAN
 18/7

Dear John

STUDENT SUPPORT

The Governor and the Chancellor discussed this morning the role of the banks in the proposed new system of student support.

The Chancellor explained that the plan was that the banks and other financial institutions should act as the Government's agents in providing and recovering the loans. This was the simplest option, and should be attractive to the banks since it would secure students as customers for the future. The legislative programme for next year was already fully committed, so legislation for student loans could not be introduced before November 1989, and could not start operating until the academic year starting in Autumn 1990. This left plenty of time for consultation, and we would want to discuss the detailed arrangements carefully with the clearing banks and other institutions.

It was, however, likely that, as soon as an announcement was made, the National Union of Students, among others, would put pressure on the banks to say they would not be able to participate. The Chancellor thought it would be very helpful if the Governor could speak to Lord Boardman, as Chairman of the Committee of London and Scottish Clearing Banks, to stress that we genuinely wished to discuss with the banks how to set up a workable scheme, and we very much hoped that they would not make any hasty announcement of any difficulties they foresaw.

The Governor said he would certainly do this; he thought it would also be helpful if a similar message were passed to the major building societies. There were some worries about administering

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the scheme, including how loan repayments should be secured and how the banks would know an ex-student's income, if that was one of the determinants of loan repayments. He was also somewhat concerned that by announcing the Government's plans at this stage, we would be conceding some of our negotiating position to the banks.

The Chancellor accepted that there was some risk, but thought that competitive pressures should ensure that a satisfactory agreement was negotiated. The potential administrative difficulties could be resolved in the consultations with the banks; we would, for example, want to make sure that the banks pursued repayment of student loans with as much vigour as their own lending; the details of how to achieve this could be settled later. He would arrange for a message to be passed to the building societies.

I am copying this letter to Tom Jeffery (Department of Education).

*Yours
Alec*

A C S ALLAN
Principal Private Secretary

CONFIDENTIAL

BANK OF ENGLAND
LONDON EC2R 8AH

19 July 1988

*1 done
2 prep*

A C S Allan Esq
Private Secretary to
The Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

CH/EXCHEQUER ✓ 20/7	
REC.	20 JUL 1988
ACTION	MR Farthing
COPIES TO	CST PM G Sir P. Middleton Mr Anson Mr Phillips Mr Scholar Mrs Lomax MRS. Case MR Call

Dear Alex

STUDENT SUPPORT

Thank you for your letter of 18 July reporting the Governor's discussion with the Chancellor.

The Governor duly spoke to Lord Boardman yesterday morning, and Lord Boardman entirely understood the point and will speak to his fellow chairmen. He did not think that the banks would have any difficulty in avoiding initial negative reactions.

done
We have told Lord Boardman that this Thursday, 21 July looks the most likely date for an announcement. Perhaps you can let me know if anything happens to change that.

I am sending a copy of this letter to Tom Jeffery.

Yours

J R E Footman
Private Secretary
to the Governor

Tom



the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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

K.B.

Department of
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Our ref PS1BFE
Your ref
Date 20 July 1988

CH/EXCHEQUER	
REC.	21 JUL 1988
ACTION	Mr Farthing
COPIES TO	CST PMG
	Sir P. Middleton
	Mr Anson, Mr Phillips
	Mr Schelar, Mrs Loman

21/7

*Mrs Case
Mr Call*

Kenneth Baker

STUDENT SUPPORT

I strongly agree with the aims underlying the new regime for student maintenance, including top-up loans, in E(EP) (88) 13. The proposals, which I endorse, will have the further advantage of helping to make students more discerning in their choice of courses and future employers.

But I am concerned that the new regime should not jeopardise the fulfilment of our other objectives in higher education, including widening access, continuing the necessary shift towards science, engineering and vocational courses, and enhancing labour mobility.

I recognise that the proposed Access Fund will go part of the way towards helping the first of these. But I should still welcome your confirmation that these aspects of policy have been fully taken into account in what you involved in the further consideration of repayment periods to which you refer in paragraph 12 of your paper.

I am copying this to other members of E(EP), to the Secretaries of State for Northern Ireland and Social Services, and to Sir Robin Butler.

*L. E.
Hans*





NOTED.
Baker
written to
for Jan 1st
can explain
privately

Ch

I have spoken
PS/Gov, and have copied
letter to him. His view
was that Gov could have
no objections to Baker seeing
Boardman, but could
want a Bank representative
@ meeting.

(Baker),
that is an
arrange
at
Gov's
insistence
despite
its
wishes
I think.

[He rang again with
second thoughts:
letter for Hancock
to see Pitman -
more appropriate level]

AA

~~Handwritten scribble~~

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

CH/EXCHEQUER	
REC.	21 JUL 1988
ACTION	Mr Farthing
COPIES TO	CST. PMG
	Sir P. Middleton
	Mr Anderson Mr Phillips
	Mr Scholar Mrs Lomax
	Mrs Case
	Mr Call

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AQ

21 July 1988

Nigel

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

In the light of the discussion in E(EP) on 19 July, I should like to have an early meeting with Tom Boardman and Tony Stoughton-Harris about the role of the banks and building societies in a student loan scheme.

My purpose would be to explain our intentions in general terms, and to enlist their support. From press comment it is clear that the banks at least expect our scheme to involve their capital: we need to set them right, and ask them to start thinking about their role in administering the loans. I hope this will pave the way for a technical working group, at official level, to start work as soon as the way forward is agreed.

I hope that your officials will join the working group. Meanwhile, I should be glad to know whether you are content that I should have a preliminary talk with Tom Boardman and Tony Stoughton-Harris, and whether you would wish to join us.

[Handwritten signature]

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

CANCHEQUER ✓	
DATE	26 JUL 1988 26/7
TO	Mr Farthing CST PMG Sir P. Middleton Mr Anson Mr Phillips MR Scholar Mrs Lomax Mrs Case MR Call

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-19 Victoria Street
London SW1

25 July 1988

STUDENT SUPPORT

Thank you for your letter of 20 July: I am glad to have your support.

I entirely agree that our higher education policy must include widening access and shifting the balance as you describe. I have had them fully in mind in working up my proposals, and shall certainly continue to do so in taking the policy forward. My officials will be in touch with yours as we think further about the modalities of repayment.

Copies of this letter, like yours, go to the other members of E(EP), to Tom King and John Moore, and to Sir Robin Butler.

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

P B Jeffery Esq
Private Secretary to the Secretary of
State for Education and Science
Department of Education and Science
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Our ref PS2BCS
Your ref
Date 26 July 1988

CH/EXCHEQUER	
REC.	26 JUL 1988
ACTION	MR FARTHING
COPIES TO	CST. PMG, SIR P. MIDDLETON, MR ANSON MR H. PHILLIPS, MR SCHOLAR, MR LOMAX, MRS CASE, MR CALL

26/7

Dear Mr Jeffery,

STUDENT SUPPORT

I am writing to confirm my recent telephone calls to your office regarding my Secretary of State's letter of 20 July.

The second sentence in paragraph 3 should read:-

"But I should still welcome your confirmation that these aspects of policy have been fully taken into account and that we in DTI can continue to be involved in the further consideration of repayment periods to which you refer in paragraph 12 of your paper."

I am copying this letter to Private Secretaries of other members of E(EP) and of the Secretaries of State for Northern Ireland and Social Services, and Sir Robin Butler.

Yours sincerely,

GARETH JONES
Private Secretary

FROM: COLIN FARTHING

DATE: 26 JULY 1988

CHANCELLOR

*OK? - or do you
think we should let Mr Baker
discuss the practicalities etc
so as to get a more
informed E(EP) discussion
in Sept (with Mr (attendance))*

cc

1 to

Chief Secretary
Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Lomax
Mrs Case
Miss Noble
Mr Call
Mr Perfect

AA

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

Mr Baker has written to you seeking your agreement to his holding an early meeting with Lord Boardman of the CLSB and Mr Stoughton-Harris of the BSA about the role of the banks and the building societies in administering a student loan scheme. He also invites you to join the meeting should you wish to do so. Finally, he suggests that a technical working group be established at official level - on which, he hopes, the Treasury will be represented - to work up, in detail, a scheme of administration once the way forward on student loans is agreed.

2. Mr Baker's request for a meeting with Lord Boardman and Mr Stoughton-Harris may be premature. The meeting of E(EP) on 19 July did not give Mr Baker the approval in principle for the loan scheme which he was seeking and the Committee did not agree to his making a public announcement. That being so, there must be some doubt about whether a student loan scheme will emerge during the life of this Parliament, especially given the difficulties of finding the necessary legislative time - a factor to which the Prime Minister once more drew attention during the E(EP) meeting.

3. As for alerting the banks and the building societies to the potential role which lies before them, your own meeting with the Governor on 18 July has already done that so far as the banks are concerned. Following that meeting, the Governor spoke to Lord Boardman who has undertaken to speak to his fellow clearing bank chairmen.

4. Lower level exchanges which have been going on between Mr Scholar here and Mr George in the Bank. Mrs Lomax has warned Mr Bridgeman about our interest in bringing the building societies into the discussions and Miss Noble has told Mr Boleat informally that if and when a scheme is agreed someone would get in touch with him about consulting the societies.

5. A further meeting of the sort proposed by Mr Baker, therefore, risks either going over ground which has already been covered - which would have little purpose - or going beyond what E(EP) has so far approved - which would be unfortunate if the Committee were not, in the event, to endorse Mr Baker's proposals. I, therefore, recommend that you do not agree to further meetings for the moment.

6. As for the technical working group, there is certainly work to be done here but, as yet, there has been only one preliminary meeting between DES officials and ourselves about administering the scheme, and that was before the details of the scheme were settled. It is quite possible, therefore, to use the time profitably between now and the next E(EP) meeting in developing a Government line on how we would like the scheme to be administered before we start talking to the financial institutions.

7. I attach a draft reply to Mr Baker making these points. You will want to consider whether to copy your reply and Mr Baker's letter to No. 10.


COLIN FARTHING

**DRAFT LETTER FROM CHANCELLOR TO:
THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE**

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

Thank you for your letter of 21 July about a possible meeting with Tom Boardman and Tony Stoughton-Harris about the role of the banks and building societies in administering a student loan scheme.

I think it might be premature for you to have such a discussion until E(EP) has had the opportunity of considering your proposals further, at the end of September particularly in view of the Prime Minister's clear statement, in summing up our discussion, that no indication should be given that the Government had reached a decision on student support. As you know I discussed with the Governor on 18 July an outline of the sort of scheme you have in mind and the banks' and building societies' representatives have been warned informally by my officials that we will want to talk to them at an early stage if and when a scheme is agreed.

As for the official level working group, I have already indicated that I would be willing for my officials to support yours in the development of government proposals for

subsequent discussion and negotiation with the financial institutions. Little work has yet been done, however, and I think our officials could make profitable use of the time between now and the end of September in putting a government line together before we expose our hand to the financial institutions.

[I am copying this letter and yours of 21 July to the Prime Minister]

} (but do copy to Governor?)

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CHANCELLOR

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

The Rt Hon John Moore MP
Secretary of State for Social Security
Richmond House
79 Whitehall
LONDON
SW1A

CH/EXCHEQUER

REC.	29 JUL 1988 ✓
ACTIVE	CST
COPIES TO	

Baker
Moore
28/7

29th July 1988

John Moore

Since the meeting of E(EP) on student top-up loans my Ministerial colleagues and I have been giving a great deal of thought to the problems of the 125,000 students who are "below the line". We have been trying to find a way of disentitling them to social security benefits as well as the 535,000 students above the line.

I have to tell you that we have come across formidable difficulties in doing this. The group above the line are broadly homogeneous, in type of study and financial circumstances. The great majority are on degree courses, or courses which I designate as fully comparable in standard. These number 480,000 to which my proposals to the Chief Secretary will add another 5,000. In addition there are another 50,000 to which LEAs decide to make a discretionary award at the same value as a mandatory award. It may be assumed that most of these are in similar circumstances to mandatory award holders.

The group below the line, however, are much more difficult to define. They are heterogeneous, ranging from postgraduates to youngsters within non-advanced further education with learning difficulties or sensory handicaps, which may not be sufficiently severe to qualify them for year-round social security support.

Postgraduates may seem on the face of it an exception; they are at least homogeneous in level of study. But their circumstances are very different from those of the undergraduate student. They compete for support from a variety of sources. Only 4 in 10 have a studentship or bursary comparable with a mandatory grant. 2 in 10 are classified as self-supporting. The rest have some degree of support - amounts unknown, and probably very variable - from many other sources. Some are studying for a single year: others up to 4 full-time.

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We decided at an early stage that the loan scheme should not, at least initially, be extended to postgraduates. For one reason, it would have added perhaps £7 million a year to the cost. For another, there is the problem of the accumulation of debt over six or seven years. I have therefore accepted the view of colleagues that they should be excluded from loans. In consequence, there will be no compensation through the student support system even for the holders of postgraduate studentships and bursaries. It must follow that the group as a whole cannot be disentitled to social security benefits.

If we attempted to disentitle them we would come under pressure in both Houses to add them to the student loan scheme, which we certainly would not want to do. All in all, it is much better to leave this group alone.

Students not studying for a first or higher degree are still less amenable to classification. They include students over nineteen completing studies in non-advanced further education which they started after leaving school, and mature students taking up vocational studies after a period of employment. Their courses may vary in length from a term to three years. We know little of their financial circumstances, beyond the fact that some 80,000 in the maintained sector and a further unknown number in independent institutions receive no educational grant whatever; and your Department cannot identify the claims these students make on the benefit system. I am particularly worried about this group for a number of reasons:

i. First: The paradigm of the young student who is voluntarily forgoing present earnings for future advantage is of doubtful application. We know that many of these students are older than mandatory award holders. Take the case of a man who becomes unemployed in his mid-forties and enrolls on a vocational course to qualify for employment in a new trade. In one authority he might receive a full-value award: in another, nothing at all for maintenance.

ii. Second: Students have the same living costs as other students, plus the expenses of study. In London cheap accommodation is often unobtainable, and students in some boroughs will soon be faced with high community charge payments. In other parts of the country there are few opportunities for part-time employment.

iii. Third: My policy is to expand the whole area of vocational further and higher education. As you and colleagues will know, demography is working against the supply of trained people for the labour market: we must help to meet the legitimate expectations of employers. This vital objective cannot be jeopardised by financial disincentives. If

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benefit were to be withdrawn it would be necessary to put equally generous arrangements for the support of students in their place.

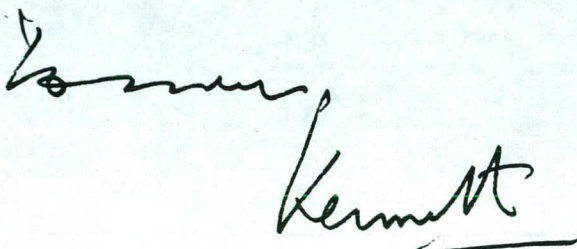
iv. Fourth: Loans are not the answer, Apart from the very high start-up cost of extending the proposed scheme to students below degree level, the American experience teaches us to expect a very high default rate from those who have followed courses at this level. As a consequence of the indiscriminate extension of loans in the States, defaults in 1990 are expected to cost the US Government \$2 billion in 1990.

This leads me to the conclusion that we cannot, in the short term, devise a satisfactory alternative for students to the present social security arrangements. If we merely recycled the present resources which students claim, we could not escape the charge of arbitrariness - and the creation of a large class of losers - without the expensive and inefficient re-creation of arrangements which exactly paralleled the present DHSS scheme. If we adopted a broader approach, without such an elaborate apparatus to test means, we would still have to guarantee a basic minimum level of support sufficient to compensate students who had previously claimed benefit. It would have to be comprehensive, because there are no principles of academic selection which could justify the creation of a class of students without any form of public assistance. Not only would all students be eligible to claim, but a support system without the stigma of social security would be guaranteed to attract more claimants than at present. A budget of £8-£10 million would be quite insufficient. Even if there were some offsetting savings in LEA discretionary awards, the net effect would be a substantial increase in public expenditure.

Moreover, as with postgraduates, if we seek to disentitle this group of students we may well set off a campaign to make them eligible for loans. That would be quite hard to resist but nevertheless unacceptable.

I think our first task must be to get the loans scheme established for what most people would consider to be the 'traditional' student. We have a formidable task in getting that up and running smoothly. When it is shown that it can be done and is working well, we can then see how we should extend that, modify and apply it to other elements of further and higher education. Before we do make any further move in this area, however, we need a much clearer idea of the consequences of disentanglement for students in particular circumstances. Quite frankly, at present we simply do not have the information to go on.

I am copying this letter to Nigel Lawson, John Major, Norman Fowler, Malcolm Rifkind, Peter Walker, Tom King and Sir Robin Butler.

Kenneth



Treasury Chambers, Parliament Str
01-270 3000

cc: Chief Secretary
Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Lomax
Mrs Case
Mr Farthing
Miss Noble
Mr Call
Mr Perfect

29 July 1988

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

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

Thank you for your letter of 21 July. I have no objections to your having an early informal meeting with Tom Boardman and Tony Stoughton-Harris about the role of the banks and building societies in a student loan scheme, though you will of course need to be careful to make it clear that no final decisions on the scheme have yet been taken. I understand that the Governor would like to join you in these discussions, and I should be grateful if Peter Lilley could take part as well. I am also very ready for my officials to be closely involved in the technical working group.

I am copying this letter and yours to the Governor of the Bank of England.

NIGEL LAWSON

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

CHEX
Mr Farthing
CST. PMG
SIR P. Middleton
Mr Anderson Mr Phillips
Mr Scholar Mrs Lomax
Mrs Cape
Mr Call

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AQ

21 July 1988

Nigel Lawson

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

In the light of the discussion in E(EP) on 19 July, I should like to have an early meeting with Tom Boardman and Tony Stoughton-Harris about the role of the banks and building societies in a student loan scheme.

My purpose would be to explain our intentions in general terms, and to enlist their support. From press comment it is clear that the banks at least expect our scheme to involve their capital: we need to set them right, and ask them to start thinking about their role in administering the loans. I hope this will pave the way for a technical working group, at official level, to start work as soon as the way forward is agreed.

I hope that your officials will join the working group. Meanwhile, I should be glad to know whether you are content that I should have a preliminary talk with Tom Boardman and Tony Stoughton-Harris, and whether you would wish to join us.

Tom Boardman
Anthony Stoughton-Harris

CONFIDENTIAL

Please type for signature

DRAFT LETTER FROM THE CHANCELLOR:

Kenneth Baker
Secretary of State for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

a
OK?
AA

OK

STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS

Thank you for your letter of 21 July. I have no objections to you^r having an early ^{informal} meeting with Tom Boardman and Tony Stoughton-Harris about the role of the banks and building societies in a student loan scheme, though you will of course need to be careful to make it clear that no final decisions on the scheme have yet been taken. I understand that the Governor would like to join you in these discussions, and I should be grateful if ^(Peter Lalan, John Hain) the ~~[CST/PMG/EST]~~ could take part as well. I am also very ready for my officials to be closely involved in the technical working group.

I am copying this letter and yours to the Governor of the Bank of England.

NIGEL LAUSON
~~A C S ALLAN~~



From the Minister of State for Social Security and the Disabled

SCOTT
→
BAKER
8/8

CONFIDENTIAL

The Rt Hon Kenneth Baker MP
Department of Education and Science
Elizabeth house ✓
York Road
LONDON SE1 7PH

CH/EXCHEQUER	
REC.	08 AUG 1988
ACTION	CST ✓ 7/8
COPIES TO	

08 AUG 1988

Dear Kenneth,

STUDENTS AND BENEFITS

John Moore has asked me to reply, in his absence, to your letter of 28 July about the withdrawal of social security benefits from the 125,000 students outside the proposed loan scheme.

I well understand that this is not an easy question to resolve. But I have to say that I cannot agree with your conclusion that delaying a decision on this question until the loan scheme is up and running is the right approach. The whole history of social security claims by students points towards our taking this opportunity now to remove students completely from the benefit system.

Students' use of the Social Security system to supplement grants is a relatively recent phenomenon. Before 1966 (when national assistance was replaced by supplementary benefit) virtually no students claimed benefits. in the late 1960's and 1970's students began to claim supplementary benefit in vacations; and, since housing benefit was fully introduced in 1983, increasing numbers of students have claimed it, both in vacations and in term-time. Before 1983 students were not excluded from the old rent and rates rebates and allowances schemes run by local authorities, but in practice very few did get assistance.

Access to benefits by students has therefore been an unplanned development of the last two decades. At a time when we as a Government are seeking to return to the earlier position whereby students were dependent on grants, parental support and vacation earnings, there is no logic in allowing a substantial minority of students to continue to have access to benefits.

The Government's intention to revert to the pre-1966 position was clearly set out in the 1985 Green and White Papers on the Reform of Social Security. The principles underlying the policy are:

- i. to wean students from the dependency culture;
- ii to sharpen accountability - educational support should be fully visible and provided through the education system.
- iii. to reduce the administrative burden caused by providing individual students with relatively small amounts of means-tested benefits.

The payment of income support and unemployment benefit to students raises an important point of principle because those benefits are intended for people who are available for work. We cannot accept that students who have decided to take themselves out of the employment field in order to pursue a course of study should properly be regarded as available for work even during the summer vacation. Students without grants, or with low awards, manage to support themselves throughout the year without income support and unemployment benefit and should not have recourse to it during the summer vacation when there are opportunities to earn.

Steps towards implementing the policy were started in 1986-87. Changes made then included the removal of students from entitlement to supplementary benefit and unemployment benefit in the short vacations, and changes in the entitlement and calculation of housing benefit. These changes applied to all students, including those without mandatory awards. In addition, the 1988 reforms cut back housing benefit for many students, again applying to those without mandatory awards as well as to those with awards. The whole thrust of recent legislation in this area has therefore been to treat all students alike in the curtailment of access to benefits. I am convinced that leaving a substantial minority in benefit would produce the wrong incentives for students, course providers and LEAs, and lead to increasing pressure from the articulate student population for the scope of benefit provision to be widened. Given your declared intention to expand vocational and higher education, there would also be an increased demand on benefit expenditure.

The concessions we propose in the social security system for disabled students, lone parents, and families will enable most of the potential criticism to be met. The example you gave of the unemployed man in his mid-forties, who enrolled on a vocational course to qualify for employment in a new trade, would, if he had a wife or partner, mean that housing benefit could be claimed in the same way as now. Postgraduates, also, are more likely than other students to keep entitlement to benefit through a partner or children. I think we must recognise that the exclusion from benefit will apply only to able-bodied, single people, who are mainly in the

E.R.

younger age group, and any remaining hardship cases could be helped through a hardship fund or the local authority scheme. We estimate that only a minority of the 125,000 claim housing benefit at the moment and, taking account of families who will not lose entitlement, only about 25,000 people would actually lose benefit.

We must now set in train the further work agreed at E(EP). Officials in our departments should produce urgently a clear range of options for a decision by E(EP) at the next meeting in September. These options would include the hardship fund discussed at the meeting, (which I consider is feasible and need not cost more than social security expenditure), and the possibility of using the existing local authority discretionary scheme.

I am copying this letter to Nigel Lawson, John Major, Norman Fowler Malcolm Rifkind, Peter Walker and Sir Robin Butler.

Yours truly,

Nick,

NICHOLAS SCOTT

more recent pps pl



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Y SWYDDFA GYMREIG
GWYDYR HOUSE

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Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)
0538

The Rt Hon Peter Walker MBE MP

From The Secretary of State for Wales

Oddi wrth Ysgrifennydd Gwladol Cymru

CT/3551/88

CH/EXCHEQUER	
REC.	22 AUG 1988
ACTION	CST
COPIES TO	

19 August 1988

✓ 22/8

CONFIDENTIAL

STUDENTS AND BENEFITS

I have seen Nicholas Scott's letter to you of 8 August in reply to yours of 28 July to John Moore about social security benefits for students without mandatory or equivalent awards.

I believe there are two important issues here. Firstly I believe that whatever decision we reach about support for students in the future, it must be a decision which deals with all students. It would be unsatisfactory to announce proposals for future support to students who receive mandatory or equivalent awards, and which involved removing their entitlement to social security benefits, without at the same time being in a position to announce what arrangements we proposed for students not in receipt of mandatory awards. We would certainly be asked about the position of students without mandatory awards and whether they would remain entitled to social security benefits. I am sure it is right, therefore, that the issue of social security benefits for non-award holders should be dealt with now.

On the second issue I agree with you that we would be inviting criticism if we simply deprived students without awards of their entitlement to social security benefits without replacing those benefits with some other comparable form of support. It cannot

/be ...

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science

WALKER
→
BAKER
19/8



be realistic to turn the clock back 20 years and ignore the developments which have occurred in support for students in the meantime as Nicholas seems to be suggesting is possible. In any case, to do so would run counter to our policies of encouraging more people to enter further and higher education and raising education standards generally. If this category of students must lose its entitlement to social security benefits it should only be on the basis that an acceptable alternative is found.

As you are aware my view is that we should retain the present student support arrangements for both mandatory and non-mandatory award holders. If, however, we decide not to retain them we need to be able to present any new arrangements in the best possible light. That would be made very much more difficult if the new arrangements involved depriving the students most in need of support of the small amount of support they currently receive.

/ I am copying this letter to Nigel Lawson, John Major, Norman Fowler, Malcolm Rifkind, Tom King, Nicholas Scott and Sir Robin Butler.

→ Juke: wowiee!



Moua
pup
Yes.

STUDENT LOANS ETC.

Ch/ As you see the dispute between DES and Doss re SS disentanglement for those without mandatory awards numbers on. Mr Baker proposes special meeting on this before a further E(EP)
You are invited (dates they have in mind are 20 or 22/9) but I would think you cd leave to EST. Proceed on that basis?

MPW
you - 7/9

* NB also record of EST's mtg yesterday - behind mpw



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

CH/EXCHEQUER	
REC.	31 AUG 1988
ACTION	CST
COPIES TO	

✓ 31/8

Moore
2 provisional times.
20/9. 10.15am
22/9 9.00am.

The Rt Hon John Moore MP
Secretary of State for Social Security
Richmond House
79 Whitehall
LONDON SW1

28 August 1988

John Moore

~~John~~
Have we heard for this
anything of X?

STUDENTS AND BENEFITS

X //

I have seen Nicholas Scott's letter of 8 August in reply to mine of 28 July. We must seek to resolve this matter before E(EP) returns to consider my proposals in E(EP)(88)13 for the main bulk of students. But the difference between us at present is such that I doubt whether it can be resolved in further correspondence or through further work by officials. I suggest, therefore, that we should meet for a discussion as soon as a convenient date can be arranged. I will now set this in hand.

I am sending copies of this letter to Nigel Lawson, John Major, Malcolm Rifkind, Peter Walker, Tom King and Norman Fowler - all of whom, if you agree, I propose to invite to the meeting - and to Sir Robin Butler.

Norman

John Moore

Baker
Moore
28/8

CONFIDENTIAL



A handwritten signature in dark ink, appearing to be "SMAJ".

MR PERFECT

FROM: S M A JAMES
DATE: 31 August 1988

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Lomax
Mrs Case o/r
Miss Noble
Mr Farthing o/r
Mr Call

STUDENT LOANS: DISCUSSIONS WITH FINANCIAL INSTITUTIONS

We spoke about the meeting Mr Baker is holding on 6 September with Mr Boardman, Mr Stoughton-Harris, and the Governor about the role of banks and building societies in a student loan scheme, which the Economic Secretary will be attending at the Chancellor's request.

2. The Economic Secretary would be grateful for advice on the background to the issues likely to be raised and a line to take. It would be helpful if advice could reach this office by close on Friday 2 September.

A handwritten signature in dark ink, appearing to be "SMAJ".

S M A JAMES
Private Secretary



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

CHIEF SECRETARY	
REC.	31 AUG 1988
ACTION	<i>Mr Farthing</i>
INFO	<i>Mr Anson Mr Phillips</i>
	<i>Mr Case Mr Luce</i>
	<i>Mr Turnbull Mr MacKusker</i>
	<i>Mr Mansford Mr Skelley</i>
	<i>Mr Call Mrs S Walker</i>

The Rt Hon John Major MP
 Chief Secretary to the Treasury
 HM Treasury
 Parliament Street
 London SW1P 3AG

31st August 1988

John Major

PUBLIC EXPENDITURE SURVEY 1988: DEPARTMENT OF EDUCATION AND SCIENCE

Before we meet on 8 September for our bilateral discussion, it will be helpful if I comment on the points raised in your letter to me of 21 July.

2. When I settled my programme with you last year, I relied on the Treasury's forecast of inflation in the economy. As Nigel made clear in his letter to our supporters just before the recess, this has since proved wide of the mark. The education service will achieve less than I intended with the money I provided. But with continuing economic growth, the public expects more not less. So do I. My bids are necessarily large but they represent a lower proportion of my programme than those submitted by several of my colleagues.

3. Nearly all my Vote programme goes on higher education, including student awards, science and local authority capital. I need extra money in all these areas. I do not therefore have the scope to find offsetting savings for the smaller bids to which you refer. Given that I am implementing my school reforms very largely through a redirection of resources, I think I can reasonably look to you for a small additional sum for the grant maintained schools - including the expenditure on VAT which they will need to incur in the light of Peter Lilley's decision on the issue - and for the expansion of the Assisted Places Scheme. I am surprised by what you say concerning EC spending on education. You will recall that I have stood by you and your predecessor in resisting programmes which were not of high priority. You agreed specifically that we would look separately in the Survey at the costs of ERASMUS. Are you going back on that agreement? Your officials already have details of my bid for VAT on new construction; I must in addition enter a bid of £15 million in each of the Survey years for the VAT charges on fuel and power, water and sewerage which will be levied following the ECJ decision: my officials will let yours have the details.

BAKER
 CST
 31/8

CONFIDENTIAL

7. Similar considerations apply to the maintained sector where my bid (which has been adjusted on the agreed basis to take account of latest information on outturn) is intended to ensure that I maintain my programme of allocations for school improvements and make a start on dealing with the worst deficiencies in further education colleges - for which my allocations over the last two years have not allowed for any new starts on building work. Many of the most urgent projects are relatively modest and frequently in inner city areas of high unemployment.

8. There will have to be substantial additional funds for science, if we are to pursue a sound strategy for the Science Base. I have set out for E(ST) what in my view is needed in some of the key areas, for example, to sustain the core sciences and to develop IRCs. We have been doing further work on IRCs, having regard to the E(ST) discussion: large numbers of proposals are coming forward from scientists of high ability, which my officials will gladly share with yours. At the same time, various national scientific commitments have to be properly funded, not at the expense of science of higher priority - or, possibly, wound down (which also costs money). So I need additional money for all the elements in my bid. Naturally any redeployment to the Science Budget which E(ST) might agree will be welcome, but like you I fear that that source will not take us far. In that case a good deal more will need to be added.

9. You and Nigel recognised last year the need for student awards to be increased in line with the GDP deflator. We shall need to consider an adjustment again to take account of the latest forecast which Nigel gave to Cabinet. There are in addition some estimating changes to my bid arising from the latest projections of student numbers. It was suggested in E(EP) that the level of student award in 1989-90 ought also to take specific account of students' liability to the community charge. Nicholas Ridley, in particular, felt strongly about this and you may want to involve him and Malcolm Rifkind in this part of the Survey discussions. For your convenience, I am enclosing with this letter details of the costs associated with these different factors. I shall of course be returning to E(EP) about the outstanding questions on the planned loan scheme.

10. On running costs, I suggest that our Permanent Secretaries meet after our bilateral to consider provision in the light of our revised management plan. They could then put proposals for a settlement to us.

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ANNEX

BIDS FOR STUDENT AWARDS

	1989-90	£ million 1990-91	1991-92
AGREED BID (covenants)	23.2	34.8	40.6
REVISED BID (awards other)			
Student numbers	24.8	29.5	23.8
Uprating of maintenance ⁽¹⁾	9.4	18.7	22.8
Uprating of fees ⁽¹⁾	3.0	4.5	5.0
Oxford and Cambridge fees and EC fees ⁽²⁾	1.9	1.9	2.0
Moratorium and previous study ⁽²⁾	8.8	12.1	12.6
TOTAL BIDS: AGREED BID	23.2	34.8	40.6
REVISED BID	47.9	66.7	66.2

(1) Assumed revised GDP: 4.5%, 3.5%, 3.0%

(2) No change

Revised mandatory award holder numbers taking account of USR early estimates	416,400	419,000	415,700
---------------------------------------------------------------------------------------	---------	---------	---------

COST OF COMPENSATING E & W STUDENTS FOR THEIR COMMUNITY CHARGE
LIABILITY

a) studying in E & W	4.6	13.7	16.9
b) studying in Scotland	0.2	0.4	0.4

FROM: R M PERFECT
DATE: 2 SEPTEMBER 1988

1. MR FARTHING
2. ECONOMIC SECRETARY

cc: PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Case o/r
Mrs Lomax
Mr Turnbull
Mr McIntyre
Miss Noble
Mr Call

STUDENT LOANS: DISCUSSIONS WITH FINANCIAL INSTITUTIONS

1. You are attending the Education Secretary's meeting on 6 September with Lord Boardman* and Mr Stoughton-Harris* to discuss student loans. The Governor of the Bank of England has also been invited.

* Chairman Committee London & Scottish Clearing Banks
** Building Societies Association

Objectives

2. Mr Baker will stress that this is an introductory meeting which must remain confidential. He will then:

(i) explain the sort of student loan scheme the Government have in mind. In particular the banks etc will be asked to administer the scheme, not finance it. And loans will top-up existing grants, not replace them.

(ii) seek agreement that a working group should be established if Cabinet approve a scheme.

3. The timetable that DES have in mind is:

(i) seek E(EP) and Cabinet approval to student loans by mid October;

(ii) early statement;

(iii) working group established with banks and building societies;

(iv) White Paper produced in November;

(v) legislation introduced Autumn 1989.

(of officials)

purp [I have found top] PS/Est

Lo...
in...
on...
please...

Background

4. The aim of Mr Baker's student loan scheme is to shift students' attitudes away from dependency on the State and to share the costs of student maintenance more equitably between the students, their parents and the taxpayer.

5. The proposed scheme would:

(i) provide a £420 loan at nil real interest for students (£310 in a student's last year), from academic year September 1990-August 1991.

(ii) freeze student maintenance grant and parental contributions in cash terms from 1990-91.

(iii) disentitle students in receipt of full awards from income support, unemployment benefit and housing benefit, from autumn 1990.

6. Mr Baker envisages that HMG will finance loans paid to mandatory student award holders. Where local authorities use their discretionary powers to give full awards, they would also be required to make loans available on similar terms.

7. Two main issues remain to be resolved:

(i) the public expenditure (and PSBR) costs of a student loan scheme will be a little over £100m a year for the first three academic years of the scheme, falling to zero by around 2005. Thereafter there will be savings. ~~Mr Baker has not bid for these costs in the Survey, and they are not allowed for in our 'forecast outcome' figures. (Nor are the social security savings allowed for in ST's assessment of the DSS programme.)~~

EST - expenditure
divisions feed in figures
on their best estimate of
the outcome of Survey
negotiations to a
scorecard for the CST

(ii) the 125,000 students not in receipt of full awards would not be eligible for student loans and Ministers have yet to decide whether they should continue to be eligible for social security benefits. ~~Mr Moore is keen to cut the link between benefits and students (unless they are disabled or have families) and favours the establishment of a hardship fund, financed from the social security savings. Mr Baker believes this would be too controversial and very difficult to administer equitably.~~

8. When these issues are settled, Ministers will need to assess the prospects of getting the legislation through the House of Lords so student loans can be introduced in Autumn 1990. At present there is no legislative slot available.

9. E(EP) discussed these problems on 19 July. Mr Baker was asked to do further work on the outstanding issues and report back by the end of September. The Prime Minister stressed that "In the meantime no indication should be given that the Government had reached a decision on student support."

Points that the banks and building societies might raise

10. The banks etc may suggest using private finance for student loans. The Government would want all eligible students to be able to obtain to receive a loan at zero real interest rate. We have assumed the financial institutions would not lend to uncreditworthy students, and would want a return on their money. There is also the problem of timing. Even if we were to open detailed discussions with the financial institutions next week, there is no prospect of their being completed before the White Paper is published and work has to begin on legislation. So, although the use of private money may be possible in the longer term, initially the banks and building societies will be asked only to administer the scheme.

11. Mr Baker may also be asked what sort of administration would be involved. Some means will be needed to check that eligible students receive one loan only. The money will need to be obtained from HMG (or local authorities for discretionary award holders) and paid to the student. Repayments on the loan will have to be collected, including a suitable allowance for inflation. And regular reports will have to be sent to DES so they can account for the expenditure.

12. I attach (top copy only) a fuller account of the sort of administrative arrangements that might be needed, produced by Mr Farthing. The note has not yet been discussed with DES officials and is for background only.

Mark Perfect
R M PERFECT



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

MP

CH/EXCHEQUER	
REC.	02SEP1988
ACTION	CST
COPIES TO	

✓ 2/9

Tom Jeffrey Esq
 Private Secretary to
 The Rt Hon Kenneth Baker MP
 Secretary of State for Education
 and Science
 Department of Education and Science
 Elizabeth House
 LONDON
 SE1 7PH

2 September 1988

Dear Tom,

STUDENTS AND BENEFITS

My Secretary of State is away until 12 September and will not be able to consider Mr Baker's letter of 28 August until his return. However, when we last discussed this subject with the Secretary of State, he felt strongly that colleagues could not make a sensible decision without some idea of precisely what would be involved in making alternative provision for students outside the scope of the new regime if they were no longer eligible for social security benefits. He was therefore keen that officials think through the practical issues to get some idea of possible administrative complexity, exclusions, cost etc. In view of this it would be a good idea if the work currently in hand by officials continued. My policy colleagues will be in touch with their opposite numbers about this.

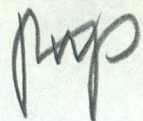
I am copying this letter to Alex Allen and Caris Evans at the Treasury, David Crawley (SO), Jon Shortridge (WO), Mike Maxwell (NIO), Nick Wilson (DE) and to Trevor Woolley and Richard Wilson at the Cabinet Office.

Yours sincerely

Rod Clark

ROD CLARK
Private Secretary

CLARK
 →
 JEFFREY
 2/9



FROM: COLIN FARTHING
DATE: 7 SEPTEMBER 1988

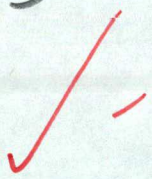
CHIEF SECRETARY

cc

Chancellor
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mrs Lomax
Mrs Case
Miss Noble
Mr Call
Mr Perfect

[.ch/

[x is a bit offside]

**STUDENT LOANS: DISCUSSION WITH FINANCIAL INSTITUTIONS**

Mr Baker's meeting with representatives of the financial institutions which he had proposed in his letter to the Chancellor of 21 July 1988 took place yesterday evening. The institutions were represented by Lord Boardman, Chairman of the CLSB and Mr Stroughton-Harris of the Building Society Association. The Governor of the Bank of England was there and the Economic Secretary represented the Treasury.

X Mr Baker began the meeting by describing in some detail the proposed nature of the student loan scheme which had been discussed by E(EP) in July. He implied that the scheme had been accepted in principle by Ministers but said that no announcement could be made until the House returned later in the Autumn. Until then, the existence of the scheme must remain confidential. Nevertheless, a considerable amount of work needed to be done by his officials, the Treasury and the banks and building societies, so he was proposing that a working group be established as soon as possible so that a practical scheme for implementing the proposals could be agreed. He stressed that the institutions were being asked only to help with administration. It was not proposed that their money be used to fund the arrangements.

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In the subsequent discussion the scheme was welcomed by the Governor and by the two representatives of the financial institutions. All seemed to think that a workable arrangement could be found, but there were many details to be resolved. Lord Boardman's two major worries were a boycott by the NUS and the problem of defaulters or bad payers.

On the first of these, Mr Baker's officials argued that it was possible to exaggerate the influence of the NUS. In the year when the loan scheme was introduced, students would receive a considerable benefit. In addition to a full value grant of the traditional kind they would be eligible for a further £420 top-up loan. Although things would become relatively less attractive as the scheme developed and the value of the grant fell in real terms, by then the arrangements would have become well established and accepted. The difficulties which Barclays had faced over South Africa were not a good analogy. They had suffered because students could easily transfer their business to other clearing banks. If all the major banks and building societies were involved in administering student loans the difficulties facing those wishing to cause disruption would be much greater.

On the question of defaulters, Lord Boardman stressed the high cost to the banks of chasing bad debtors and said that the American experience had been very bad with 15-20% of student debts not being repaid. Mr Baker contrasted this with experience in Europe where, in Sweden for example, the default rate was only 2%. He felt that this was explained, in part, by the fact that in America loans were given to students on lower level vocational courses at the equivalent of our colleges of further education. The UK scheme would be confined to those studying for degrees at universities and polytechnics.

Mr Baker brought the meeting to an end by thanking those present for the generally warm and constructive approach which they had offered to his proposal. The next step was to convene the first meeting of the working group. He would nominate a senior DES official to be its chairman and hoped that it would be possible to find a date in the week beginning 26 September. He proposed that

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those present should also arrange to meet again from time to time between now and the introduction of the scheme so as to monitor the progress of the working group and offer advice and guidance on any major issues which might arise. The working group would have one representative each from the CLSB, the building societies and the Bank of England as well as DES and Treasury officials.

A handwritten signature in black ink, appearing to be 'C. Farthing', with a small mark to the right.

COLIN FARTHING

ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG



Handwritten initials: ppsm, mp

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

CHIEF SECRETARY	
REC.	- 9 SEP 1988
ACTION	Mr Potter
COPIES TO	Mr Sir P Middleton
	Mr Anson, Mr Phillips
	Mrs Case, Mr Edwards
	Mr Turnbull, Mr Flegg
	Mr Spitting, Mr MacAuliffe
	Mr G... September 1988

Dear Kenneth

STUDENTS AND THE COMMUNITY CHARGE

Thank you for copying to Michael Forsyth your letter of 15 July to Nicholas Ridley in connection with the above. I have also seen the other contributions to this exchange of correspondence, together with your letter of 31 August to John Major in the context of PES 1988. I am writing to set out our position on the particular question of students and the community charge.

I must first make the point that the decision not to pursue specific compensation for the 20% discounted community charge liability, which was taken in Robert Jackson's Review Group in December 1987, related solely to session 1988-89. One of the factors in that decision was a recognition that the period during which most students would need to meet the charge from their grant for session 1988-89 was fairly minimal. The arrangements for future years were left open for further consideration.

You will appreciate that in session 1989-90 the position in Scotland is very different, since students will be required to meet the discounted community charge liability from their grant throughout the session. We are aware of the very valid arguments which can be deployed against compensation; that the 80% discount is itself a significant concession; the comparisons which can be drawn between the level of Income Support for young people and the level of student grants; and the evidence that many students currently pay in rates, directly or indirectly, sums not dissimilar to their probable community charge liability. Nonetheless, failure to provide compensation through the grant system will undoubtedly leave us open to the charge of imposing new liabilities on students without providing them with the means of meeting them. The question is whether we can effectively contain that criticism in the interests of maintaining a coherent grant system pending the wider changes which we plan to make in autumn 1990.

We have been giving some thought to the issue, with specific reference to the position in Scotland in session 1989-90. There could well be political advantage in demonstrating that specific compensation for the community

Handwritten on orange sticky note: RICKING BAKER 9/9

CONFIDENTIAL

charge liability had been included in the grant rates for that session, but there are also disadvantages to this approach. It would give rise to representations as to the amount of compensation required in different areas and it would tend to foster the belief that grant rates should be adjusted for every change in circumstances. It would also provide the means of drawing even more complex distinctions between the relative positions of students studying in Scotland and those studying elsewhere in the UK, unless we were to have a differentiated rate for Scottish students. That would itself be undesirable and would further complicate our plans for subsequent years.

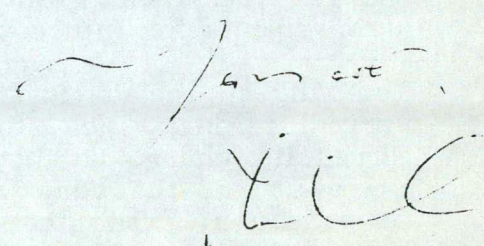
Finally, there is the question of cost. In your letter of 31 August you gave an estimate of the cost of compensation for English and Welsh students and I estimate that the comparable cost for Scottish students would be in the region of:-

	£m		
	1889-90	1990-91	1991-92
	1.7	2.1	2.0

In the light of all the circumstances, and particularly our plans for the future, I would endorse the argument that there should not be a specific element of compensation built into student grants for session 1989-90.

If we are to proceed on that basis, however it will be essential for us to be able to say that the community charge liability was one of the factors taken into account in arriving at the grant rates for 1989-90, without attributing any specified value to it. To sustain that argument we will need to be able to demonstrate that we have increased the grant rates by a factor which at least fully reflects the latest available estimates of the GDP deflator.

I am sending copies of this letter to Nicholas Ridley, John Major, Peter Walker and Tom King.



MALCOLM RIFKIND



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

MP

CONFIDENTIAL

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

14 September 1988

Dear Kenneth,

STUDENTS AND BENEFITS

In my absence, my Private Secretary wrote to yours on 2 September with an interim response to your letter of 28 August. His letter reflected my views well.

I had thought that we had collective agreement to the White Paper objective of removing students from the benefit system and that any difference between the two of us was essentially one of practicability. Assuming this to be so, I believe the work now in hand by officials must continue so that we can consider whether we can resolve the practical obstacles when we have the product of that work. That is the E(EP) remit. If, however, the difference between us is a more fundamental one, then the next meeting of E(EP) is the place to resolve it.

I am copying this letter, as you did yours, to Nigel Lawson, John Major, Malcolm Rifkind, Peter Walker, Tom King and Norman Fowler, and to Sir Robin Butler.

Moore
→
BAKER
14/9

CH/EXCHEQUER	
REG.	14 SEP 1988
ACTION	CST
COPIES TO	

✓ 14/9

John Moore

JOHN MOORE

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MP

1

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

CH/EXCHEQUER	
REC.	19SEP1988
ACTION	CST
COPIES TO	

✓19/9

The Rt Hon John Moore MP
Secretary of State for Social Security
Richmond House
79 Whitehall
LONDON SW1A

19th September 1988

John Moore

STUDENTS AND BENEFITS

Thank you for your letter of 14 September. I do see great difficulty - more than simply practical problems - in taking students "below the line" out of benefit at the same time as we introduce a new regime for higher education students. I explained my reasons in my letter of 28 July. I therefore think it would be helpful if we meet on 22 September as now arranged. I agree that the work which our officials are jointly doing should continue: a joint paper will be ready for our meeting.

[Signature]

[Signature]

Baker
→
Node
19/9

CONFIDENTIAL



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

MP

CH/EXCHEQUER	
REC.	19SEP1988
ACTION	CST
COPIES TO	

19/9

CONFIDENTIAL

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

19 September 1988

MOORE
 →
 BAKER
 19/10

Dear Kenneth,

STUDENTS AND BENEFITS

Thank you for your letter of 19 September. I remain of the view that our remit from E(EP) is to resolve the practical difficulties that would arise from excluding all students from benefit. I would of course be very happy to meet with you bilaterally to agree proposals if you think that would be helpful. If, however, you want to take the views of colleagues to reach agreement on more fundamental differences of policy, I feel strongly that this should be on the basis of a joint paper to E(EP) rather than the more limited meeting you propose.

I am copying this letter to members of E(EP), Tom King and to Sir Robin Butler.

JOHN MOORE



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

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

995 01

CHIEF SECRETARY	
REC.	20 SEP 1988
	Mr Farthing
	Cx, PMS, ESTD
	Sub Middleton, Mr Anso
	Mr Phillips, Miss Pearson
	Mrs Case, Mr McIntyre
	Mr Peck Mr Call

Baker
CST
28/9

28th September 1988.

[Handwritten signature]

RJF 30/9

STUDENT LOANS

Since E(EP)'s discussion in July I have, as you know, been considering with John Moore whether I can extend the scope of my scheme so that more students may lose their entitlement to social security benefits. I have concluded that it is, on certain conditions, possible to do so. And I have also seen how we can apply the definition of higher education in the Education Reform Act to make the loan scheme simpler.

In brief, I think that we should make the loan facility available to all full-time students in higher education, except postgraduates. Changing the boundaries of the scheme in this way does not add to its costs.

I consider postgraduates and students in (non-advanced) further education separately. Neither should be eligible for loans. Postgraduates can at present claim housing benefit, but not normally income support or unemployment benefit. My best estimate is that by 1990 they will number 45,000 and their claims might total £5m in a year. I propose that they should be disentitled from benefits; and that, to compensate, they should be eligible, alongside first degree students, for help from the Access Fund at their institutions' discretion. In recognition of withdrawing postgraduates' entitlement to benefit, £5m should be transferred from the social security budget, and the Access Fund increased accordingly to £10m.

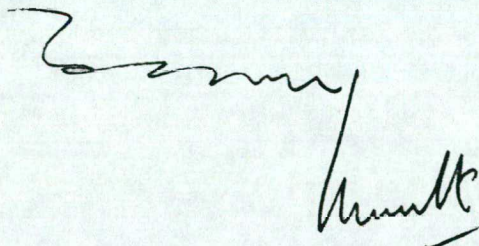
CONFIDENTIAL

That leaves us with an estimated 80,000 full-time students over 19 in further education. We know little of their claims on benefits or their financial circumstances: housing benefit is again probably the largest component, and our best available estimate of the cost of their claims is £5m. If this sum can also be transferred from the social security budget, I can agree that it should be made available, as hardship money, to the further education colleges themselves to allocate at their discretion to students in need. This will need legislation and a new mechanism, which need not be elaborate. I am still considering what will be the most appropriate administrative arrangement. I would be very reluctant to channel the money to students through LEA discretionary grants.

We had originally agreed, you will recall, that it would be necessary to give LEAs a loan facility. Our aim in proposing this was to prevent LEAs either from making over-generous discretionary awards to those who would formerly have had such awards at full value, or from triggering, at their own discretion, outgoings under the national top-up loan scheme. This was always an untidy part of the scheme; and some of its implications had still to be worked out in detail. Now that we have higher education clearly demarcated in Schedule 6 of the ERA - I attach a copy - we can relate entitlement to a loan simply to the level of the course, irrespective of whether a student has a grant, mandatory or discretionary. This will be both clearer and tidier and I shall welcome excluding LEAs from involvement in loans to students.

My officials will be writing to yours with more details of my proposals. I hope that you will be able to agree to them without delay, so that we may have an agreed scheme to put to E(EP) on 27 October.

Copies of this letter go to Malcolm Rifkind, Peter Walker, Tom King and John Moore.

A handwritten signature in dark ink, appearing to be 'Tom King', written in a cursive style. The signature is located at the bottom right of the page.

Section 120.

SCHEDULE 6

COURSES OF HIGHER EDUCATION

1. The descriptions of courses referred to in sections 120(1) and 235(2)(e) of this Act are the following—

- (a) a course for the further training of teachers or youth and community workers;
- (b) a post-graduate course (including a higher degree course);
- (c) a first degree course;
- (d) a course for the Diploma of Higher Education;
- (e) a course for the Higher National Diploma or Higher National Certificate of the Business & Technician Education Council, or the Diploma in Management Studies;
- (f) a course for the Certificate in Education;
- (g) a course in preparation for a professional examination at higher level;
- (h) a course providing education at a higher level (whether or not in preparation for an examination).

2. For the purposes of paragraph 1(g) above a professional examination is at higher level if its standard is higher than the standard of examinations at advanced level for the General Certificate of Education or the examination for the National Certificate or the National Diploma of the Business & Technician Education Council.

3. For the purposes of paragraph 1(h) above a course is to be regarded as providing education at a higher level if its standard is higher than the standard of courses providing education in preparation for any of the examinations mentioned in paragraph 2 above.

SCH. 6



CH/EXCHEQUER	
REC.	29 SEP 1988
ACTION	CST
COPIES TO	

BF 3019
 BF 6/10
 29/9 2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434
 My ref:
 Your ref:

The Rt Hon John Moore MP
 Secretary of State
 Department of Social Security
 Richmond House
 79 Whitehall
 LONDON
 SW1

29 September 1988

RIDLEY
 →
 MOORE
 29/9

Dear John

Thank you for sending me a copy of your letter of 19 September to Kenneth Baker together with your earlier correspondence about the entitlement of students to benefits.

I am concerned about the position of students not in receipt of awards if their entitlement to all benefits including housing benefit is withdrawn. Many of these students will rent accommodation from private landlords and will therefore be affected by rent deregulation which will come into effect next year. In many parts of the country this will mean higher rents. This is an essential part of our strategy to bring back investment into the private rented sector but it rests on the assumption that adequate help will be available to those who cannot afford the full cost of market rents. We have always said that such help would be available through the housing benefit system.

If all benefits are withdrawn from students who have no other sources of income then we will need to ensure that the alternative arrangements enable them to meet the market cost of housing and the cost of the 20% of the community charge that they will be required to pay. In the light of the undertakings we have given in the context of the Housing Bill and the controversy surrounding the introduction of the new housing benefit system earlier this year there could be a major row if we cannot demonstrate this.

Nicholas Ridley

NICHOLAS RIDLEY

I am copying this letter to members of E(EP), Tom King and to Sir Robin Butler.





DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Security

ppp

MOORE
CST
4/10

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

MP
✓

CHIEF SECRETARY	
REC.	- 4 OCT 1988
ACTION	Mr Farthing
COPIES TO	Cx PMG, EST, Sir Middleton Mr Anson, Mr Phillips, Miss Pearson Mrs Case, Mr McIntyre, Mr Perfect Mr Call.

October 1988

Den J

STUDENT LOANS

The proposals outlined in Kenneth Baker's letter of 28 September have my full support.

We have agreed that all students (with the exception of disabled students and lone parents) should be disentitled to Income Support, Unemployment Benefit and Housing Benefit. This fulfills the White Paper commitment and is a very satisfactory solution. It resolves the concerns I had about leaving in the benefit culture the substantial minority of the 125,000 students we have been discussing and the resultant pressure for increased benefit expenditure on students. I am content for the estimated £10 million benefit expenditure on this group of students to be transferred to the education budget to launch the discretionary schemes which are, I am sure, the right way for this support to be provided.

The estimates take account of the provision in PES for deregulation and the community charge which, I believe, answers the point raised in Nicholas Ridley's letter of 29 September. The amount available to help this group of students remains the same but is channelled through the education budget rather than paid out in social security. This was one of the underlying objectives of the original White Paper commitment.

Copies of this letter go to Peter Walker, Tom King, Nicholas Ridley, Kenneth Baker, Malcolm Rifkind and to Sir Robin Butler.

John Moore

JOHN MOORE

BF 17/10

*RIDLEY
BAKER
10/10*



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

CHIEF SECRETARY	
DATE	1 OCT 1988
ACTION	<i>Mr Baker / Mr Farthing</i>
COPIES TO	<i>Ex. Sec. Middelton</i> 10 October 1988
<i>Mr Busch, Mr Phillips, Mrs Case, Mr Edwards, Mr Tomball, Mr Fellgett, Mr MacAnastan, Mr McIntyre, Mr Call</i>	

Dear Kenneth

THE COMMUNITY CHARGE AND STUDENT GRANTS

I have seen your letters of 31 August and 19 September to John Major and Malcolm Rifkind's letter to you of 9 September.

I do not believe that uprating in line with the GDP deflator will be seen as sufficient recognition of students' need to pay 20% of the community charge. I remain convinced that we will only be able to say we have treated students fairly - and on the same basis as income support recipients, who will also be paying 20% - if we increase grants by 20% of the average community charge.

I must therefore urge you to make provision for "20% uprating" of student awards, and for such a policy to be taken account of in this year's PES round.

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

Nicholas Ridley

NICHOLAS RIDLEY





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

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham street
LONDON
SW1P 3EB

CHIEF SECRETARY	
REC.	17 OCT 1988
COPIES TO	Mr Potter / Mr Farthing G. Sutcliffe, Mr Hanson, Mr Phillips, Mr Case, Mr Edwards, Mr Tombs, Mr Felgett, Mr Mac Anslan, Mr McIntyre, Mr Call

17th October 1988

Dear Mick,

THE COMMUNITY CHARGE AND STUDENTS

Thank you for your letter of 10 October about the allowance within student grants for community charge costs.

I do not think we want to see students comparing themselves with income support recipients. The grant for students is intended to help them meet their costs during their course but we have moved away from the concept that the level of grant should be closely matched to some measure of their cost of living. As I made clear in Brighton, my new approach to student support will place a much greater emphasis on the responsibilities of the individual student given the benefits they obtain. So my view is that we do not need to relate the level of student grant to particular costs, and there would be real disadvantages in providing a special grant for students studying in Scotland from April 1989.

I have already settled my provision for English and Welsh student awards with John Major on the basis that the award will be uprated in line with the GDP deflator. That outcome has the support of Malcolm Rifkind. Given what I have said above, I see no basis for re-opening that settlement. My proposals for student support to be taken by E(EP) on 27 October will however affect the position from September 1990.

I am sending copies of this letter to Peter Walker, Malcolm Rifkind, Tom King and John Major.

Handwritten signatures

BAKER
7
R1061
17/10

ppp 101 X

FROM: COLIN FARTHING
DATE: 18 OCTOBER 1988

FWP

CHIEF SECRETARY

cc

Chancellor
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mrs Case
Mr McIntyre
Mr Perfect
Mr Call

ch/
CST has not yet
written on this. He
will be looking at it
over the weekend

STUDENT LOANS

mpw

Mr Baker wrote to you on 28 September seeking your agreement to a new basis of eligibility for student loans in advance of E(EP) on 27 October. I attach a draft reply.

2. Under Mr Baker's previous proposals students eligible for loans and disentitled from benefits were those who received either mandatory awards or full value discretionary awards from local authorities. Difficulties remained about the further 20% of students with less than full value awards, whom Ministers also wanted to see disentitled. He now proposes:

(i) that the criterion for eligibility for a loan should be the nature of the course not the award. A loan should be payable to anyone following a course of higher education as defined in Schedule 6 of the Education Reform Act (those on post-graduate courses excluded);

(ii) that students in non-advanced further education (NAFE) and postgraduates should lose their entitlement to social security benefits even though they will not be eligible for loans. These students should be compensated by means of two discretionary funds of £5m each administered by

FARTHING
CST
18/10

CONFIDENTIAL

their colleges. The £5m for postgraduates would be added to the £5m Access Fund already included in the original scheme to produce a £10m Access Fund for the higher education institutes. A separate, £5m fund will be set up for the NAFE students in colleges of further education.

3. Mr Moore's letter of 4 October gives his full support to these arrangements and indicates his willingness to have £10m transferred from his department's votes to those of the education departments to finance the discretionary funds. He also makes clear that this £10m includes an element designed to enable students to meet the higher market cost of housing which will flow from rent deregulation. This answers a point made by Mr Ridley in a letter to Mr Moore of 29 September.

4. Mr Rifkind's letter of 6 October records his support, too, though points out that there may be some definitional differences between what constitutes higher education in Scotland - which could lead to more students being eligible there and thus could increase the cost of the scheme overall. He also makes the understandable point that the Scottish Education Department will also want to share in the £10m being transferred out of DSS.

5. There is a lot to be said for Mr Baker's new proposals. Shifting the basis of eligibility from the nature of a grant which a student receives to the nature of the course which he follows is more straightforward and logically defensible. As Mr Moore points out, it makes it easier too to remove all students from eligibility to DSS benefits and compensate them either by means of a loan or discretionary awards from the special funds. It also has the considerable administrative benefit of taking the LEA's out of the loop for operating the loan scheme for holders of full value discretionary awards.

6. There are however, two Treasury reservations about the proposals: neither is strong enough for you to seek to contest the basic premise of Mr Baker's new approach.

7. The first point concerns the numbers of students likely to be eligible under the new arrangements. Although Mr Baker's letter says that changing the boundaries of the scheme "does not add to its cost", his staff have not yet been able to demonstrate that fully. The need to seek assurances on this point delayed the preparation of this advice. DES officials are now satisfied that, within England and Wales, at least, the numbers eligible under the new arrangements will be no greater than under the old; and further work now done in Northern Ireland would seem to indicate that this is also the case there. The only difficulty remaining, therefore, is in Scotland where, as Mr Rifkind's letter points out, there may be additional numbers and hence additional costs involved.

8. Although it now looks as if, across the UK as a whole, the new scheme will be no more expensive than the old and the numbers eligible no greater, it is still worth seeking a clear assurance on this point before finally giving your agreement to the change.

9. The other area of concern is the discretionary funds which the new arrangements will establish, in both higher and further education institutions, to deal with those who will not be eligible for loans but will, nevertheless, lose their right to social security benefits. These new schemes are different in kind from the Access Fund agreed under the old arrangements. They will be permanent rather than transitional and could lead to anomalies as students who qualify for support from these sources will not need to repay the money they receive while those eligible for the loan will, of course, have to do so. There is also the problem of equitable treatment for those who lose their entitlement of DSS benefits under these arrangements. Although the gross sums being handed over by Mr Moore equate to the best estimate of the overall level of provision available to these students, DES have, as yet no clear ideas about how a college based discretionary award scheme would actually work. Again, it is worth asking Mr Baker how he intends to handle these issues when the scheme is put into

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practice - both to ensure proper control of public money and to see that individual students are treated fairly. Finally, we also need to have regard to the way in which the money is channelled through LEA discretionary grant arrangements - if that is, in the event, the chosen route for this support.

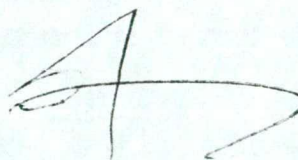
10. That said, none of these points should prevent you from agreeing the new arrangements in principle when they are presented formally to E(EP) on 27 October. We should be seeing a copy of Mr Baker's draft paper for that Committee, together with a draft of the Student Loans White Paper which he proposes to issue in November, later this week.

11. Finally, two related points:

(i) work is continuing on how the loan scheme will be administered. The first working level meeting with representatives, of the banks and building societies is due to take place tomorrow.

(ii) Mr Ridley continues to be concerned about students' liability to the community charge. He wrote again to Mr Baker on 10 October suggesting that he seek a "20% uprating" of student awards in this year's PES round to cover it. Mr Baker's robust reply, of 17 October, makes it clear that he has no intention of doing so and says that his PES outcome on student awards has the support of Mr Rifkind.

12. There is no need for you to refer to this issue in a letter about a change in eligibility criteria, but this is obviously an area we shall need to cover in your briefing for the 27 October meeting of E(EP).



COLIN FARTHING

DRAFT LETTER FROM CHIEF SECRETARY TO MR BAKER

Student Loans

You wrote to me on 28 September, explaining the new criteria which you are now proposing for eligibility for student loans. Since then, John Moore has written to me (4 October) supporting your proposals and I have seen a copy of Malcolm Rifkind's letter to you of 6 October.

Since you wrote our officials have been looking carefully at the effect of changing the criteria on the numbers eligible for loans and hence on the costs of running the scheme. As I now understand the position, the numbers eligible for loans within England, Wales and Northern Ireland will be no greater under the new arrangements than under the old. That may, however, not be the case in Scotland and Malcolm's remarks about reserving the right to raise the cost issue with me separately if the consequences for Scotland are "seriously disproportionate" is a little worrying. Clearly we will need to know the full implications of changing the criteria for all parts of the United Kingdom, before we can decide finally whether or not your new approach is the right one. I also take Malcolm's point that any money transferred from DSS will need to be shared amongst all the education departments involved.

CONFIDENTIAL

My other concern is the way in which your new proposals change the nature of the Access Fund. As I made clear at our E(EP) discussion in July, I saw the original (£5m) Access Fund as, essentially a transitional device aimed at dealing with students who would lose money when their entitlement to social security benefits was replaced by the loan. Clearly, the numbers in that category would dwindle over time and eventually disappear.

The new (£10m) Fund and the related (£5m) arrangements you want to put in place in the Colleges of Further Education have a more permanent character. We need to be clear about what we expect the money to buy. They also raise other difficulties. Whereas the students within the loan scheme who currently claim benefits will have their entitlement replaced by a loan that they will have to repay, post graduates and NAFE students will have their benefits replaced by non-repayable discretionary grants issued by their colleges. Is this really something that we can defend?

I am also concerned about how the £15m in the discretionary funds will be controlled. The rules and procedure that currently determine how £10m of that money is dispersed by the DSS will, of course, no longer be appropriate but if the college based arrangements that we put in their place are too discretionary or arbitrary then we may run the risk of endless appeals and special cases. We will need to consider very carefully the basis on which the money is distributed to the colleges and what criteria they should take into account in passing it on to the students.

CONFIDENTIAL

That said, I do see the real benefits both for you and for John, of moving to the new basis for eligibility which you propose; but before E(EP) can take a final view we need to be sure that it really will cost no more than the earlier proposals and that the arrangements for those outside the loan scheme can be made to work practically and equitably.

I am sending copies of this letter to Malcolm Rifkind, Peter Walker, Tom King and John Moore.

[Handwritten scribble]

CONFIDENTIAL



Chancellor. PMG. ES. Sir P Middleton
Mr Anson. Mr Phillips Miss Pearson
Mrs Case. Mr Farthing. Mr McIntyre
Mr Perrett. Mr Call.

for E(EP)

for de

Treasury Chambers, Parliament Street, SW1P 3AG

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

24 October 1988

Dear Secretary of State,

STUDENT LOANS

You wrote to me on 28 September, explaining the new criteria which you are now proposing for eligibility for student loans. Since then, John Moore has written to me (4 October) supporting your proposals and I have seen a copy of Malcolm Rifkind's letter to you of 6 October.

Since you wrote our officials have been looking carefully at the effect of changing the criteria on the numbers eligible for loans and hence on the costs of running the scheme. As I now understand the position, the numbers eligible for loans within England, Wales and Northern Ireland will be no greater under the new arrangements than under the old. That may, however, not be the case in Scotland and Malcolm's remarks about reserving the right to raise the cost issue with me separately if the consequences for Scotland are "seriously disproportionate" is a little worrying. Clearly we will need to know the full implications of changing the criteria for all parts of the United Kingdom, before we can decide finally whether or not your new approach is the right one. I also take Malcolm's point that any money transferred from DSS will need to be shared amongst all the education departments involved.

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CST
→
Baker
24/10

The new (£10 million) Fund and the related (£5 million) arrangements you want to put in place in the Colleges of Further Education have a more permanent character. We need to be clear about what we expect the money to buy. They also raise other difficulties. Whereas the students within the loan scheme who currently claim benefits will have their entitlement replaced by a loan that they will have to repay, post graduates and NAFE students will have their benefits replaced by non-repayable discretionary grants issued by their colleges. Is this really something we can defend?

I am also concerned about how the £15 million in the discretionary funds will be controlled. The rules and procedure that currently determine how £10 million of that money is dispersed by the DSS will, of course, no longer be appropriate. But if the college-based arrangements that we put in their place are too discretionary or arbitrary then we may run the risk of endless appeals and special cases. We will need to consider very carefully the basis on which the money is distributed to the colleges and what criteria they should take into account in passing it on to the students.

That said, I do see the real benefits, both for you and for John, of moving to the new basis for eligibility which you propose; but before E(EP) can take a final view we need to be sure that it really will cost no more than the earlier proposals and that the arrangements for those outside the loan scheme can be made to work practically and equitably.

I am sending copies of this letter to Malcolm Rifkind, Peter Walker, Tom King and John Moore.

Yours sincerely,

P. Walker

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]

For E(EP) folder

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

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

25 October 1988

Dear Kenneth

THE COMMUNITY CHARGE AND STUDENT GRANTS

At E(EP) on 19 July I argued that the student grant should be uprated to cover the average cost of meeting the 20% of the community charge which students will be required to pay. Since then both you and Malcolm Rifkind have concluded, despite my arguments, that there should be no specific uprating of the grant to take account of students' community charge liability.

I have no option but to accept your and Malcolm's decision. I do think, however, that colleagues need to be aware of it and its consequences. We must expect a very unfavourable reaction, and accusations that we have treated students unfairly, particularly by comparison with income support recipients, who will be given the money to pay the 20%. I doubt whether your argument - that by uprating the student grant in line with the GDP deflator we have somehow taken account of students' 20% liability - will cut much ice.

You have indicated that you will take the lead in responding to such criticism. I should be grateful if you would let DOE have the defensive briefing you will be producing for use when this subject is raised.

I am copying this letter to the Prime Minister, members of E(EP), David Waddington and Sir Robin Butler.

CH/EXCHEQUER	
REC.	25OCT1988
ACTION	CST
COPIES TO	

✓ 25/10

John ...
Nicholas

NICHOLAS RIDLEY

ROLEY
BAKER
25/10

FROM: COLIN FARTHING
DATE: 25 OCTOBER 1988

CHIEF SECRETARY

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

STUDENT SUPPORT

E(EP)(88)11th Meeting - 11.30am, October 27 at No.10 Downing Street

Note by the Secretary of State for Education and Science
(E(EP)(88) 20 of 21 October)

I attach briefing for this meeting.

Annex A is a speaking note;

Annex B, a summary of the points outstanding from the July meeting of E(EP) and subsequent development on them;

Annex C, a detailed brief on the paper;

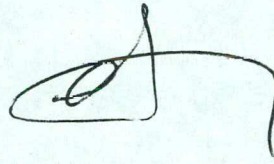
Annex D, the financial projection of how the scheme will develop; and

Annex E, a note on the meeting with the financial institutions which took place last Wednesday.

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2. We have already had a word about the meeting. Although it may well contain an element of negotiating tactic, the initial response of the institutions is disappointing. We are still to see the work which their representatives offered (i) on how the currently envisaged scheme can be made more amenable to private sector administration or (ii) how they would propose to meet Ministers' wishes, but by a different type of scheme. I will let you have a further note when this work is to hand.

3. On the main brief (Annex C), the only new point to highlight is that on paragraph 7 where I suggest that by limiting the real reduction in parental contributions the cumulative cost to the Exchequer can be reduced by about £5m a year. Parents will still be better off under this proposal than they would have been had the current student support regime continued but the Exchequer will benefit too. Under the DES proposal all the benefit would go to parents.



COLIN FARTHING

Speaking Note

Continue to support the introduction of students loans.

They will:

- reduce the cost of student support over time and - when fully underway in the next century - save the Exchequer over £200m a year at 1990 prices;
- Ease pressure on DSS offices and staff and keep students away from involvement in the dependency culture; and
- enable us to increase students' income significantly - at a time when their living costs are likely to rise due to the introduction of the community charge and the deregulation of private rents - without creating a long term burden on the Exchequer.

We should continue discussions with the financial institutions.

It is very early days. There has only been one meeting of the working group and negotiations have not begun. At the same time we should examine ways in which we could administer the scheme ourselves. This will:

- keep our options open about the shape of any final deal, either with the institutions collectively or with an individual bank; and
- does not close the option of going it alone.

The White Paper, as drafted, is too long and too detailed. Something more persuasive is needed, but which leaves us with the maximum flexibility in dealing with the financial institutions. Officials should review the text with this in mind and a revised version should be circulated to colleagues for clearance.

Mention detailed points on access/discretionary funds and parental contributions - develop when going through paper.

DO NOT
SAY
THIS

Outcome of the last meeting (E(EP)(88) 8th Meeting, 19 July) and subsequent developments

- (i) Review position of students not eligible for loans, but disentitled from benefits: now dealt with by new (£10m) discretionary funds, administered by colleges and funded by transfer from DSS to Education Departments.
- (ii) Decide whether support regime should recognise students' liability to 20% of community charge: Mr Baker and Mr Rifkind clear that it should not, despite repeated attempts by Mr Ridley to secure an extra increase to reflect it.
- (iii) Lifting moratorium on new courses should be handled separately: Mr Baker now accepts no new money is available, but proposes partial lifting funded within existing DES resources.
- (iv) Review Access Fund after three years: position now complicated by new permanent discretionary funds.

The Paper: Points to Make

The more important issues are sidelined

Accept (paragraph 2a) that all (non-postgraduate) students in higher education qualify for loans but are disentitled from benefit. Seek firm assurance that the cost of conforming to the criteria will be no greater than that proposed in Mr Baker's E(EP) paper in July.

Accept (paragraph 2b) that postgraduates and students in further education be disentitled to benefit

Accept (paragraphs 2b(i) and (ii)) a discretionary fund for postgraduates and a separate fund for students in further education, but seek assurances that both will be managed equitably and there will be proper controls over the public funds involved.

Contest (paragraph 2b(i)) merging of original Access Fund with new discretionary fund for postgraduates. The original Access Fund was designed for small number\$ of students who, despite loans, would still be worse off than if they had continued to receive benefit. While important in securing initial acceptance of loans, illogical to continue fund in perpetuity. E(EP) agreed in May that it be reviewed after three years. New postgraduate fund is different. Postgraduates do not qualify for loans so their fund will remain the only compensation for loss of benefit.

Propose three funds with the original Access fund phasing out after 3/4 years, leaving the postgraduate and FE funds to become permanent elements in the student support arrangements.

Point out (paragraph 3) that £10m transferred from DSS and £5m previously offered for transitional Access Fund are total figures and will not be increased by territorial factors. Requirements throughout the UK will need to be met from within these sums.

Confirm (paragraph 5) that the education settlements in PES make no specific provision for students' liability to pay 20% of the community charge. Both Mr Baker and Mr Rifkind accept this position. Mr Ridley does not and has made a number of unsuccessful attempts recently to persuade his colleagues to seek more money for this liability. One of the main Treasury arguments for the loan scheme is that it provides for students' liability to the charge at no extra cost to the Exchequer. If the loan scheme is not approved, we will face increased pressure to compensate students through their grant - which would cost something like £20m in a full year. Unlike a loan scheme - where we can expect eventual savings - a community charge subsidy will represent a continuing and growing cost.

Point out (paragraph 6) that what you agreed with Mr Baker in PES was that no new money was available for lifting the moratorium but that you would be willing to consider proposals for eliminating anomalies within existing DES provision. Need to be satisfied on this point before publication of White Paper.

Accept (paragraph 7) the cost projections at Annex A as a fair reflection of the increases in student numbers agreed during your PES discussions. The figures are:

	mandatory grant holders, England and Wales (000)				
	1990/91	1991/92	1992/93	1993/94	1994/95
Projection					
old:	404.1	400.9	393.7	385.7	379.3
new:	419.0	415.7	406.8	398.7	392.3
Difference	14.9	14.8	13.1	13	13

(Annex D to this brief shows the effect in PSBR terms up to 2027. The delay in PSBR savings (from 2002 to 2003) compared with the tables attached to the July E(EP) paper is explained by the additional £10m (transferred from DSS) which will be used to finance discretionary funds.)

Argue that further savings could be made if parental contributions were not frozen in real terms. It is common ground that the grant and parental contribution taken together should be frozen in cash terms when loans are introduced. The figures in the Annex assume that the parental contribution is also frozen in cash terms so that its relationship to the grant remains constant over the years. To achieve this, DES propose to re-index the parental contribution scales annually (probably in line with average earnings) so that average contributions fall, year by year, in real terms in line with the grant. If we did not do this and instead kept contributions constant in real terms then the Exchequer would make savings of the order of a cumulative £10m a year and this would accelerate the point at which the loan scheme began to show a positive return. Even if we accept the DES argument that parents should benefit from the new arrangements, there is still scope - between full re-indexing and doing nothing - for some, albeit reduced, benefit to parents and some increased benefit to the Exchequer. Propose that parental contribution be reduced in real terms at half the rate at which the grant element declines. This will still mean that parents benefit compared to their current position but less than if their contributions were frozen in real terms. It will mean a cumulative saving to the Exchequer of about £5m a year.

Accept (paragraph 8) that working group meeting with the financial institutions was disappointing, but point out that it is early days yet and there may well have been a large element of posturing in their opening stance. The institutions' representatives have agreed to advise the group on a loan scheme that they would be willing to operate. While administration by the banks is preferable, it is not the only option. Loans administered in other ways could still achieve many of our objectives. The Scottish Education Department already has a central administration for issuing grants north of the border and this could be expanded to a UK-wide loan administration. The DES could set up a system

themselves or create an agency. DSS estimate that they will save about 60 posts and £1m in administration costs by not having to deal with students. If this is taken into account the consequences in running costs of setting up a Government scheme may not be significant. [But NB everyone will want to dump it on IR]

Point out (paragraph 9) that White Paper is still an early draft. More work is needed to shorten it and to clarify and simplify text. Given lack of certainty about eventual administrative arrangements, White Paper should preserve maximum scope for flexible negotiations with the banks. After officials have had the chance to discuss changes, a revised version should be circulated to the Sub Committee for clearance.

Accept (paragraph 10(i)) continuing discussion with the financial institutions, but suggest that parallel work is put in hand on developing a Government run scheme which would (a) strengthen our hand in eventual negotiations with the institutions or (b) allow us to continue with loan scheme if those negotiations fail.

Agree (paragraph 10(ii)) that any practical questions be handled by you and Education Ministers

Stress importance of early legislation (paragraph 10(iii)) and introduction in autumn 1990 (paragraph 10(iv)) [But what does PM think?]

Conclusion

Agree to introduction of scheme - but press for three separate funds with original Access Fund reviewed after 3 years. Seek assurances that funds will be administered equitably. Seek to limit real reduction in parental contribution to half that of grant.

Agree to White Paper being published - but only after present draft has been shortened and revised version cleared by Sub-Committee.

Accept timetable - if milestones are not met then it will not be possible to introduce loans in life of Parliament.

ANNEX D

F3BR effects continued...

(£ million, 1990 prices)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
MANDATORY AWARDS(EAW)																		
Net change in grant	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237	-237
Net change in SB	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
Gross Loan Outlay	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422
Loan Repayments	-215	-231	-244	-257	-269	-279	-286	-293	-299	-303	-307	-311	-316	-318	-319	-320	-321	-322
TOTAL MANDATORY (EAW)	-80	-96	-109	-122	-134	-144	-151	-159	-164	-166	-172	-176	-181	-183	-185	-185	-186	-187

Net change in grant	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19	-19
Net change in SB	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7
Gross Loan Outlay	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
Loan Repayments	-25	-27	-29	-30	-32	-33	-34	-34	-35	-35	-35	-35	-37	-37	-37	-38	-38	-38
TOTAL F3BR EFFECT	-2	-4	-5	-7	-8	-9	-10	-11	-12	-12	-12	-13	-14	-14	-14	-14	-14	-14
ACCESS-FE FUNDS	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
TERRITORIAL CONSEQUENTIALS	-10	-12	-14	-16	-18	-20	-21	-22	-23	-23	-24	-25	-26	-26	-26	-26	-26	-26
TOTAL F3BR EFFECT UK	-77	-97	-113	-130	-145	-159	-167	-176	-184	-188	-193	-199	-206	-206	-210	-210	-211	-212

LOANS COSTING : BASED ON PROJECTION F OF AWARDS MODEL, VARYING REPAYMENT PERIODS, HE LOANS

PERR EFFECTS

1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

HE MILLION, 1990 PRICE

MODALITY (AWARDS) (€M)

Net change in grant 0 -18 -34 -49 -63 -77 -90 -106 -122 -140 -154 -157 -159 -152 -124 -115 -106 -107 -102 -103

Net change in SB -50 -50 -49 -48 -47 -46 -46 -47 -48 -49 -50 -50 -50 -50 -50 -50 -50 -50 -50 -50

Gross Loan Outlay 131 151 166 185 200 216 232 254 278 304 330 338 351 365 381 396 408 422 422 422

Loan Repayments 0 -2 -7 -16 -30 -48 -68 -80 -93 -102 -111 -122 -129 -138 -149 -158 -165 -170 -172 -180

TOTAL PERR EFFECT 91 83 79 72 60 45 30 20 14 10 9 -2 -12 -24 -31 -39 -47 -57 -65 -62

NEW MODALITY (€M)

Net change in grant 0 -1 -3 -4 -5 -6 -7 -8 -9 -10 -11 -11 -11 -11 -11 -11 -11 -11 -11 -11

Net change in SB -7 -7 -7 -7 -7 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6 -6

Gross Loan Outlay 15 18 20 22 23 25 27 30 32 36 38 39 41 42 43 45 46 48 49 49

Loan Repayments 0 0 -1 -2 -4 -6 -8 -9 -11 -12 -13 -14 -15 -16 -17 -18 -19 -20 -21 -23

TOTAL PERR EFFECT 9 9 10 9 8 7 6 5 5 5 5 5 5 5 5 5 5 5 5 5

ACCESSIBLE FUNDS 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15 15

TERRITORIAL CONSEQUENTIALS 15 15 15 14 12 10 7 6 5 4 4 2 0 -1 -2 -2 -3 -3 -4 -3

TOTAL PERR EFFECT ON 120 122 119 110 95 77 58 46 39 34 32 19 3 -6 -15 -19 -23 -22 -32 -33

ANNEX E

The meeting with the financial institutions - 18 October

The financial institutions were represented by the CLSB and the BSA. Their initial view was that it would be virtually impossible to operate the loan scheme proposed by the DES as part of their normal operations. They thought the amounts (ranging from £240 to £460 in the year of introduction) too small; the six levels of loan (depending on where the student studied or lived and whether or not he was in his final year) too complicated; and the system of repayment (annual indexation of outstanding debt in line with the GDP deflator) too unlike normal commercial practice.

Annex
E

2. This led them to say that if we insisted on a scheme of this sort, we would have to administer it ourselves.

3. By the end of the discussion they undertook to:

(i) Assess whether the scheme as currently envisaged could be operated by the banks and building societies and, if so, what costs this would involve.

(ii) Suggest how the scheme could be simplified to make it more suitable for commercial administration e.g a single loan entitlement and a uniform (low) rate of interest.

Why?

(iii) Put forward a scheme that the banks and building societies would be willing to administer, aimed at meeting DES's objectives but in a different way, say by using the institutions' own money with the Government indemnifying bad risks.

4 They promised to do this work very quickly. We will meet again, early next month.

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5. Although the meeting was disappointing, it was not a disaster. Even had the banks and building societies been enthusiastic about the scheme we would hardly have expected them to say so, as they are well aware that they will eventually have to negotiate contracts with us. If there are real practical difficulties then it is as well to know about them now so that we can modify the scheme or find some other way of putting it into practice.

BACKGROUND PAPERS

JP2-5

CONFID

for E(EP) folder



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

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

CHIEF SECRETARY	
REC.	26 OCT 1988
ACTION	Mr Farthing
COPIES TO	CX, PMG, EST, Sir P Lindleton, Mr Anson, Mr Phillips, Miss Penson, Mrs Case, Mr MacIntyre, Mr Baggett Mr Call

26 October 1988

John Major

STUDENTS LOANS

I was disappointed to receive your letter of 24 October. I am glad at any rate that you see real benefits in the delineation of the scheme which I now propose. We shall have to look at your worries about it in E(EP) tomorrow: I am bound to say, first, that I think they are less fundamental in character than you have presented them; and, second, that we must reach an early decision on the new regime for student support if we are to keep to our objective of starting it in Autumn 1990.

Aspy for the Peter Walker, Malcolm Ruffin, Tom King

John Major

[Handwritten signature]

BAKER
CST
26/10

CONFIDENTIAL

MP

FROM: COLIN FARTHING

DATE: 28 OCTOBER 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Miss Noble
Mr Nicol
Mr Perfect
Mr Cropper
Mr Tyrie
Mr Call

STUDENTS SUPPORT - THE NEXT STEPS

You asked for a note setting out the likely actions on student loans over the next few days.

2. Mr Baker hopes to issue a cabinet paper this evening, covering a further draft of the White Paper, which will then be discussed in full cabinet on Tuesday. Subject to endorsement at that meeting, the plan is to announce the scheme and issue the White Paper shortly thereafter. The exact date will need to take account of the other major announcements already scheduled for the beginning of November.

3. Our major concern is what the draft White Paper will actually say. Following the line taken at yesterday's meeting of E(EP), it is clearly going to have to reflect a strong preference for the scheme being administered by the banks and building societies. On the other hand education ministers seem most reluctant to depart from the detail of the complicated scheme to which they now feel themselves committed.

FARTHING
TO
CST

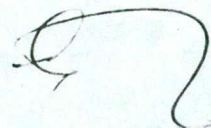
28 OCT

4. As the banks and building societies have told us that they would be very unwilling to administer a scheme of this complexity and that, if they were to do so, the administrative cost will be very high, we seem to be facing something of a dilemma.

5. The way forward is for the DES, on the one hand, to accept the need for flexibility about the details of their scheme and, on the other, for the banks to be more accommodating about the sort of arrangements they will be willing to administer. We could then hope to reach a middle position where we have a scheme broadly in line with the wishes of DES ministers but sufficiently simple for the financial institutions to run. We shall, of course, be seriously inhibited in reaching that position if the White Paper is too rigid and detailed about what DES ministers have in mind.

6. We have already suggested, at official level, a number of ways in which the White Paper could be amended to increase our flexibility, but DES officials feel constrained by their own ministers from departing very far from the detailed arrangements set out in the earlier drafts. It may be, therefore, that the version which is circulated by the Cabinet Office this evening could limit our freedom for negotiating with the banks to an unacceptable degree. If that is so, then you may feel that you need to write to Mr Baker on Monday proposing further changes to the White Paper, so that these can be taken into account in the Cabinet discussion on Tuesday morning.

7. I will let you have further advice on Monday once we have seen what Mr Baker's paper actually says.



COLIN FARTHING

CONFIDENTIAL

FROM: COLIN FARTHING

DATE: 31 OCTOBER 1988

CHIEF SECRETARY

cc Chancellor —
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Miss Peirson
Mr Culpin
Mr McIntyre
Miss Noble
Mr Nicol
Mr Cropper
Mr Tyrie
Mr Call

FARTHING
TO
CST
31/10

TOP-UP LOANS FOR STUDENTS

You asked for a short note on student loans for tomorrow's Cabinet.

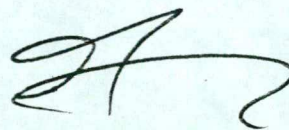
2. The White Paper which Mr Baker has now produced (attached to (C(88)14 of 28 October) still needs some fine tuning but sets out the fundamentals of the loan scheme clearly enough.

3. The proposals for a nil rate of real interest; for six levels of loan depending on where students study or live and the year of their course; and for a repayment arrangement that is sensitive to a graduate's income are all set out in some detail.

4. The one area where more direct wording is needed at the beginning of Chapter IV where the commitment to involve the financial institution in administering the scheme could be phrased more sharply. Following our conversation of this morning, I attach a letter for you to send to Mr Baker offering a revised form of

words and passing on your views about how our negotiations with the financial institutions could be conducted more effectively. I have also spoken to the responsible Deputy Secretary in DES and made the same points.

5. You also asked whether the Chancellor or Sir Peter Middleton had spoken to the Governor following Sir David Hancock's approach last week. The answer is that Sir Peter has not done so, but the Chancellor has told the Governor that he hopes the banks will act constructively in responding to the DES proposals.

A handwritten signature in black ink, appearing to be 'CF', with a long horizontal stroke extending to the right.

COLIN FARTHING

CONFIDENTIAL

**DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE
FOR EDUCATION AND SCIENCE****Top-up loans for students**

In summing up our discussion on Thursday (E(EP)(88)11th Meeting) the Prime Minister invited colleagues to take up direct with you our comments on the text of the White Paper.

I have now seen the latest draft (attached to C(88)14 of 28 October) which we are due to discuss in Cabinet tomorrow.

Our officials will, of course, be following up the detailed issues, but there is one point that I think needs to be made very clearly now. It relates to the first paragraph of Chapter IV where you state our objective of identifying a cost-effective scheme which the financial institution will be able to administer.

I think this needs to be said much more directly and suggest that the final sentence be changed to: "The Government proposes to introduce a cost-effective scheme which the financial institutions will administer."

I am sure that we can find an institution which will be very willing to take on this task, but I am far less confident that we will get the right outcome if we continue to talk to the banks and building societies collectively.

I see from your covering memorandum that you plan to meet the Governor and the Chairman of the CLSB and the BSA after Cabinet has discussed your proposals. I do urge you to see them separately rather than together and to impress on them that the option of our offering the administration of this scheme to a single institution is a very real one.

While we need to listen to what the institutions have to say, there is no question of our negotiating away the fundamentals of the scheme to meet their administrative convenience. I am, therefore, pleased to see that the White Paper sets out the basic

elements of the scheme - in, for example, paragraphs 1.3 and 3.8 - in an unambiguous way. As I mentioned to you last week, there are still a number of more minor points on the scheme that we need to discuss and I look forward to our meeting on Thursday when we can go through them together.

I would also welcome a word on the telephone when you return to the office this evening so that we can discuss the handling of this issue in Cabinet tomorrow.

I am copying this letter to the Chancellor and to Sir Robin Butler.

JOHN MAJOR

CONFIDENTIAL

From: S D H SARGENT

Date: 31 October 1988

PS/CHIEF SECRETARY

cc PPS
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Farthing
Mr McIntyre
Miss Noble
Mr Nichol
Mrs Chaplin
Mr Tyrie
Mr Call

TOP-UP LOANS FOR STUDENTS

Sir Peter Middleton has seen Colin Farthing's submission of 31 October to the Chief Secretary.

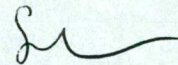
2. He has commented that he does not see any harm in the Secretary of State seeing the CLSB and the BSA together to read the riot act. The important thing is what happens thereafter. We want to get quickly to a situation where we invite joint and several bids for this business. But we need to take some account of what the institutions say about the nature of the scheme - the present proposals are very complicated and we might be able to get something which saves a lot of unnecessary cost.

3. With these thoughts in mind, Sir Peter suggests that the second sentence of the sixth paragraph of the draft letter to Mr Baker is revised to read as follows:

SARGENT
To
PS/CST
31/10

CONFIDENTIAL

"I do urge you to impress on them that the option of our offering the administration of this scheme to a single institution, or consortium of institutions, is a very real one."



S D H SARGENT
Private Secretary

CONFIDENTIAL

CST
TO
BAKER
31/10

Treasury Chambers, Parliament Street, SW1P 3AG

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

31 October 1988

Dear Secretary of State,

TOP-UP LOANS FOR STUDENTS

In summing up our discussion on Thursday (E(EP)(88) 11th Meeting) the Prime Minister invited colleagues to take up direct with you our comments on the text of the White Paper.

I have now seen the latest draft (attached to C(88)14 of 28 October) which we are due to discuss in Cabinet tomorrow.

Our officials will, of course, be following up the detailed issues, but there is one point that I think needs to be made very clearly now. It relates to the first paragraph of Chapter IV where you state our objective of identifying a cost-effective scheme which the financial institution will be able to administer.

I think this needs to be said much more directly. Ideally the final sentence should convey the flavour that the Government proposes to introduce a cost-effective scheme which the financial institutions will administer. Clearly you cannot insert that in the White Paper in advance of agreement but I hope you can tell Cabinet that this is our intention. This will enable us to tighten up this wording in the White Paper after further progress has been made with the financial institutions.

I am sure that we can find an institution which will be very willing to take on this task, but I am far less confident that we will get the right outcome if we continue to talk to the banks and building societies collectively.

I see from your covering memorandum that you plan to meet the Governor and the Chairman of the CLSB and the BSA after Cabinet has discussed your proposals. I do urge you to impress on them

CONFIDENTIAL

that the option of our offering the administration of this scheme to a single institution or consortium of institutions is a very real one.

While we need to listen to what the institutions have to say, there is no question of our negotiating away the fundamentals of the scheme to meet their administrative convenience. I am, therefore, pleased to see that the White Paper sets out the basic elements of the scheme - in, for example, paragraphs 1.3 and 3.8 - in an unambiguous way. As I mentioned to you last week, there are still a number of more minor points on the scheme that we need to discuss and I look forward to our meeting on Thursday when we can go through them together.

I would also welcome a word on the telephone when you return to the office this evening so that we can discuss the handling of this issue in Cabinet tomorrow.

I am copying this letter to the Chancellor and to Sir Robin Butler.

*Yours sincerely,
P. Wailes*

PP JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]



Maira has seen

Department of Education and Science
Elizabeth House York Road London SE1 7PH

Direct Line 01-934
Switchboard 01-934 9000
GTN Number 2914

Telex 23171

FACSIMILE TRANSMISSION

IMMEDIATE BY HAND ON ARRIVAL

FROM:

GUE SEAL

1/11/88

FAX NUMBER: 934 0699 GTN 2914 0699

TO:

*PRIVATE SECRETARY TO THE CHANCELLOR
OF THE EXCHEQUER*

DATE AND TIME:

1. XI. 1988

11:40 AM

NUMBER OF PAGES TO FOLLOW:

2

REMARKS (IF APPLICABLE):

URGENT

copy of one line to take as requested.

HIGHER EDUCATION LEAK: LINE TO TAKE

I deplore the leaking of any confidential documents. These were discussion documents prompted by the debate which is going on now in higher education about future funding policies. No decisions will be taken about any changes without full discussion with higher education interests.

If pressed

Were there to be major changes to the funding arrangements we would not reach a particular view and follow it up with concrete action without very full discussion with the Higher Education Funding Councils and with the leaders of the universities, polytechnics and colleges.

This debate is going on all over the world. I note that the Labour Government in Australia is introducing a students' tax to recover fees. I understand that there are proposals on similar lines from the Labour Government in New Zealand.

I confirm that there will be a leak enquiry.

BACKGROUND NOTE

Mr Straw gave a press conference yesterday saying he had received copies of 2 documents prepared by Mr Jackson for a private meeting of Ministers at Chevening in July. There is considerable public debate within higher education about future funding arrangements which the Government has been encouraging. The Secretary of State said in Parliament on 19 July, 'we want the debate about funding in the higher education world to mature and reach practical conclusions'.

The documents cover such ideas as the possibility of higher education vouchers and allowing higher education institutions to charge fees which are paid by individual students. The Secretary of State wants the lead in the debate to be taken by the different interests within the higher education world at this stage.



Maria has seen

Department of Education and Science
Elizabeth House York Road London SE17PH

Direct Line 01-934
Switchboard 01-934 9000
GTN Number 2914

Telex 23171

VOXSIMILE TRANSMISSION

IMMEDIATE BY HAND ON ARRIVAL

DM:

SUE SEAL

1/11/88

AX NUMBER: 934 0699 GTN 2914 0699

PRIVATE SECRETARY TO THE CHANCELLOR
OF THE EXCHEQUER

DATE AND TIME:

1. XI. 1988

11:40 AM

NUMBER OF PAGES TO FOLLOW:

2

MARKS (IF APPLICABLE):

URGENT

copy of our line to take as requested.

HIGHER EDUCATION LEAK: LINE TO TAKE

I deplore the leaking of any confidential documents. These were discussion documents developed by the House which is going on now in higher education about future funding policies. No decisions will be taken about any changes which are still discussion with higher education interests.

If pressed

Were there to be major changes to the funding arrangements we would not reach a decision until we had done it up with concrete action without very full discussion with the Higher Education Funding Councils and with the leaders of the universities, polytechnics and colleges.

This debate is going on at the moment. I note that the Labour Government in New Zealand is introducing a students' tax to recover costs. I understand that there are proposals on similar lines from the Labour Government in New Zealand.

I confirm that there will be a leak enquiry.

BACKGROUND NOTE

Mr Straw gave a press conference today saying he had received copies of 2 documents prepared by Jackson for a private meeting of Ministers at the end of July. There is considerable public debate within the education system about future funding arrangements which Mr Straw has been encouraging. The Secretary of State said in Parliament on 19 July, 'we want the debate about funding of the higher education world to mature and reach practical conclusions'.

The documents cover such issues as the possibility of higher education vouchers and allowing higher education institutions to charge fees which are based on the needs of students. The Secretary of State said that the debate to be taken by the different interests within the higher education world at this stage.

cc PS/EST
(DES briefing provided for PM's questions today) *pay*

HIGHER EDUCATION LEAK: LINE TO TAKE

I deplore the leaking of any confidential documents. These were discussion documents prompted by the debate which is going on now in higher education about future funding policies. No decisions will be taken about any changes without full discussion with higher education interests.

If pressed

Were there to be major changes to the funding arrangements we would not reach a particular view and follow it up with concrete action without very full discussion with the Higher Education Funding Councils and with the leaders of the universities, polytechnics and colleges.

This debate is going on all over the world. I note that the Labour Government in Australia is introducing a students' tax to recover fees. I understand that there are proposals on similar lines from the Labour Government in New Zealand.

I confirm that there will be a leak enquiry.

SECRET C/N 1314 0035 TEL NO. 01 204 0035 CIVILIAN 11-40 P.100

BACKGROUND NOTE

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The documents cover such ideas as the possibility of higher education vouchers and allowing higher education institutions to charge fees which are paid by individual students. The Secretary of State wants the lead in the debate to be taken by the different interests within the higher education world at this stage.

mp

~~Personal File~~

FROM: MRS A F CASE
DATE: 1 November 1988

MR PHILLIPS

✓

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Gieve

HIGHER EDUCATION PAPERS : LEAK

You asked me to find out what I could about this.

2. The DES tell me that the two documents which have been leaked are authentic. They were among a number of think pieces prepared for a DES Ministerial retreat at Chevening in the Summer. Both were indeed by Mr Jackson, demonstrating his recognised role in stimulating thought within the Department. There will be a leak inquiry. Restriction of the documents was very restricted. Not all officials at Chevening would necessarily have seen them.

3. The letter from the Financial Secretary is also authentic (copy attached). The Financial Secretary was commenting on a research specification for an employer survey of demand for graduates. Mr Baker will continue to take the line that he deplores the leak of confidential documents and is not prepared to comment on them. However, he will note that there is a current debate within higher education over its future funding and that the Government intends to keep in touch with these ideas as they develop and mature. However, the Government would not reach conclusions except after discussion with the two Funding Councils and the leaders of higher education. He will also point to the fact that vouchers for higher education were one of the issues identified for further consideration in the recent press release on the appointment of Mr Bird as Special Adviser.

4. Publication of these documents may make top up student loans look somewhat old hat. However, it may make both them - and less radical ideas of changing the balance between tuition fees and funding through the Funding Councils - more difficult to sell against a background of charges of a "hidden agenda".

L. Nieldon
MRS A F CASE



Treasury Chambers, Parliament Street, SW1P 3AG

Robert Jackson MP
Under-Secretary of State for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

18 July 1988

Mrs. Case

Mr. Robert

F4

DEMAND FOR HIGHLY QUALIFIED MANPOWER

Thank you for your letter of 4 July enclosing a research specification and covering letter for an employer survey of graduate demand.

As you are aware, the Treasury welcomes this Review of the future demand for highly qualified manpower which - inter alia - will provide a basis for assessing the robustness of the White Paper's planned 'Q' projection of numbers in higher education, and the shift towards engineering and science subjects. The survey of graduate employers should give us valuable information on the nature, as well as the likely size, of the demand for graduates. However, I am concerned that the Review should not only examine employer demand. The costs of higher education, which are largely paid for by taxpayers and not employers, are equally relevant to Government policies on the number and broad subject mix of graduates. Thus I hope the Review will consider both sides of the coin: the demand for graduates, and the cost of meeting that demand.

On the survey itself, our concerns are that the employer population to be assessed is a balanced one; that we examine fully the scope for substituting non-graduates for graduates; and that we test rigorously the firmness of employers' demands. I have set out in the attached annex a number of drafting suggestions on the research specification which, I hope, will, further those objectives.

I am copying this letter to John Butcher, Patrick Nicholss, Wyn Roberts, Michael Forsyth and Brian Mawhinney.

[Signature]
NORMAN LAMONT

SUGGESTED AMENDMENTS TO RESEARCH SPECIFICATION

Paragraph 6: add 'including industry, commerce and the public services' at the end of the second sentence. This change is intended to ensure that while the survey may not be "statistically representative" the population addressed is a broadly based and balanced one. Although the needs of industry are, of course, important, we should not under estimate the demand for graduates in commerce, the public sector and the professions. We need to ensure that the involvement of the CBI and the CIHE does not produce any distortion or bias in the survey.

Paragraph 8: recast the end of the paragraph to read 'substitution of other categories of employee for graduates (see paragraph 14c).' Surely this is the point which 14c should be seeking to establish.

Paragraph 14(a): it would be helpful to include information on the corresponding trends in non-graduate entrants. This paragraph also appears to imply that employers will be told that graduate numbers will be as for projection Q, ('the Government's latest best estimate') whereas one of the objective of the Review must be to assess whether Q can be justified in the light of demand and supply factors. Although paragraph 14c suggests that employers should be asked to indicate their response to a fall in the supply of new graduates, it would be preferable to include an alternative scenario in (a). Thus suggested amendments are:

- add 'the corresponding trends in non-graduate entrants' before 'and the age profile of the present population' in the penultimate sentence;
- add a new last sentence 'To test how employer demand would change if higher education numbers fell below the Government's latest best estimate, researchers should consider providing employers with alternative demographic scenarios'.

Paragraph 14(c): add 'support higher education courses with funds, equipment or work experience opportunities, sponsor courses for mature staff' after 'reining back with reverse substitution' as further examples of employers' response. Add a new last sentence: 'Employers should also be asked whether they have in the past taken any of these measures in response to graduate supply shortages'.

CONFIDENTIAL

FROM: COLIN FARTHING
DATE: 3 NOVEMBER 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mr Culpin
Miss Noble
Mr Nicol
Mr Perfect
Mrs Chaplin
Mr Tyrie
Mr Call

*1 Baker
group for an
Baker's
Approved
Baker
Scheme*

STUDENT SUPPORT - MR BAKER'S MEETING WITH THE BANKS

Mr Baker held a meeting this morning with the Governor of the Bank of England and Lord Boardman, Chairman of the CLSB. The Treasury was represented by the Paymaster General.

2. Mr Baker began by saying that his proposals for student loans had now been approved and would be announced in Parliament next week. It was the intention of the Government that the scheme should be administered by the financial institutions. The opportunity of participating would be offered to all but he did not rule out the possibility that, at the end of the day, perhaps only one or two would be selected. He hoped that the banks would not criticise the scheme when it was made public. He understood their concerns about its complexity, but hoped that future discussions in the Working Group could resolve outstanding

practical difficulties. What was not open to negotiation was that the scheme should be available to all eligible students and that the debt repayment regime should take account of graduates' income. He also saw the proposal for nil real interest as an attractive feature.

3. Sir Robin Leigh Pemberton said that he had sympathy with the banks' criticism of the complexity of the proposed scheme. It was very different from their normal business and the nil real interest arrangements would be particularly difficult - and, therefore, costly - to administer. *(not v. helpful)*

3. Lord Boardman said that the banks were extremely unhappy with the scheme as currently envisaged and that the White Paper could not say that the financial institutions had agreed to administer it. He had many reservations about the detail and was also concerned about the likely student reaction and the threat of an NUS boycott of institutions running the scheme. The amounts on offer were unrealistically small and he agreed with many of the criticisms set out in Mark Boleat's paper for the Working Group (copy attached). He pointed out that, in the United States, banks making loans to students were allowed to assess their credit worthiness and refuse those that they found unacceptable. That was not an option under the proposed UK scheme. He did not know how the banks could verify the incomes of those who claimed that their repayments should be deferred and agreed with Sir Robin that a debt linked to the GDP deflator would present unique and unfamiliar problems for the banks.

4. In subsequent discussion it was pointed out that the scheme would have a number of benefits for those who operated it. It would offer access to a large number of very attractive future customers who were likely users of many other banking products. Every detail of the Government scheme was not set in concrete although some key features were and the overall public expenditure ceiling was immutable. The banks, however, would be much happier running a scheme of their own, backed up by Government guarantees and subsidies and, if the terms were right, might be willing to undertake some of the risks themselves.

5. It was agreed that the Working Party should meet frequently over the next few weeks and aim to produce interim proposals by the end of the year, which Ministers could then consider. By next spring, Mr Baker hoped to be able to publish a document setting out in detail the form of the scheme and the way in which it would be administered. It would take account not only of the views of the banks and building societies but also of the universities and polytechnics, major employers of graduates and the students themselves. Next week's White Paper would make clear the Government's intention that the financial institutions should administer the scheme but would certainly not say that they had agreed to do so. It would merely record that consultations were continuing.

hmm. 6. It would be for the Treasury to decide if a scheme involving the banks' own money was acceptable, but the present intention was that they should act as agents in administering a scheme funded by the Government.

7. It was pointed out that many of the administrative problems of the scheme could be reduced if a tender were placed with a single institution. The volume of business would then make it worthwhile to set up separate arrangements for managing the particular features that were being proposed. Lord Boardman conceded that this must be considered as a possibility. Mr Baker pointed out that an arrangement of this sort would be especially attractive to an institution not already well established in the student market and Lord Boardman agreed.

||| 8. Mr Baker drew the meeting to a close by saying that in future the Working Group would be more broadly based, the insurance companies and the Girobank would be invited to attend and, if they wished, other institutions could be represented in their own right rather than through the CLSB or the BSA.

CONFIDENTIAL

9. In a short discussion after Lord Boardman and the Governor had left, Mr Baker said that we should consider again the possibility of using the banks' own money but it might well be that a bank funded scheme would require assessments of credit worthiness which would lead to less than universal access by eligible students. This was not acceptable.

10. On the basis of the discussion, Mr Baker clearly felt that there would be little overt criticism of the scheme by the banks when it was launched next week - though their reaction was unlikely to be more than lukewarm. The option of offering all the business to a single institution had clearly given the banks something to think about and might well have real administrative advantages as well as being a very effective negotiating card. He was confident that a scheme administered by the institutions - individually or collectively - was attainable, though a lot of difficult and detailed work would need to be done over the next few months.

11. You will also have heard that Mr Baker and Mr Jackson had a private meeting with Mark Boleat on Tuesday night. No officials were present, but we understand that Mr Boleat explained the background to his highly critical comments on the scheme to Mr Baker, who, in turn, explained why Ministers attached importance to particular key features of it. The outcome is that Mr Boleat is unlikely to cause trouble when the White Paper is published next week - he may even make some welcoming comments on the principle of student loans, if not the detail.



COLIN FARTHING



THE BUILDING SOCIETIES ASSOCIATION

3 Savile Row London W1X 1AF

Telephone 01 457 0655 Fax 01 734 6416 Telex 24558 BSA G

25 October 1988

Dear Nick

Student Loans

As agreed at the meeting last week I have, very quickly, prepared a short paper outlining the objections which institutions would have to the proposed student loan scheme, and putting forward alternatives. Five copies of the paper are enclosed.

I should stress that the paper cannot be taken to represent anything other than my own views, as I have not discussed it with anyone else in the building society industry. John Barclay, and John Cubbon (who works for Seymour Fortescue), have seen and commented on the paper, but again cannot commit their banks.

I note that another meeting of the Working Group has been fixed for next Tuesday. If you would like to have a prior discussion with me about my paper, then I am of course at your disposal.

Yours sincerely

Mark Boléat

M J Boléat
Director-General

Nick Summers Esq
Department of Education and Science

STUDENT LOANS

Introduction

1. The Government intends to introduce a loan scheme to top up student grants with effect from 1990. It is anticipated that banks and building societies will administer the loans. The scheme is considered by financial institutions to be unrealistic in concept and unworkable in practice. This memorandum outlines the scheme and objections to it, then puts forward several options for producing a more acceptable scheme.

The Government's Proposals

2. The Government's proposals are set out in a paper "Proposed Terms of Loan Scheme" distributed to members of the Student Loans Administration Working Group on 16 October 1988. That paper is appended to this memorandum. The basic features of the loan scheme are -

(a) Student grants will be frozen in 1990, but the top up loan facility will be introduced, and thereafter the increase in the total resources available to students will be in the form of the loan facility rather than the grant. It is anticipated that the average student will qualify for a loan of £420 in the first year.

(b) The outstanding loan will be revalued in line with inflation, and will be at nil real rate of interest.

(c) Repayments will begin from the April following the end of the student's course, and alternative methods of repayment are suggested.

Objections to the Proposals

3. Banks and building societies are good at making loans and assessing risk. The loan scheme entails neither, and carries with it the possibility of adverse publicity as the institutions would be seen to be conniving in the Government's plan to reduce student grants. As the proposals now stand it is very unlikely that any bank or building society would be interested in administering them, even if all of their costs were covered by the Government.

4. The overall problem is the complexity of the scheme, which would make it difficult for students to understand, and would require separate record keeping and accounting for the financial institutions, for example -

(a) There seems little point in having a £40 distinction in the loan facility depending on whether a student is in London or elsewhere, and the logic of having a smaller loan in the final year is not at all clear.

(b) Neither banks nor building societies currently have index-linked loans, and as inflation figures are available only in arrears, whereas interest can be charged in advance, the whole system would be incompatible with the existing accounting systems.

(c) The envisaged repayment periods, up to 15 years, are far too long.

(d) The proposal that repayment be deferred in any year when income falls below 85% of the national average wage is unworkable.

(e) The bureaucracy involved in checking whether the student was eligible is out of all proportion to the size of the loans.

5. A major problem is the tiny size of the loans which are envisaged. In all probability these would be unattractive to students as well as to financial institutions. The institutions might prefer to offer their own more flexible loan schemes to their own customers, and students might manage with lower total resources, or look for alternative sources of income. This could, of course, be attractive to the Government, by reducing the call on public expenditure, but it is not presumably the intention of the proposals.

6. Generally, it is considered that the proposals would be greeted with universal derision as being absurdly complicated and bureaucratic for tiny amounts of money.

Basic Principles

7. The institutions were first given details of the scheme on 16 October 1988, and the Government intends to make an announcement early in November. It is unfortunate that no proper consultation is possible with financial institutions, and this must affect the quality of the resultant scheme.

8. It is understood that the Government is firmly committed to the following principles -

(a) The Treasury has agreed the proposals with the full loan amount counting as public expenditure.

(b) Because there is Government subsidy involved, access to the subsidy, and the total amount of it, must be limited.

(c) Repayment terms must be sympathetic and flexible, and on the Government part of any subsidy there must be a repayment relief mechanism.

9. It is fair to say that the financial institutions also would wish to adhere to certain principles, the main one being that they would expect a commercial return for undertaking any administrative work for the Government. That commercial return must in turn take account of the public relations impact.

10. Given these principles and clear dissatisfaction with the scheme is drafted there are three broad options -

(a) Go ahead with the present scheme.

(b) Keep the basic structure of the scheme but improve it where possible to make it more acceptable to students and institutions.

(c) Consider alternative schemes.

These three options are now considered in turn.

Option 1 - Go Ahead with Scheme

11. At the first meeting of the Working Group, held on 19 October, the impression was given that the Scheme was 98% fixed, and that there were only nuts and bolts to be sorted out with an announcement being made early in November. The Government can, of course, announce the Scheme, but it certainly could not announce that banks and building societies would be willing to administer it. It is assumed here that the Government does not envisage legislation to force institutions to administer the Scheme. It can be said with certainty that if the Government does go ahead and announce the Scheme based on that so far proposed, then the institutions would play no part in it, and the Government would have to devise its own administrative arrangements.

Option 2 - Improve the Scheme

12. It is possible to suggest a number of improvements in the Scheme which would at least make it workable for financial institutions, although still not very attractive. At the minimum these improvements would include -

(a) Removing unnecessary differences in loan entitlement, for example the £30 or £40 differences depending on whether a student lives in London or elsewhere.

(b) The replacement of index-linking with a fixed interest rate, perhaps 5%.

(c) The introduction of a maximum repayment term, which could be as short as five or seven years, but with institutions expressing a willingness to refinance the loans on their current market terms. Within such a framework the institutions might be allowed to offer whatever repayment terms they wished.

(d) The deferring of repayments when income falls below a certain level is unworkable. If the previous point is taken, then there is no need for any such special arrangements, although there does need to be realistic provisions for writing off loans (and these cannot include writing off after as long as 25 years or at age 60).

(e) Any central administration, for example a central computer register, would have to be the responsibility of the Department of Education and Science.

13. These administrative improvements would, of course, do nothing to remove the basic faults with the Scheme, that is the very small size of loans and the unpopularity of the Scheme, which would be seen to be replacing student grants.

Option 3 - Alternatives

14. The Government's proposals seem very timid, bearing in mind the way it has managed to influence the public debate towards the acceptance that students should be paying more for the cost of their education, and also the role given to the private sector is much less than it is capable of delivering, with greater efficiency than the public sector. The institutions would probably find it more attractive to make loans themselves, and as far as possible to treat the loans as being normal banking business. Such a loan scheme could work as follows -

(a) Students would need a certificate of eligibility for a qualifying student loan.

(b) The loan scheme could embrace the following features -

(i) A maximum loan of, say, £1,000 a year, thereby giving additional resources to the student and reducing the need for the parental contribution, which in many cases is not paid.

(ii) A fixed rate of interest that would be subsidised of, say, 5% a year, although this must be subject to review.

(iii) The loan to be repaid within, say, five years of the ending of the student's course, but with the institutions committing themselves to refinance the loan on whatever terms would be appropriate.

(c) The Government would need to pay to the financial institutions the difference between 5% and the appropriate market rate of interest, together with an amount to cover administration costs. This could be expressed in a formula of, say, average LIBOR minus 5% plus X%.

15. A modification of this scheme would be for the loan to be interest-free during the period of the course (plus three or six months) (with the Government accordingly paying to the institutions LIBOR plus x %). Thereafter the loan would be on terms to be decided by the institutions and government subsidy would cease. No doubt the institutions would compete to offer attractive repayment terms. It should be noted here that a number of banks already offer interest-free loans of up to £250 to students. Such a scheme would be similar to the Career Development Loans under a scheme devised by the Department of Employment in conjunction with three banks. For those loans the Government pays the interest during the course and for a further three months. (The Barclays leaflet on the scheme is appended.)

16. A major question would relate to the default provisions. It is, of course, the case that loans to students are risky as there is, in effect, no security. There are two alternative ways this can be handled -

(a) A Government guarantee. Here there would need to be appropriate default provisions on the lines of the local authority scheme for guaranteeing mortgages, so as to ensure that the institutions did not allow default without making some effort to secure recovery of the loan.

(b) The calculation at the outset of a bad debt provision which should be expressed as X% of the amount initially loaned. This would give the institutions greater incentive to recover loans, and would also ensure that the cost of the scheme would be fixed at the outset.

17. This sort of arrangement must be more attractive for the Government in that there would be a significant initial reduction in public expenditure compared with the Government's proposed scheme. It would be more attractive to financial institutions because they could more easily tie it in to their existing financial services and products, and would also be more attractive to students by increasing the resources immediately available to them.

18. One problem with this proposal (although it would also apply to the Government's own initial proposal), is how to ensure that everyone who is entitled to a loan gets one. Banks and building societies would rather market the availability of the approved loans scheme as part of their package of financial services to students, but they cannot be expected to take on board everyone who comes to them as it might be quite clear from any interview that someone would not be a satisfactory borrower. It could be made a condition of a financial institutions participating in the scheme that it does make a loan to anyone who applies, but this might not be attractive for the institutions as it would break the proper relationship between a banker and a customer. In reality it is considered that well over 95% of students should have no difficulty in obtaining a loan, and indeed there would be active competition to secure the loan business. As a fall back there might need to be a Government administered scheme.

Conclusion

19. The Government has created a favourable environment in which to make radical changes in the method of student financing. The Government's own proposed scheme is simply unworkable and would be greeted with universal condemnation, and indeed derision. Tinkering with the scheme may make it a little more acceptable, but would not make it attractive to financial institutions. By contrast, devising a scheme by which the institutions lend money has considerable advantages all round.

Mark Boléat
Director-General
BSA

CAREER DEVELOPMENT LOANS

A Career Development Loan from Barclays can be used to finance a wide range of vocational courses, to help you gain new skills or up-date existing ones.

Up to £5,000.

You can borrow as much as £5,000 (or as little as £300) to help pay up to 80% of the cost of the course you choose.

We are happy to consider lending for the cost of your living expenses, within the £5,000 maximum.

Loans are available in multiples of £50.

Flexible repayment period.

The loan can be repaid over a period of up to three years, or five years in exceptional circumstances.

During the period of the course, and for up to three months afterwards, you do not have to make any capital or interest repayments on the loan (the Government pays the interest on the loan over this period).

Repayments will commence one month after the end of this interest 'holiday', and can be made over 12, 18, 24, 30, 36, 48 or 60 months.

What it costs.

Your repayments are fixed when the loan is agreed, and remain the same throughout the period of the loan.

Below and opposite are three examples of typical Career Development Loans, and how they would be repaid.

Example 1

Borrowing £1,000 for a course lasting three weeks	
Amount of loan:	£1,000 drawn on 1.7.88
Total charge for credit:	£100.04
Total amount payable:	£1,100.04
Interest holiday:	3 months
Repayments:	12 monthly payments of £91.67 commencing 1.11.88
Annual Percentage Rate:	12.8%

Example 2

Borrowing £2,500 for a course lasting six months	
Amount of loan:	£2,500 drawn on 1.7.88
Total charge for credit:	£757.58
Total amount payable:	£3,257.58
Interest holiday:	9 months
Repayments:	35 monthly payments of £90.49 commencing 1.5.89, plus final payment of £90.43
Annual Percentage Rate:	12.4%

Example 3

Borrowing £5,000 for a course lasting one year	
Amount of loan:	£5,000 drawn on 1.7.88
Total charge for credit:	£1,517.07
Total amount payable:	£6,517.07
Interest holiday:	15 months
Repayments:	35 monthly payments of £181.03 commencing 1.11.89, plus final payment of £181.02
Annual Percentage Rate:	10%

Any of our branches listed overleaf will be pleased to provide a written quotation for the loan you have in mind.

You will need to tell us:

- the amount you wish to borrow;
- the date on which the first payment of course fees is due;
- if you wish to draw the loan in instalments (maximum four), the amount and date of each instalment;
- the length of the course;
- the repayment period you consider appropriate.

What to do now.

To apply, simply fill in the application form in the accompanying information pack and take or send it to one of the Barclays branches overleaf.

If you would like to discuss the scheme before applying, the staff at any of the branches listed will be happy to help.



FROM: MISS M P WALLACE
DATE: 4 November 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mrs Spackman
Mr Turnbull
Mr Culpin
Miss Noble
Mr Nicol
Mr Perfect
Mr Farthing
Mrs Chaplin
Mr Tyrie
Mr Call

STUDENT SUPPORT - MR BAKER'S MEETING WITH THE BANKS

The Chancellor has seen Mr Farthing's minute of 3 November. He would be interested to see an assessment by officials of Mr Boleat's own proposals (his option 3).

A handwritten signature in dark ink, appearing to read 'M.P. Wallace'.

MOIRA WALLACE



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

2

CH/EXCHEQUER	
REC.	8 NOV 1988
ACTION	CST
COPIES TO	

✓ 8/11

Paul Gray Esq
10 Downing Street
London
SW1A

8 November 1988

Dear Paul

The publication of the White Paper on Student Support was agreed in Cabinet on 1 November. I now attach a copy of the statement my Secretary of State intends to make to the House of Commons on Wednesday 9 November announcing the White Paper's publication.

As we have to print press notices carrying the text of the statement it would be very helpful if we could have any comments by 4pm on 8 November.

I am copying this letter to Private Secretaries of other Cabinet Ministers.

Yours Sincerely

P V D Swift

P V D SWIFT
Private Secretary

TOP-UP LOANS FOR STUDENTS

Oral Statement on 9 November

1. With permission, Mr Speaker, I wish to make a statement about future arrangements for student support.

2. Two years ago I set up a review of Student Support to examine how the maintenance needs of students may be met. We have the most generous system of student support in the Western World, yet fewer of our young people enter higher education than in other European countries.

3. In our 1987 Election Manifesto we said that the purpose of the review was to improve the overall prospects of students so that more are encouraged to enter higher education. We specifically mentioned top-up loans to supplement grants as one way of bringing in new finance to help students and to relieve pressure on their parents.

4. The Review has now been completed. We believe that the cost of student maintenance should be shared more equitably between students themselves, their parents and the taxpayer. The Government is therefore today publishing a White Paper which sets out our proposals to introduce a scheme of top-up loans for students. We propose that from 1990, in addition to their grant, all home students in full-time higher education, except postgraduates, will be eligible for a top-up loan averaging over £400 for that year.

5. This top-up loan facility will not be means-tested. Each student will be able to take up as much or as little of it as they wish. The present grant arrangements will continue, but the overall levels of grant will be frozen in cash terms at their 1990 levels. As the grant also incorporates in most cases a parental contribution this means that over time the average

parent will be paying less in real terms. From 1990, students' total resources in grant and top-up loan will continue to be reviewed annually. Any uprating to reflect cost increases will be applied only to the top-up loan facility until the top-up loan has risen to the same level as the grant and parental contribution taken together.

6. The top-up loans will not bear a commercial rate of interest. Under the Government's proposals, top-up loans will be offered at a real interest rate of zero. The principal to be repaid will be uprated each year in line with inflation. Repayments will not start until the April after students complete their courses. Furthermore, repayments will be deferred when a graduate's income is low for any reason.

7. In 1985 the Government announced its intention to remove students from the social security system. Accordingly the Government will end the general eligibility of students for social security benefits whether or not they qualify for top-up loans. Benefits will, however, continue to be available for students who are disabled or single parents, and for students' dependents.

8. The level of the top-up loan will more than compensate the great majority of students for any loss of benefit. We estimate that the average level of social security benefit which would otherwise be claimed in 1990-91 is about £150: that compares with our loan facility of £420 in that year. I recognise, however, that there may be some local circumstances where some further help may be needed.

9. I will establish therefore three Access Funds, each of £5 million, to be administered by the colleges, polytechnics and universities, to provide support on a discretionary basis to students in special financial need. The Funds will be for postgraduates, other students in higher education, and students

in further education. Their operation will be reviewed after three years. Their administration will be properly the responsibility of the higher and further education institutions which are best placed to understand the circumstances of their students.

10. The terms of the top-up loan scheme we are proposing are much more favourable than those of the borrowing on which many students rely at present. And instead of students having to rely on a social security system which was never designed for them, we shall be providing appropriate discretionary arrangements to help those in real need. This is a major step forward to achieving our target of more young people going into higher education.

11. In the Government's view, the top-up loan scheme is best administered by the financial institutions. I am now embarking on discussions with them, and with representatives of the local authorities and the higher and further education institutions. The Government will bring forward a short Bill to allow the new regime to be introduced from autumn 1990.

12. These proposals represent an important step away from the dependency culture. Students will have a financial stake in their own future, and this will encourage greater economic awareness and self-reliance. The burden of student support on taxpayers and parents will be reduced. For the first time there will be a guaranteed extra source of income for students over and above their grants and parental contributions. By introducing top-up loans, we fulfil the undertaking we gave in our Manifesto at the last election.

FROM: COLIN FARTHING
DATE: 8 NOVEMBER 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mr Culpin
Miss Noble
Mr Nicol
Mr Perfect
Mrs Chaplin
Mr Tyrie
Mr Call

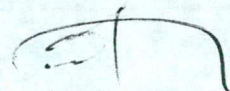
STUDENT SUPPORT

Miss Evans' note of 7 November asked for the precise form of words to be used to describe administrative arrangements in the Student Loans White Paper .

2. The relevant section will say:

"The Department of Education and Science is now discussing with the banks and building societies, and others with expertise in this area, the arrangements for making loans and collecting repayments. The Government's objective is to identify a cost-effective scheme which the financial institutions will administer."

Mr Baker read these words over to Lord Boardman at last week's meeting and Lord Boardman agreed that the banks would not object to them. He was, however, very clear that he could not have accepted a formulation which implied that the banks had already agreed that they would administer the scheme.



COLIN FARTHING

FROM: COLIN FARTHING
DATE: 8 NOVEMBER 1988

PS/CHIEF SECRETARY

cc

PS/Chancellor
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Miss Peirson
Mrs Lomax
Mr McIntyre
Miss Noble
Mr Perfect
Mr Call

(CST has written as drafted)

STUDENT SUPPORT - MR BAKER'S DRAFT ORAL STATEMENT

You sent me a copy of a letter from Mr Baker's Private Secretary to Paul Gray covering a draft Oral Statement which Mr Baker intends to make tomorrow afternoon.

2. It seems to me that there are a couple of places where the statement is potentially misleading.
3. I have already passed my views across to the DES officials involved in drafting the statement but you may wish to reinforce the points with Mr Baker's private office.
4. I attach a draft.
5. There is also a reference to the loans not being means-tested (first sentence of paragraph 5). Given the current interest in means-testing in other contexts you may feel that this - though true - might be better left unsaid. If so I have suggested, in square brackets, a further paragraph that you may like to use.

COLIN FARTHING

DRAFT MINUTE FROM PS/CHIEF SECRETARY

TO: PS/SECRETARY OF STATE FOR EDUCATION AND SCIENCE

Thank you for sending me a copy of your letter of earlier today to Paul Gray. There are a few points I would like to make on Mr Baker's draft Oral Statement.

2.. The first is a simple grammatic one in the second sentence of paragraph 5 where "Each student" should be replaced by "Students".

[Also in paragraph 5, I think the reference to means-testing, though true, might be ill-timed and simply invite comparisons between students and pensioners, recipients of child benefits, those needing eye tests etc. To get away from this area, I think it would be better to emphasise that the differing levels of top-up loans will be designed to take account of students' needs rather than their (or their parents') means. I suggest the first sentence of paragraph 5 is deleted and replaced with:

"The amounts that students can borrow will depend only on where they study, whether or not they live at home and the year of their course. The scheme is designed to allow those whose needs are greatest to borrow most."]

3. More importantly, I think there is some confusion in paragraphs 8 and 9 between the higher education Access Fund which will provide "further help" to those who will be worse off under the new arrangements - despite being eligible for top-up loans - and the Access Funds for postgraduates and those in further

education who will lose their eligibility for DSS benefits but will not qualify for top-up loans. As drafted, the paragraphs could be taken to imply that that for all categories of student the Access Funds were supplementary to a top^{up} loan facility whereas, in fact, only non-postgraduates in higher education will have the benefit of a loan and an Access Fund. The paragraph should be redrafted to make this clear.

4. Finally, paragraph 11 also needs to be reworded since, at the moment, it implies that the Government intends to discuss the administration of the loan scheme with financial institutions, local authorities, and the education institutions. In fact, the discussions with the local authorities and education institutions will be concerned with the administration of the Access Funds, not of the loan scheme, which Ministers have now agreed should be run by the financial institutions.

CARYS EVANS

PRESS RELEASE



PRESS RELEASE

**INCREASING ACCESS TO
ENGINEERING IN UNIVERSITIES**

M
15/11/88

RECOMMENDATIONS for improving the image of engineering among young people and for increasing the access to engineering university courses have been made by The Engineering Council and the Standing Conference on University Entrance.

In a joint report "Admissions to universities: action to increase the supply of engineers" aimed specifically at universities, the two organisations say that to eradicate the United Kingdom's balance of payments deficit it will be necessary to accelerate the country's acknowledged recovery. To accomplish this the supply of properly educated and trained people has to be sufficient.

At a time when the labour pool is set to diminish, at least equal numbers of higher technicians and graduates will be required now as in the recent past.

"The gap at the Higher National level is extremely serious and is already reflected in reported shortages," the report warns. The nation's weakness is most seriously exposed at the Incorporated Engineer level.

The Engineering Council and the Standing Conference on University Entrance (SCUE) say they and other organisations should continue to promote the widening of access to universities with particular reference to Business and Technician Education Council (BTEC), Scottish Vocational Education Council (SCOTVEC), International Baccalaureate (IB), European Baccalaureate (EB) and Access courses.

With the engineering institutions they should specifically lend support to the establishment of Access courses - designed for students who may not have traditional entry qualifications - which would prepare students for science and engineering degree courses.

More Follows ...

Engineering Universities 2

SCUE and The Engineering Council in collaboration with other bodies should ask Government to review the funding arrangements for mature students on engineering Access and similar courses and to make grants available.

The Engineering Professors' Conference, the Committee for Engineering in Polytechnics and professional bodies should consider and recommend modifications to existing degree syllabuses to ensure that they are more suitable for students from a wider technical and scientific background.

It is also proposed that the image of engineering should be improved, by a co-ordinated initiative to illustrate the school syllabus in science, technology and mathematics, with practical examples drawn from industry, manufacturing, consumer products or from those providing public services. The initiative should cover primary and secondary education to the age of 18 or 19.

Employers should be invited to find ways of making careers in engineering even more attractive and appealing to young people. The Engineering Council should invite its Industrial Affiliates to help in this.

Other recommendations in the report, which resulted from a joint working group, include:

- 0 The Engineering Council should implement its strategy for its regional organisations, in partnership with other local bodies, to encourage engineers to: support schools in developing relevant curricula; support community involvement; support careers activities. This is fully described in the Council's strategy on '5-19 Liaison'.

- 0 The Engineering Institutions, the Engineering Professors' Conference (EPC) and the Committee for Engineering in Polytechnics (CEP) should be invited, as a matter of urgency, to review the entry of requirements for engineering first degree courses with a view to determining the content and level of mathematics and physics required for entry. EPC and CEP should consult as appropriate with the accrediting bodies.

More follows ...

Engineering Universities 3

Both The Engineering Council and SCUE recognise that the higher education polytechnics and colleges sector has already made considerable progress on broadening access. The primary audience for this document is therefore the university sector, but it is hoped that parts of the report might be of interest to a wider audience.

Issued by The Engineering Council and the Standing Conference on University Education, November 8. 1988.

Media inquiries to Ron Kirby, Director of Public Affairs, on 01-240 7891.

0 Copies of the report "Admissions to universities: action to increase the supply of engineers" may be obtained from The Engineering Council, 10 Maltravers Street, London WC2R 3ER



p/ folder *PWP*

CH/EXCHEQUER	
REC.	15 NOV 1988
ACTION	CST
COPIES TO	

✓ 15/11

✓
PRIME MINISTER

OUR CHANGING SCHOOLS - A HANDBOOK FOR PARENTS

I thought you would like to know that I will be writing tomorrow to headteachers of all maintained schools in England enclosing copies of a booklet for parents.

"Our Changing Schools - A Handbook for Parents", sets out ways in which parents can help their child at school and how they can contribute positively to the work of the school. I believe this will be a valuable contribution to our overall aim of encouraging responsible citizenship. The booklet looks at ten important issues ranging from 'how to choose a school' to 'how to help your school run smoothly'.

It identifies questions for parents to ask as well as available information and new developments. I enclose two copies of the booklet.

The booklet will also be available in public libraries, through playgroups and day nurseries, and will be on display in many supermarkets.

This minute goes to each member of the Cabinet and to Sir Robin Butler.

KB

KB
Department of Education and Science

15 November 1988

FROM: COLIN FARTHING
DATE: 15 NOVEMBER 1988

CHIEF SECRETARY

pnmp

cc

Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr Turnbull
Mr Culpin
Miss Noble
Mr MacAuslan
Mr Nicol
Mr Perfect
Mrs Chaplin
Mr Tyrie
Mr Call

Ch/ a note which on its own admission - does not consider whether Boleat's enthusiasm for a bank-funded scheme is representative of other institutions' views, and if so how it could be modified to meet Gov's access criteria. Would you like any more work done?

STUDENT SUPPORT - MR BOLEAT'S PROPOSALS


In her minute of 4 November, Miss Wallace said that the Chancellor would be interested to see an assessment, by officials, of Mr Boleat's "Option 3" scheme for student loans.

2. A note is attached which has been produced in co-operation with FIM, GEP and the Economic Advisers.

3. Needless to say, Mr Boleat's proposal is only one of a number of ways in which a bank funded scheme could operate. You will recall some exchanges in the months following the last Election when Mr Jackson's committee on student loans was considering a wide range of possible options. Equally, Mr Boleat's scheme itself is no more than a first draft and he would, no doubt, be willing to replace or modify elements of it if we were to

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negotiate seriously with him. This assessment does not pretend to embrace all of these possibilities. It is confined to the scheme described in Mr Boleat's note. Although the conclusions which result are largely critical, it does not follow that all bank financed schemes would be similarly unattractive.

A handwritten signature in black ink, appearing to be 'C. Farthing', written in a cursive style.

COLIN FARTHING

An assessment of Mr Boleat's "Option 3", described in paragraphs 14-18 of his paper for the Student Loans Working Group

Mr Boleat's scheme has two major problems. The greater is that loans would not be universally available to all eligible students. Mr Boleat estimates that some 5% would not be acceptable to institutions as credit risks and that "as a fall back, there might need to be a Government administered scheme". When a similar proposal was floated by Lord Boardman at Mr Baker's recent meeting, a figure of 15% was mentioned.

2. Mr Baker has already made it clear that he could not accept an arrangement that was not equally available to all eligible students. Supplementing a bank scheme with one run by the Government for the least creditworthy 5-15% would add to the cost and administrative complexity of the loan arrangements and seriously reduce their acceptability to students generally.

3. The other major drawback is that the Boleat proposal ignores the need to defer repayments for those on low incomes. His suggestion (paragraph 14(b)(iii)) that those who fail to pay off their loans within the first 5 years would have the balance refinanced by the banks "on whatever terms would be appropriate", means that those who cannot pay off their loan quickly - because they are in low paid jobs - would be treated less favourably than those who can. This is the reverse of what the Government intends.

X 4. Of the other elements, the most significant is that funding should come from the banks rather than from HMG. If the banks really were willing to make money available at LIBOR then it ought not to cost significantly more than if we were to borrow it ourselves - but, on Mr Boleat's figures of a £1,000 loan to 530,000 students, each percentage point above LIBOR would cost us £5.3m a year. In practice, a premium of one or two points above LIBOR may well be a more realistic assumption.

the key question

5. In terms of public expenditure, the effect of using the banks' money rather than our own would be to score the interest subsidy plus any payment under a Government guarantee. The net lending would not be scored while the banks retained some discretion over which students they lent to and bore some of the risk of default. This would, of course, mean that the public expenditure outlays would be lower in the early years - but, paradoxically, only because the scheme had serious deficiencies from HMG's point of view. If we were to remove these, by, for example, denying the banks discretion over which students receive loans, and in consequence, the banks were to insist that HMG take on all risk of defaulters, then the net lending would once more be scored as public expenditure. Only if the overall costs of the scheme were lower - because of simplified and considerably cheaper administration and a greater willingness on the part of the banks to meet a large share of the risk - could we defend using private money for student loans.

6. Annex A sets out a comparison of the PSBR implications of the scheme described in the White Paper and that proposed by Mr Boleat - on the assumption that the private money was used in such a way as not to score as public expenditure. It shows major savings in public expenditure in the early years of the Boleat scheme compared to that in the White Paper, but in the longer term the White Paper scheme is the more attractive. The comparison assumes that the cost of administration would be the same in both cases and that the banks would fund the Boleat scheme at LIBOR. In the event that bank funding costs were higher - which they may well be - the public expenditure benefits of the Boleat scheme would be proportionately reduced.

7. Raising the amount of annual loan to £1,000 a student would increase the total amounts potentially available from about £200m to £530m, which - assuming an interest subsidy of 5% - would cost us an extra £16.5m in the first year.

8. Furthermore, by starting at £1,000, the proposed method of up-rating would lead to the loan equalling the grant by 2002. If, at that point, we return to up-rating the grant annually, in line with inflation, we would be making additional grant payments 5 years earlier than the White Paper scheme requires.

9. Clearly from the student's point of view beginning with a single loan entitlement of £1,000 would give a much greater increase in resources - though a single figure would mean that those who needed the money most (first year students living away from home in London) would receive the same treatment as those who needed it least (final year students living with their parents). This trend would be accentuated with each annual up-rating. Loans at this level might also invite those who had no immediate need for the full amount to draw down their entitlement, put it on deposit and make a turn at our expense.

10. A subsidised rate of interest (paragraph 14(b)(ii)) could have the same practical effect as a nil real rate - though not if it were fixed. A fixed rate, once agreed, will be difficult to change, even for new students, so the level of subsidy will vary unpredictably with market rates - making the forecasting of public expenditure more difficult. This part of the scheme replicates a number of the features of export finance loans, where our experience has been less than happy.

11. The other elements in the Boleat proposal present fewer difficulties. Some means of designating eligibility (paragraph 14(a)) will be needed however the scheme is administered.

12. Allowing the loan to revert to normal commercial terms (paragraph 14(b)(iii)) after an agreed period has a lot to commend it for the average student, since it would give him an incentive to complete his payments on time. There must, however, be some mechanism for ensuring that students with genuine financial problems did not fall foul of the same sanction.

13. Paying an administrative charge (paragraph 14(c)) may in the end turn out to be a feature of any scheme - though it should be expressed as a fixed fee and not a percentage.

14. A scheme similar to the career development loan (paragraph 15) would be much cheaper for HMG but considerably more expensive for the student. It is not very different from the overdraft arrangements which many students already enjoy, except that HMG, rather than the banks, would pay for the interest holiday while the student is at university.

15. Default (paragraph 16) will be a problem under most options. Elements of the two ideas proposed - a guarantee or a bad debt arrangement - might feature in any scheme.

Conclusion

16. The two major difficulties with the Boleat proposal are that it would not be available to all eligible students and it has nothing to say about deferring repayments for students with low incomes. The savings in public expenditure which result from using private money are possible only because the scheme has a number of significant deficiencies. Correcting these could well have the effect of causing the money lent to student to be reclassified as public expenditure. A fixed rate of interest would make forecasting the real costs of the scheme more difficult. Offering a single sum would not take account of the student's needs which relate to where he lives and studies, so those whose needs are least benefit relative to those whose needs are greatest. Because the sums proposed are much greater, the scheme would cost at least £16.5m more in its first year with a further £5.3m extra for every percentage point that the banks charged above LIBOR. Although the scheme is designed by the banks to meet their own requirements, they still propose to charge us for administering it.

17. In short, the scheme meets almost none of the objectives set out in the White Paper, but is unlikely to be cheaper and may well be considerably more expensive than our own plans.

Comparison of Boleat and White Paper Schemes

Year	<u>£m 1990 prices</u>									
	1990	1991	1992	1993	1994	1999	2004	2009	2027	
	1	2	3	4	5	10	15	20	Steady State	
	<u>White Paper Scheme</u>									
PSBR costs (taken from White Paper)	103	105	102	93	78	17	-32	-70	-230	
	<u>Boleat Scheme</u>									
PSBR costs (on the basis set out below)	-43	-40	-34	-28	-24	-68	-62	-57	-57	
	<u>Difference</u>									
Boleat compared to White Paper	-146	-145	-136	-121	-102	-85	-30	+13	+173	

Basis of Boleat scheme

- £1000 initial top-up loan provided by banks;
- Government pays 5% interest rate subsidy to banks and the 10% cf each year's repayments on which graduates are assumed to default;
- Government does not meet the cost of deferred loan payments;
- Students repay loans over 5 years after graduation.
- Other assumptions as for the White Paper Scheme

Mike

23/11/88.

I spoke to Mr Gunton
who is dealing with ~~the~~ this.
I'm to ring him back tomorrow.

→ Mike.

Thanks pl pursue - NB X!

Maria

Being dealt with. Mr Gunton
is aware of X.

mpw

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Fax: (0274) 547361

BF 30/11

~~pse chase IDT~~

23 November 1988

Nigel Lawson
Chancellor of the Exchequer
11 Downing Street
London

Dear Sir

23/11/88.

CH/EXCHEQUE	
REC.	28 NOV 1988
ACTING	IDT ✓28/11
COPIES TO	

STUDENT LETTER AWARDS

I am writing to ask your permission to use a black and white photograph of yourself on a poster to be used in conjunction with the Post Office Student Letter Awards Competition.

This is a competition which aims to encourage letter writing skills among students in further and higher education. The object is to write a letter to a figure in contemporary life on an issue about which they feel strongly or passionately.

We would like to use your photograph among others to demonstrate the link between a current theme and a current personality.

I very much hope you will be happy to agree to this request and would welcome your immediate response. If I have not heard from you by 5 December 1988 can I assume that I have your agreement? I enclose a copy of the visuals for the poster to give you some indication of the size and variety of figures we are contemplating.

Yours faithfully

Sheena Atkinson

Sheena Atkinson
Project Co-ordinator

1. Mike

M/Gunton has indeed dealt, and reported to me

2. pnp.

pp.

Letter 16/12

FROM: COLIN FARTHING
DATE: 15 DECEMBER 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Sir P Middleton
Mr Anson
Mr Monck
Mrs Case
Mr Perfect

idea!
Ch/ It would have been better to have had more notice of X - and Y overleaf - ^{which} will not be popular at all. I gather these are being announced today.

PES 1988: STUDENT AWARDS

You will recall that during the PES bilaterals, the Chief Secretary was successful in resisting bids by Mr Baker for extra funds (i) to end the moratorium on certain new courses being designated for mandatory awards, and (ii) to change the previous study rules in a major way so that students would be eligible for a grant even if they had already had one for a period of up to a year when on an earlier HE course.

2. The Chief Secretary did, however, agree that Mr Baker could make more modest changes in both areas if he was able to find the money from within the sums agreed for student awards generally. You may be interested in the outcome.

3. Mr Baker subsequently outlined his more modest proposals in the White Paper on Top-Up Loans (paragraphs 3.33(i) and (ii)).

4. DES officials estimate that the cost of these limited relaxations will be £2m in 1989/90 rising to £3m by the end of the PES period. In order to find these sums, Mr Baker has agreed that the parental contribution scale for 1989/90 be subjected to an indexation of only 7.5% even though the underlying increase in relevant earnings in 1988/89 is estimated to be 8.5%. *show it?*

5. The new scales will be announced in the next day or so by means of an inspired p.q. and a press release. I attach copies.

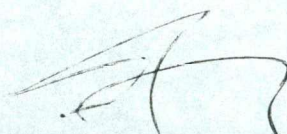
↑
today, I discover

*ask? When
do we have to
as much as 7 1/2%?*

6. The new levels of grant - which are being announced in the same p.q. - will also allow for a shift in the balance of allocation in favour of students living away from home in London. This follows a recent survey of student income and expenditure which demonstrated that London students were significantly worse off than those based elsewhere.

7. The increased differential for London will be funded (i) by freezing the allowance made for other children in assessing parental contributions, and by changing the arrangements by which parents with two children, both of whom are at University, at the same time are treated more favourably than those who have two children who attend University consecutively - this should produce about £3m - and (ii) by increasing the minimum level of parental contribution from £50 to £60 - this should produce about £500,000.

8. A number of other, more minor, changes will also be made early next year aimed at simplifying the awards procedures and rectifying anomalies. In line with the original agreement reached between the Chief Secretary and Mr Baker the cost of all of these changes will be contained within the sums agreed in PES for student awards.



COLIN FARTHING

PROPOSED ARRANGED PQ AND ANSWER ON STUDENT GRANTS

Q To ask the Secretary of State for Education and Science, will he publish the rates of student grants and parental contributions for 1989/90.

A Subject to Parliament's approval of the necessary regulations, the main rates of grant will be increased in the 1989/90 academic year by 5% for students studying outside London and students who study from the parental home. For those studying in London, the main rate of grant will be increased by 0.3% in recognition of their higher living costs. In England and Wales the new rates will be as follows (rates for 1988/89 are shown in brackets):

	undergraduate (£)	postgraduate (£)
Halls of lodgings		
(i) London	2650 (2425)	3970 (2500)
(ii) Elsewhere	2155 (2050)	3115 (2915)
Parental home	1710 (1580)	2270 (2140)

The threshold for parental contributions and the point on the contribution scale at which the rate of contribution changes, will be updated to reflect the movement of earnings. Parents whose residual income is below £10,600 will not be assessed for a contribution. The minimum contribution will be increased from £50 to £60 for parents whose student children began their courses before the 1988/89 academic year (and whose grant is assessed on Scale 1) and from £37 to £45 where students first entered higher education in 1988/89 or later (and whose grant is assessed according to Scale 2). The maximum contribution, which applies to parents with more than one child holding an award, will rise from £4,900 to £5,300.

The full parental contribution scales for 1989/90 are below.

Residual income	Contribution	
	Scale 1	Scale 2
£	£	£
10000	0	0
10600	60	45
11000	121	88
12000	260	195
13000	401	302
13500	474	356
14000	554	431
15000	724	581
16000	924	731
17000	1174	881
18000	1374	1031
19000	1574	1181
19800	1734	1301
20000	1784	1338
21000	2034	1526
22000	2284	1713
23000	2534	1901
24000	2784	2088
25000	3034	2276
26000	3284	2463
27000	3534	2651
28000	3784	2838
29000	4034	3026
30000	4284	3213
31000	4534	3401
32000	4784	3588
33000	5034	3776
34000	5284	3963
34064	5300	3975
35000	5300	4151
36000	5300	4338
37000	5300	4526
38000	5300	4713
39000	5300	4901
40000	5300	5088
41000	5300	5276
41130	5300	5300

Notes

- The second scale of parental contribution was introduced following the announcement on 15 March 1988 that tax relief on new non-charitable covenants would cease. Contributions assessed on Scale 2 are 25% less than those assessed on Scale 1.
- For 1989/90 the level of contribution will be assessed as follows:

Residual income	Scale 1	Scale 2
From £10,600 to £13,500:	£1 in £7	£1 in £9.3
From £13,501 to £19,800:	£1 in £5	£1 in £6.5
From 19,801 :	£1 in £4	£1 in £5.3

- 3 The contribution payable may be less than the amounts shown on the scale, particularly at its top end and when the contribution is in respect of one award-holder only. This will depend on the amount of grant against which the contribution has to be set and whether any of the assessed contribution is offset by allowances for other dependent children.

DRAFT PRESS NOTICE

KENNETH BAKER ANNOUNCES INCREASES IN STUDENT GRANTS

Education Secretary Kenneth Baker today announced details of the increases in student grants for the 1989/90 academic year.

In a written reply to a Parliamentary Question from [redacted], MP for [redacted], who asked the Secretary of State if he would publish the rates of student grants and parental contributions for 1989/90, Mr Baker said:

"Subject to Parliament's approval of the necessary regulations, the main rates of grant will be increased in the 1989/90 academic year by 5% for students studying outside London and students who study from the parental home. For those studying in London, the main rate of grant will be increased by 9.3% in recognition of their higher living costs. In England and Wales the new rates will be as follows (rates for 1988/89 are shown in brackets):

	undergraduate (£)	postgraduate (£)
Halls or lodgings		
(1) London	2650 (2425)	1970 (1630)
(2) Elsewhere	2155 (2050)	1125 (975)
Parental home	1710 (1630)	1210 (1160)

The threshold for parental contributions, and the points on the contribution scale at which the rate of contribution changes, will be uprated to reflect the movement of earnings. Parents whose residual income is below £10,600 will not be assessed for a contribution. The minimum contribution will be increased from £50 to £60 for parents whose student children began their courses before the 1988/89 academic year (and whose grant is assessed on Scale 1) and from £37 to £45 where students first entered higher education in 1988/89 or later (and whose grant is assessed according to Scale 2). The maximum contribution, which applies to parents with more than one child holding an award, will rise from £4,900 to £5,300.

The full parental contribution scales for 1989/90 are below.

Residual income £	Contribution	
	Scale 1 £	Scale 2 £
10000	0	0
10600	60	15
11000	117	38
11000	260	195
12000	402	302
13000	474	456
13500	474	431
14000	574	481
15000	774	731
16000	974	881
17000	1174	1031
18000	1374	1181
19000	1574	1301
19800	1734	1338
20000	1784	1326
21000	2034	1413
22000	2284	1501
23000	2534	1588
24000	2784	1676
25000	3034	1763
26000	3284	1851
27000	3534	1938
28000	3784	2026
29000	4034	2113
30000	4284	2201
31000	4534	2288
32000	4784	2376
33000	5034	2463
34000	5284	2551
34064	5300	2638
35000	5300	2726
36000	5300	2813
37000	5300	2901
38000	5300	2988
39000	5300	3076
40000	5300	3163
41000	5300	3251
41130	5300	3300

Notes

- The second scale of parental contribution was introduced following the announcement on 13 March 1988 that tax relief on new non-charitable covenants would cease. Contributions assessed on Scale 2 are 25% less than those assessed on Scale 1.

2. For 1989/90 the level of contribution will be assessed as follows:

Residual income	Scale 1	Scale 2
From £10,000 to £13,500:	£1 or £7	£1 or £9
From £13,501 to £19,800:	£1 or £5	£1 or £6
From £19,801	£1 or £4	£1 or £5

3. The contribution payable may be less than the amounts shown on the scale, particularly at its top end and where the contribution is in respect of one award-holder only. This will depend on the amount of grant against which the contribution has to be set and whether any of the assessed contribution is offset by allowances for other dependent children."

NOTES FOR EDITORS

1. London students, both undergraduate and postgraduates, living in hall or lodgings will have their grants increased by a further 4.3% on top of the 5% increase announced on 4 November. This addition is in recognition of the larger increases in essential expenditures faced by such students than by those elsewhere.

Undergraduate awards

2. The new grant rates will be effective from 1 September 1989 and will apply to students on first degree and comparable courses, courses of initial teacher training and courses leading to the Diploma in Higher Education and the Higher National Diploma of the Business and Technological Education Council.
3. The new weekly rate of additional grant for extra attendance will be £60.15 for London students, £45.05 for those studying elsewhere and £31.55 for those studying from the parental home.

Postgraduate awards

4. The new grant rates apply to postgraduate studentships awarded by the British Academy and the Research Councils. (Postgraduate and adult education bursaries are paid at the same rate as undergraduate awards, with an adjustment to take account of the different arrangements for the reimbursement of travel expenses.)
5. The British Academy is responsible for administering the Department of Education and Science's studentship scheme. The Research Councils are the Science and Engineering Research Council, the Medical Research Council, the Economic and Social Research Council, the Natural Environment Research Council and the Agricultural and Food Research Council.